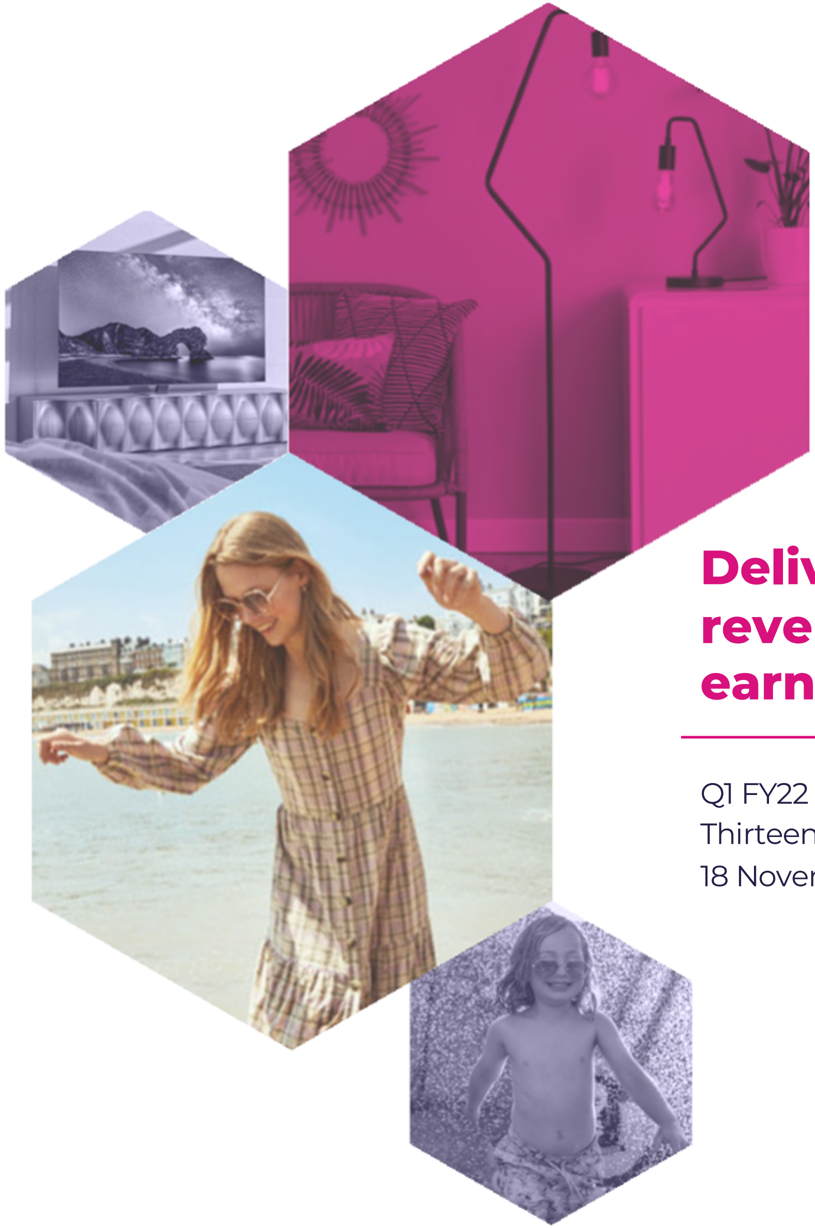
THE VERY GROUP



# Delivering strong revenue and earnings growth

Q1 FY22 results
Thirteen weeks ended 02 October 2021
18 November 2021

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# AGENDA

**1.**

Performance overview

**2.**

Financial review

**3.**

Forward view

**4.**

Q&A

Presenter

**Ben Fletcher**
Group CFO

# PERFORMANCE OVERVIEW

# OVERVIEW

Strong performance in Q1 FY22 with Very revenue growing 9.6% and Very Finance returning to growth as anticipated, resulting in an increase to underlying EBITDA of 9.9%.

