THE VERY GROUP

Q2 FY24 YTD RESULTS

# Helping families get more out of life

Results for the 26 weeks
ended 30 December 2023

27 February 2024

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Q&A

**Presenter**

**Ben Fletcher**
Group CFO and CTO

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# Business update

# A new long-term partnership

## Support of a leading investment firms Carlyle and IMI

- The Very Group has entered into a long-term partnership with global investment firms Carlyle and IMI.
- The partnership includes a £125m funding package, of which c.£85m is immediately available for use by the Company.
- Additionally, Carlyle and IMI will each take a seat on The Very Group's Board.
- This brings the benefits of the long-term support of two world-class institutions, including their deep network of relationships, industry expertise and capabilities.


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# Performance overview

# Overview

## Revenue and market share growth[1] with effective cost management drives strong operating profitability

1. For Q2 FY24 YTD, Very UK revenue grew 2.7% to £1,058.1m (Q2 FY23 YTD: £1,029.8m), increasing total online market share by 0.2%pts[1] year-on-year. This contributed to a Group revenue increase of 0.6% to £1,226.6m (Q2 FY23 YTD: £1,219.1m).

2. Very Finance revenue increased 2.7% to £216.4m, supported by average Group debtor book growth of 3.1% to £1,728.1m (Q2 FY23 YTD: £1,675.8m) and Very UK debtor book growth of 5.5% to £1,471.8m (Q2 FY23 YTD: £1,394.9m).

3. Pre-exceptional EBITDA increased 10.1% on prior year to £130.7m (Q2 FY23 YTD: £118.7m) whilst pre-exceptional PBIT grew 20.2% to £106.7m, both reflecting our improved current year gross margin due to a strong Very Finance contribution as well as ongoing bad debt management. These results are also despite annualising against a £10.7m benefit through recovered VAT.

4. Our decision to front load the buying of stock before peak and to strategically invest in pricing led to a robust festive season, where customers bought in to key categories such as Toys, Gifts and Beauty and Electricals.

5. In December 2023, the Group successfully extended the 'AS' and 'AJ' notes of its UK securitisation facility to 1 January 2027 and increased them by £50.0m to £1.375bn without any changes to note margins.

6. We continue to make tech investments that will improve our customer experience and our Net Promoter Score[3] for the half year to December 2023 remained high at 39.8. Active credit customers for Very UK grew 2.2% as our proposition continues to prove important to the families we serve.

1 – Per company analysis of third-party market data

2 – References the total online non-food retail market

3 – Net Promoter Score (NPS) is a customer loyalty and satisfaction measurement

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# Financial review

# Economic value model

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

**Revenue**

+2.7%

growth in Very UK revenue

**Debtor book**

+5.5%

growth in average Very UK debtor book with focus on quality

**Return on assets**

+0.7% pts

improvement in bad debt as % of average Group debtor book

**Gross margin**

+0.4% pts

improvement in gross margin

**Costs**

(0.4)% pts

decrease in operating costs as % of revenue

# Revenue

## Year-on-year increase in Very UK and Group revenue despite challenging market conditions, including continued growth in the Very Finance business

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Q2 FY24 YTD vs Q2 FY23 YTD performance

### Revenue

**+2.7%** to £1,058.1m

- Growth in Very UK revenue of 2.7%, due to improvements in both retail revenue and Very Finance income.
- Very UK retail sales increased 1.2% year-on-year, with significant growth in Toys, Gifts and Beauty reflecting our investment in this strategic category.
- Growth of 5.5% in Very UK's debtor book supports strong Very Finance revenue.
- Very UK's share of the online market has grown +0.2%pts[1] year-on-year.

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Q2 FY24 YTD vs Q2 FY23 YTD performance

### Revenue

**+0.6%** to £1,226.6m

- The strong Very UK result underpins a positive Group performance, with revenue increasing 0.6%.
- Group Very Finance revenue increased 2.7% as we continue to attract new credit customers and grow the group debtor book.
- Our performance means that Group online market share has increased +0.2%pts[1] year-on-year.
- The decrease in Littlewoods revenue of 12.5% is in line with expectations as we continue to move our focus to Very.

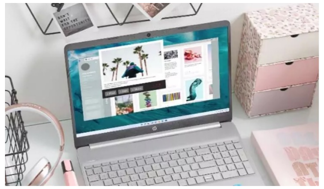
1 – Per company analysis of third-party market data

# Retail

## We delivered market beating retail performance as we continued to invest in our proposition

- Very UK retail sales grew 1.2% year-on-year to £845.3m(Q2 FY23 £835.1m), outperforming the online market which contracted in the same period.
- This was supported by our largest category Electrical, which saw growth of 3.9% due to strong gaming sales and year-on-year growth in small domestic appliances.
- Toys, Gifts and Beauty also had strong growth of 7.0% following strategic investments in this category during FY23. Key areas of growth include personal care products and boys' toys.
- Home sales declined 0.6%, partly due to a decline in home textiles and gardening product sales. Furniture & bed sales however were up year-on-year, offsetting the decline seen in other sub-categories.
- Fashion and Sports declined 5.0% in a heavily discounted market, representing a slowing of the decline seen in previous quarters. Premium fashion however performed strongly year-on-year, with growth of 18.4%.