Very.co.uk revenue increased 9.6% to £403.8m (Q1 FY21: £368.5m), resulting in overall Group revenue growth of 3.9% to £484.1m (Q1 FY21: £466.1)

As we had anticipated, Very Finance returned to growth with increased interest income, growth in the Very debtor book and improved quality of earnings with lower bad debt

Underlying EBITDA increased by 9.9% to £65.6m driven by almost double-digit revenue growth of our core brand and strong cost control, supported by growth in the Very Pay Platform

Operationally well-placed to navigate current uncertain conditions with strong supply chain relationships and benefits from our highly automated Skygate distribution centre

# FINANCIAL HIGHLIGHTS

Our business model is delivering strong revenue growth across both retail and Very Finance, resulting in an increase in EBITDA.

| | |
|---|---|
| **+9.6%**<br>Very.co.uk revenue | **+3.9%**<br>Group revenue |
| **(0.3)%**<br>Active customers | **£65.6m**<br>Underlying EBITDA (Q1 FY21: £59.7m) |
| **£(35.4) m**<br>Underlying free cash flow (Q1 FY21: £(45.3)m) | **£13.5m**<br>PBT (Q1 FY21: £8.6m) |

# FINANCIAL REVIEW

# STRONG REVENUE GROWTH & COST CONTROL

Financial results reflect relevance and resilience of our business model.

very

Q1 FY22 vs Q1 FY21 performance

Revenue

**9.6%** to £403.8m

- Continued recovery of fashion vs prior period which was impacted by UK lockdowns
- Lower growth in electrical; gaming remains strong, partially offset by lower visual and smart home
- Reduction in home as spending reverts towards a more typical basket

Littlewoods

Revenue

**(17.7%)** to £80.3m

- Littlewoods UK sales fell 13.9%, broadly in line with budgeted decline and, on a 2 year basis, in line with previous guidance
- Littlewoods Ireland was impacted by shift towards offline spending, declining 18.7%

THE VERY GROUP

Q1 FY22 vs Q1 FY21 performance

Revenue

**3.9%** to £484.1m

- Strong top line growth against a backdrop of continued market uncertainties

Gross margin rate

**38.4%**

- Increase in gross margin rate from 38.1% driven by increase in contribution from Very Finance and lower bad debt

Costs as % of revenue

**24.1%**

- Improvement against Q1 FY21 by 1.7% pts, driven by continued focus on managing cost base and realised efficiencies from Skygate

Underlying EBITDA

**9.9%** to £65.6m

- Higher levels of revenue growth from both Very retail and our Very Finance business, coupled with strong cost performance led to an increase in underlying EBITDA

# SHAREHOLDER VALUE MODEL

We have a consistent focus on the drivers of earnings, earnings quality and liquidity.

Q1 FY22 vs Q1 FY21 performance

| Revenue | Gross margin | Return on assets | Costs | Debtor book |
|---|---|---|---|---|
| **+9.6%** | **38.4%** | **(0.2)%** | **24.1%** | **+7.9%** |
| Growth in Very.co.uk revenue | Improved gross margin from Very Finance | Lower year-on-year bad debt as % of average debtor book | Operating costs as % of revenue reduced by 1.7% pts | Increase in Very.co.uk average debtor book with focus on improved quality |

# RETAIL

## Flexible, relevant and resilient multi-category model with category mix showing signs of normalising post-Covid.

- Very.co.uk retail revenue grew by 8.6%, driven by fashion & sports and electrical, whilst The Very Group retail revenue grew by 3.9% overall
- Compared Q1 FY20, this represents growth of 30.5% for Very.co.uk and 17.2% for Group
- Fashion & Sports performed exceptionally well with group sales up 14.5%; ladies fashion particularly strong across high street brands and casual
- Electrical also performed strongly with sales up 5.3%; strongest growth in gaming, with PS5 and Xbox Series 10 remaining in high demand
- Home fell 16.7%, with furniture and homeware reducing against strong comparators in lockdown
- Developing categories up 3.3% with football and outdoor toys up strongly reflecting seasonality

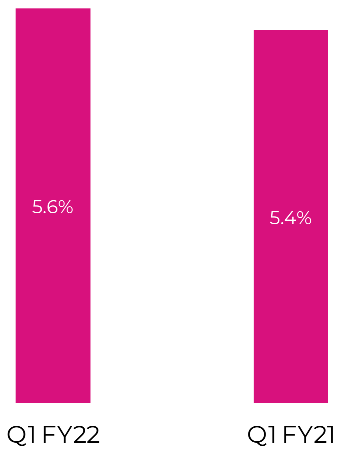
### Retail revenue

| | Fashion and sports | Electrical | Home | Developing categories (including toys and beauty) |
|---|---|---|---|---|
| Very.co.uk YoY | **+18.9%** | **+10.1%** | **(13.0)%** | **+8.0%** |
| Very.co.uk PY-1 | +13.9% | +56.4% | +14.5% | +17.7% |
| Group Q1 FY22 mix | 33.5% | 43.3% | 14.7% | 8.5% |
| Group Q1 FY21 mix | 30.4% | 42.7% | 18.3% | 8.6% |
| Group YoY | +14.5% | +5.3% | (16.7)% | +3.3% |

# VERY PAY PLATFORM

## Flexible ways to pay help our customers access the brands they love.

### Interest Income as % of average debtor book




### Very Finance income

Q1 FY22 Very Finance revenue

£93.8m

Q1 FY21 Very Finance revenue

£89.6m

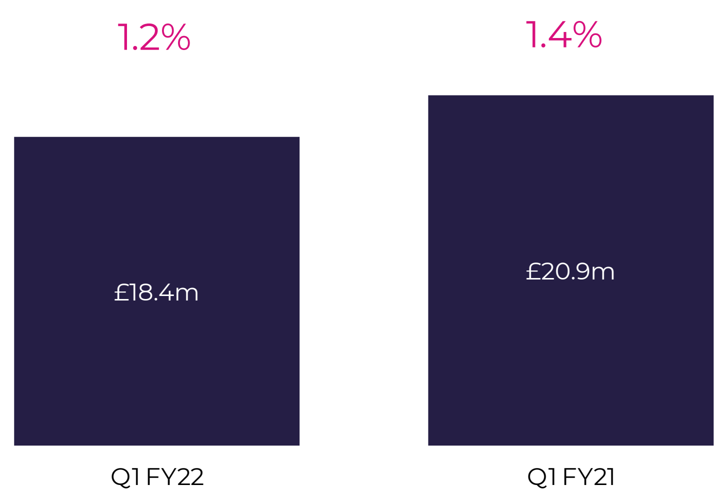

- As previously guided, we have seen a normalisation in interest income which is now back in growth thanks to the increased size of debtor book
- Very debtor book growth of 7.9% due to customer acquisition
- Continued to see a higher customer payment rate, broadly in line with expectations, driven by customers having greater levels of disposable income

# BAD DEBT

## Focus on improving quality of earnings through significant reduction in bad debt.

- Bad debt as a percentage of the debtor book decreased 0.2% pts to £18.4m
- Continued focus on responsible lending and proactive measures to limit credit increases
- Bad debt expense benefited from strong paydowns of existing debts and lower write-offs
- We expect the higher payment rates, driven by households having greater levels of disposable income, will continue through the next quarter before starting to normalise in Q3 FY22
- Reduction in bad debt has enhanced increase in Very Finance income

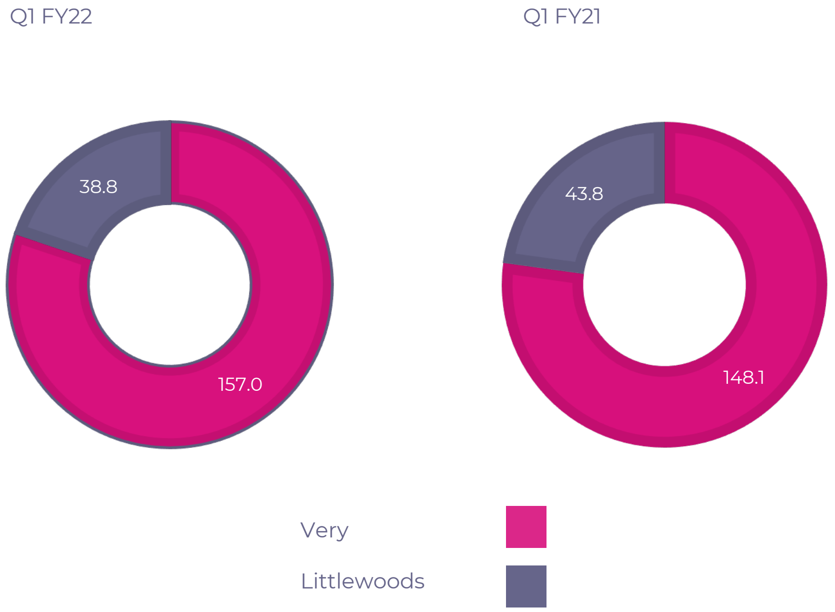
Bad debt as a % of average debtor book (£m)



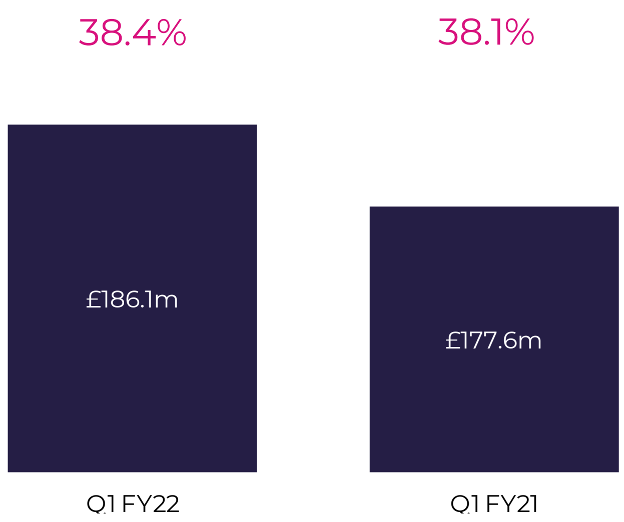

# GROSS MARGIN

## Strong performance in Very Finance contributed towards a 30 bps improvement in group gross margin.

Gross margin by brand (£m)




Group gross margin (£m) and gross margin rate



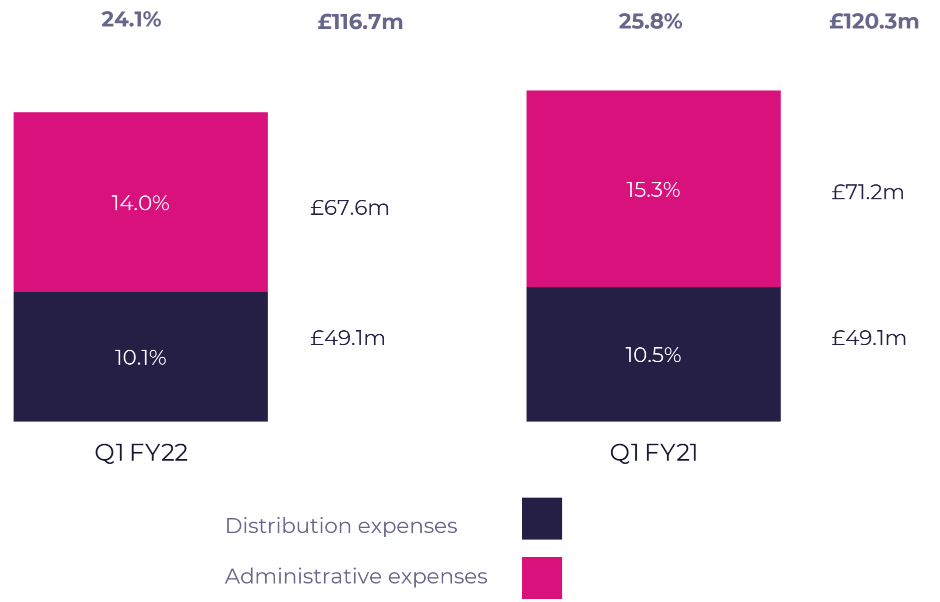

- Group gross margin improved by 0.3%pts vs Q1 FY21 with higher margin from Very Finance more than mitigating reduced retail gross margin
- Retail gross margin reduced due to targeted price investment across multiple product categories
- Very Finance margin rate increased due to higher interest income
- Lower bad debt expense contributes to the higher Very Finance margin

# COST CONTROL

## Continued focus on cost control with significant reduction in retail head office costs and benefits of automation through Skygate.

- Total operating costs as a percentage of revenue reduced by 1.7%pts to 24.1% (Q1 FY21: 25.8%)
- Distribution costs flat at £49.1m, despite increasing revenue reflecting the benefits and scalability of Skygate
- Administrative costs as a percentage of revenue decreased by 1.3%pts to 14.0%
- Decrease in admin costs due to:
  - Lower retail head office costs;
  - VAT refund; and
  - Phasing of spend within marketing

Operating costs as % of revenue (£m)




# UNDERLYING EBITDA

## Volume growth and cost control driving EBITDA growth.

- Underlying EBITDA increased 9.9% to £65.6m reflecting revenue growth from both Very retail and our Very Finance business and continued cost control
- Adjusted EBITDA post securitisation interest increased by 11.6% to £54.7m

### Underlying EBITDA


### Year-on-year underlying EBITDA reconciliation

| (£ millions) | Q1 FY22 £m | Q1 FY21 £m | |
|---|---|---|---|
| **Reported EBITDA** | 70.1 | 57.6 | 21.7% |
| *Adjusted for* | | | |
| Fair value adjustments to financial instruments | (2.9) | 2.7 | |
| Foreign exchange translation movements on trade creditors | (1.6) | (1.4) | |
| IAS19 pension adjustments | - | 0.8 | |
| **Management / underlying EBITDA** | 65.6 | 59.7 | 9.9% |
| *Adjusted for* | | | |
| Management fees | 1.3 | 1.3 | |
| Securitisation interest | (12.2) | (12.0) | |
| **Adjusted EBITDA post securitisation interest** | 54.7 | 49.0 | 11.6% |

# UNDERLYING FREE CASHFLOW

## Improved year on year underlying cash flow and a reduction on RCF drawings.

**£(35.4)m**

Q1 FY22 underlying free cashflow

Cash flow

| (£ millions) | Q1 FY22 £m | Q1 FY21 £m |
|---|---|---|
| **Adjusted EBITDA (post securitisation interest)** | **54.7** | **49.0** |
| *Net working capital movement:* | | |
| Movement in inventories | (31.4) | (47.6) |
| Movement in trade receivables | 17.6 | 34.8 |
| Movement in prepayments and other receivables (exc. refinancing costs) | (8.8) | (7.3) |
| Movement in trade and other payables (exc. refinancing costs) | (35.6) | (1.4) |
| Movement in securitisation facility | (13.5) | (58.0) |
| **Net working capital (post securitisation funding)** | **(71.7)** | **(79.5)** |
| Capital expenditure | (18.4) | (14.8) |
| **Underlying free cashflow** | **(35.4)** | **(45.3)** |
| Bond redemption premium | (10.7) | - |
| Increase in bond amounts | 25.0 | - |
| Refinancing professional and legal fees | (9.6) | - |
| **Free cashflow (post refinancing)** | **(30.7)** | **(45.3)** |

- Underlying free cash flow position improved relative to prior year by £9.9m.
- Inventory held at Q1 FY22 is £133.6m (Q1 FY21: £113.0), positioning us well ahead of peak season. This has resulted in a lower in quarter inventory build compared with FY21
- Movement in trade receivables reflects reduction in group debtor book since year end
- The outflow in payables in part reflects the ongoing repayments associated with the March 20 VAT return as a result of the Covid deferral scheme (with repayments starting in June 2021)
- Our cash flow position also reflects the impact of c.£9.6m costs previously accrued to the balance sheet in relation to the refinancing of our bond and RCF which were cash settled in the quarter

# FORWARD VIEW

# FORWARD VIEW

## Well-positioned through our diversified business model and strong supply chain against a backdrop of uncertain market conditions.

Following FY21's strong performance, the Board has approved a £25m dividend which has been paid in Q2

We have proven the resilience and adaptability of our business model in FY21 and this continued in Q1 22 despite market challenges

We are continuing to respond to market challenges as we anniversary last year's exceptional revenue growth

We expect to see continued volatility in customer demand into Q2 and Peak trading, however our online multi-category model allows us to benefit wherever and whenever demand hits

Our focus continues to be on growing earnings through increased brand loyalty, controlling costs and improving the quality of earnings

# Q&A

# APPENDICES

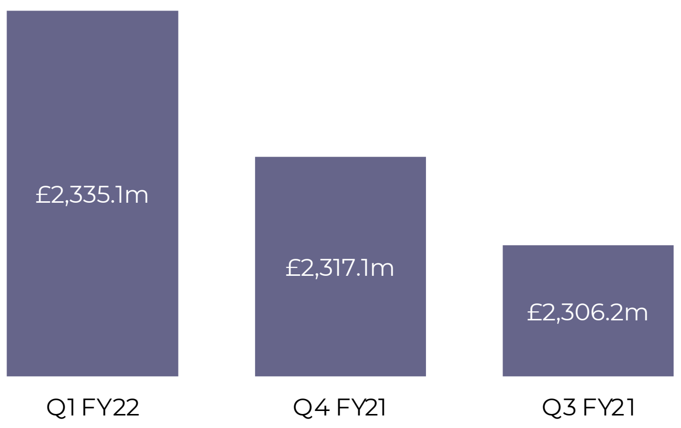
# APPENDIX A: INCOME STATEMENT

## Income statement

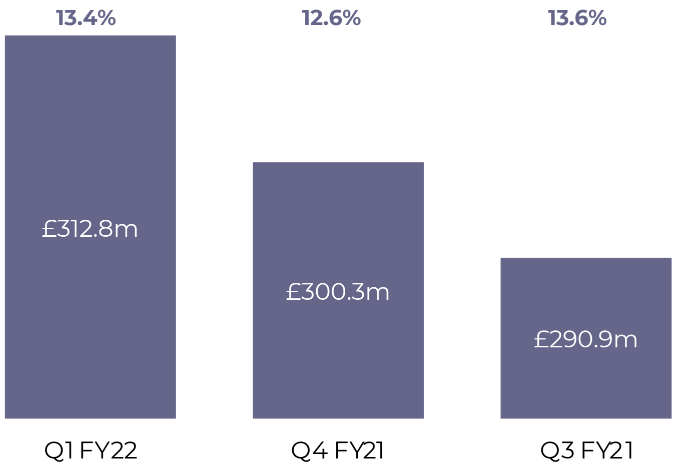
| (£ millions) | Q1 FY22<br>£m | Q1 FY21<br>£m | Variance<br>% |
|---|---|---|---|
| Very | 403.8 | 368.5 | 9.6% |
| Littlewoods | 80.3 | 97.6 | (17.7)% |
| **Group revenue** | 484.1 | 466.1 | 3.9% |
| Gross margin | 186.1 | 177.6 | 4.8% |
| *% margin* | *38.4%* | *38.1%* | |
| Distribution expenses | (49.1) | (49.1) | - |
| Administrative expenses | (67.6) | (71.2) | (5.1)% |
| Other operating income | 0.7 | 0.3 | 133.3% |
| **Pre-exceptional Reported EBITDA** | 70.1 | 57.6 | 21.7% |
| *% reported EBITDA margin* | *14.5%* | *12.4%* | |
| *Operating costs as % of revenue* | *24.1%* | *25.8%* | |
| **Pre-exceptional Underlying EBITDA** | 65.6 | 59.7 | 9.9% |
| % underlying EBITDA | 13.6% | 12.8% | |

# APPENDIX B: LTM KPIs

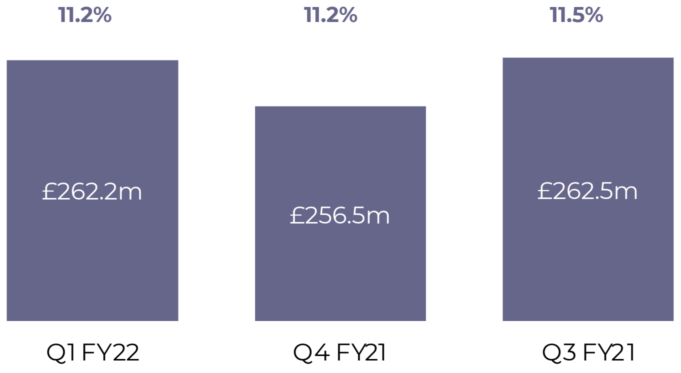
## LTM revenue (£m)




## LTM reported EBITDA (£m)




## LTM Adjusted EBITDA post securitisation interest



# APPENDIX C: CASH FLOW STATEMENT

## Cash flow statement

| (£ millions) | Q1 FY22<br>£m | Q1 FY21<br>£m |
|---|---|---|
| **Adjusted EBITDA (post securitisation interest)** | **54.7** | **49.0** |
| *Net working capital movement:* | | |
| Movement in inventories | (31.4) | (47.6) |
| Movement in trade receivables | 17.6 | 34.8 |
| Movement in prepayments and other receivables (exc. refinancing costs) | (8.8) | (7.3) |
| Movement in trade and other payables (exc. refinancing costs) | (35.6) | (1.4) |
| Movement in securitisation facility | 13.5 | (58.0) |
| **Net working capital (post securitisation funding)** | **(71.7)** | **(79.5)** |
| Capital expenditure | (18.4) | (14.8) |
| **Underlying free cashflow** | **(35.4)** | **(45.3)** |
| Bond redemption premium | (10.7) | - |
| Increase in bond amounts | 25.0 | - |
| Refinancing professional and legal fees | (9.6) | - |
| **Free cashflow (post refinancing)** | **(30.7)** | **(45.3)** |
| Interest paid (excluding securitisation interest) | (10.3) | (4.9) |
| Income taxes (paid) / received | (0.6) | (0.1) |
| Cash impact of exceptional items (excluding customer redress) | (4.4) | (16.5) |
| Management fees | (1.3) | (1.3) |
| Cash paid to parent company | - | (1.3) |
| (Repayments of) / draw downs from finance leases | (6.4) | (6.0) |
| **Net increase/(decrease) in cash and cash equivalents pre customer redress** | **(53.7)** | **(75.4)** |
| Customer redress payments | (2.4) | (10.5) |
| **Net increase/(decrease) in cash and cash equivalents** | **(56.1)** | **(85.9)** |

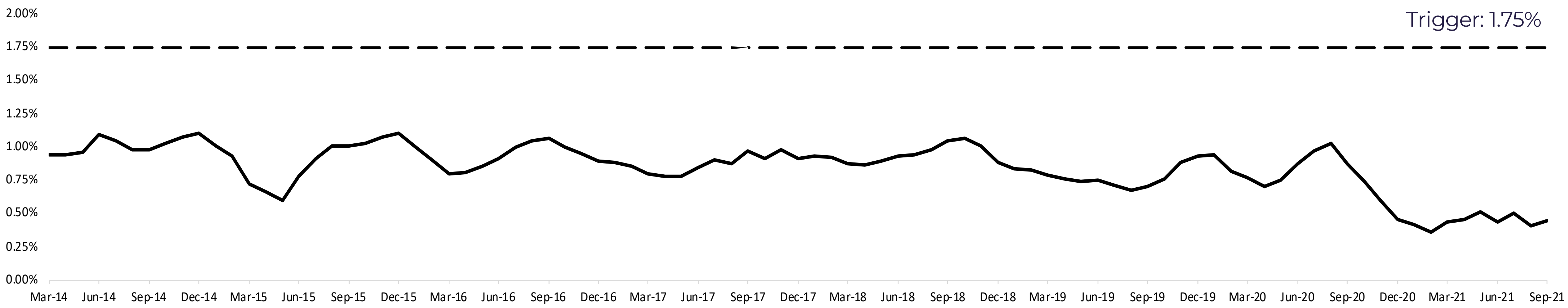
# APPENDIX D: NET LEVERAGE

## Net leverage

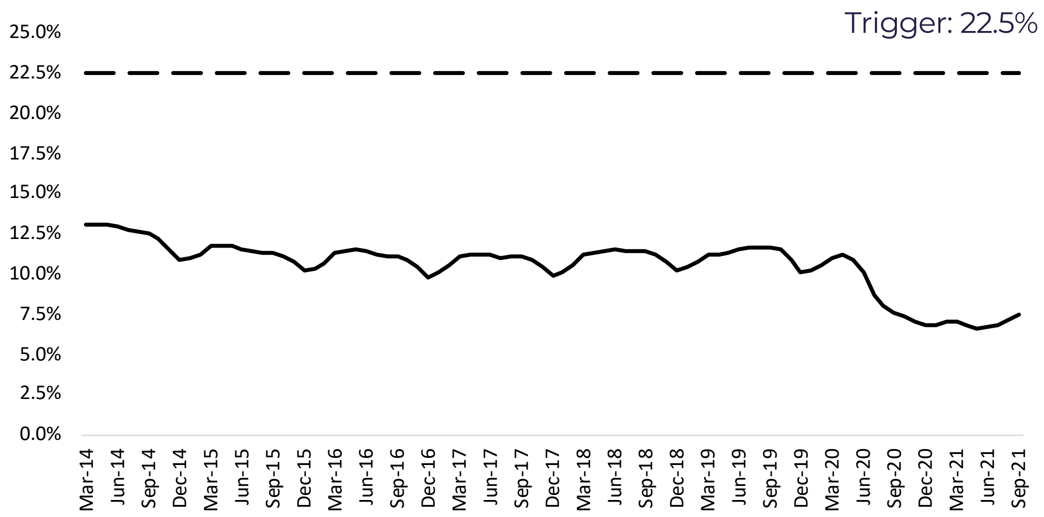
| (£ millions) | Q1 FY22 | Q4 FY21 | Q3 FY21 | Q2 FY21 | Q1 FY21 | Q4 FY20 |
|---|---|---|---|---|---|---|
| **Cash and bank balances** | 22.0 | 78.1 | 92.5 | 55.7 | 120.5 | 206.4 |
| Fixed rate notes | (575.0) | (550.0) | (550.0) | (550.0) | (550.0) | (550.0) |
| Revolving credit facility | (90.0) | (90.0) | (150.0) | - | (150.0) | (150.0) |
| Other debt | (2.7) | (0.7) | (0.8) | (1.1) | (1.6) | (3.1) |
| **Total gross debt (excluding securitisation)** | (667.7) | (640.7) | (700.8) | (551.1) | (701.6) | (703.1) |
| **Total net debt (excluding securitisation)** | (645.7) | (562.6) | (608.3) | (495.4) | (581.1) | (496.7) |
| **LTM adjusted EBITDA (post securitisation interest)** | 262.2 | 256.5 | 262.5 | 247.3 | 239.4 | 230.5 |
| **Net leverage** | 2.5x | 2.2x | 2.3x | 2.0x | 2.4x | 2.2x |

# APPENDIX E: SECURITISATION PERFORMANCE COVENANTS

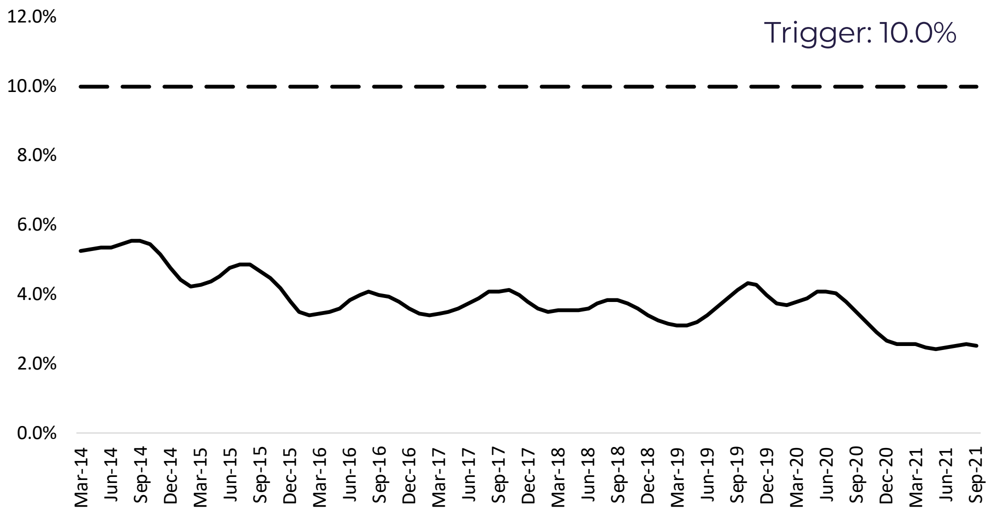
## Default three month moving average




## One to five month delinquency rates




## Five-plus months delinquency rates



# APPENDIX F: BALANCE SHEET

- Non-current assets increased driven by capitalisation of Skygate assets and an increase to right of use assets
- Inventories increased vs prior year, with associated decrease in cash, with inventory management ahead of peak trading period remaining key
- Customer redress provision has reduced significantly with the remaining balance expected to be fully utilised by 30 June 2022
- Retirement benefit obligations reduced due to agreement between the Group and the Trustees of the Littlewoods Pension Scheme documented in a revised Schedule of Contributions allowing for a single future contribution
- The securitisation facility expires in December 2023 for 'AS' Notes (£993.6m), 'AJ' notes (£110.4m), 'B' Notes (£105.0m), 'C1' Notes (£105.0m) and 'C2' Notes (£50.0m). The Group also has access to a €35m commitment in relation to the receivables of Shop Direct Ireland Ltd

## Balance sheet

| (£ millions) | Q1 FY22<br>£m | Q1 FY21<br>£m |
|---|---|---|
| **Non-current assets** | **825.9** | **765.2** |
| **Current assets** | **2,231.7** | **2,279.6** |
| *Of which:* | | |
| *Inventories* | 133.6 | 113.0 |
| *Trade and other receivables* | 2,069.4 | 2,046.1 |
| *Cash and bank balances* | 22.0 | 120.5 |
| **Current liabilities** | **(702.1)** | **(865.6)** |
| *Of which:* | | |
| *Trade and other payables* | (532.3) | (545.0) |
| *Customer redress provision* | (8.7) | (90.6) |
| *Retirement benefit obligations* | (8.7) | - |
| **Non-current liabilities** | **(2,134.5)** | **(2,071.3)** |
| *Of which:* | | |
| *Retirement benefit obligations* | (1.6) | (19.6) |
| *Securitisation borrowings* | (1,375.7) | (1,327.4) |
| **Total equity and liabilities** | **(3,057.6)** | **(3,044.8)** |

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