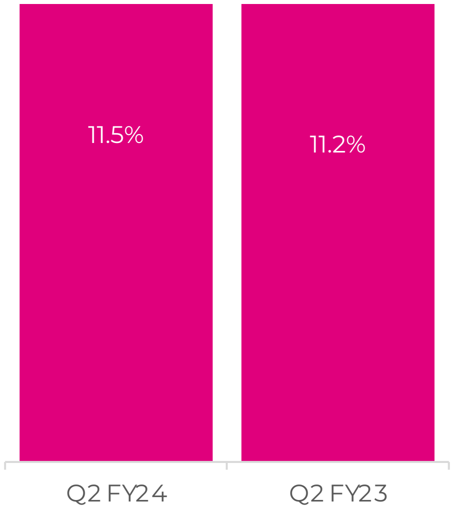
### Retail sales

| | Fashion and Sports | Electrical | Home | Toys, Gifts and Beauty |
|---|---|---|---|---|
| |  |  |  |  |
| Very UK YoY | (5.0)% | +3.9% | (0.6)% | +7.0% |
| TVG YoY | (5.9)% | +2.5% | (3.0)% | +4.3% |
| TVG Q2 FY24 mix | 29.2% | 45.0% | 11.4% | 14.3% |
| TVG Q2 FY23 mix | 30.9% | 43.7% | 11.7% | 13.7% |

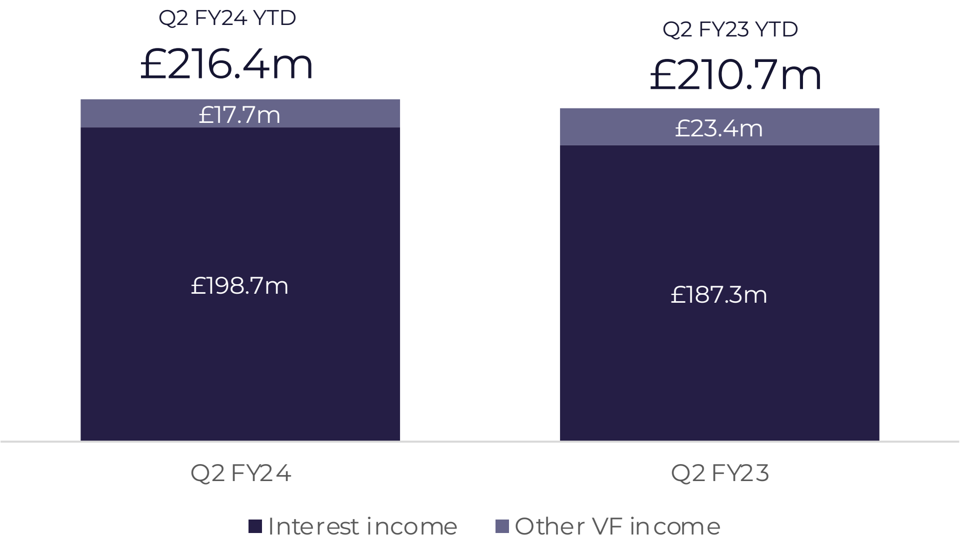
# Very Finance

Our retail sales performance supported a growing debtor book, which contributed to growth in Very Finance revenue of 2.7%

Interest Income as % of average debtor book




Very Finance revenue



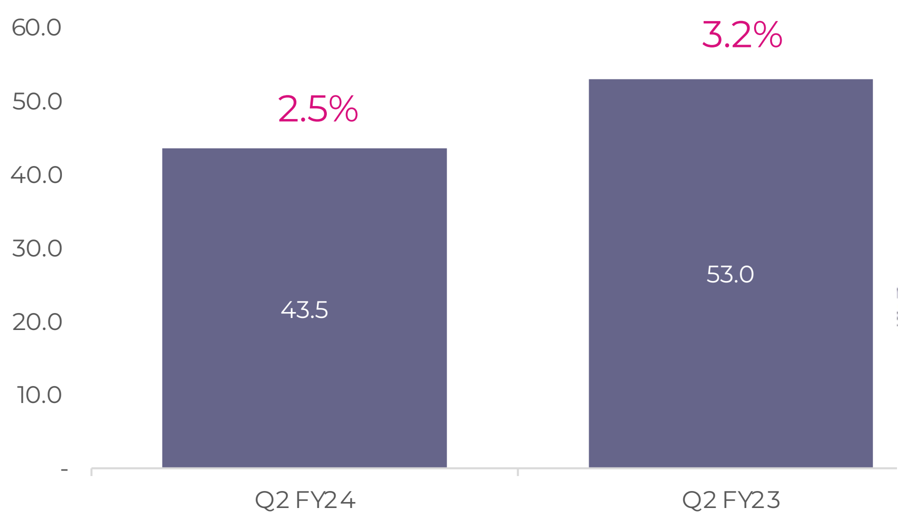

- Very Finance revenue has increased 2.7% year-on-year to £216.4m (Q2 FY23 YTD: £210.7m), with interest income growing 6.1% to £198.7m (Q2 FY23 YTD: £187.3m).
- Interest income as a percentage of the debtor book increased by 0.3%pts to 11.5%.
- Underpinning the growth in Very Finance income is the growth of the average debtor book. This grew 3.1% to £1,728.1m (Q2 FY23: £1,675.8m) on a Group basis, and 5.5% to £1,471.8m (Q2 FY23: £1,394.9m) at the Very UK level. This is without a deterioration in debtor book quality (see overleaf).

# Bad debt

## The long-term trend of bad debt improvement has continued driven by our proven and robust credit processes

- Bad debt in Q2 FY24 YTD reduced £9.5m year-on-year to £43.5m. As a percentage of the group average debtor book, this represents 2.5%, a reduction of 0.7%pts versus Q2 FY23.
- Part of the decline can be attributed to the release of a £5m economic overlay first included in FY22. Excluding this, bad debt has decreased year on year by £4.5m.
- This demonstrates the continuing improvement in the quality of the debtor book as we continue to improve our credit decisioning and ongoing risk management.
- We continue to monitor bad debt alongside other metrics to identify any risks, particularly noting the current economic climate.
- We continue to see no signs of distress in the debtor book.

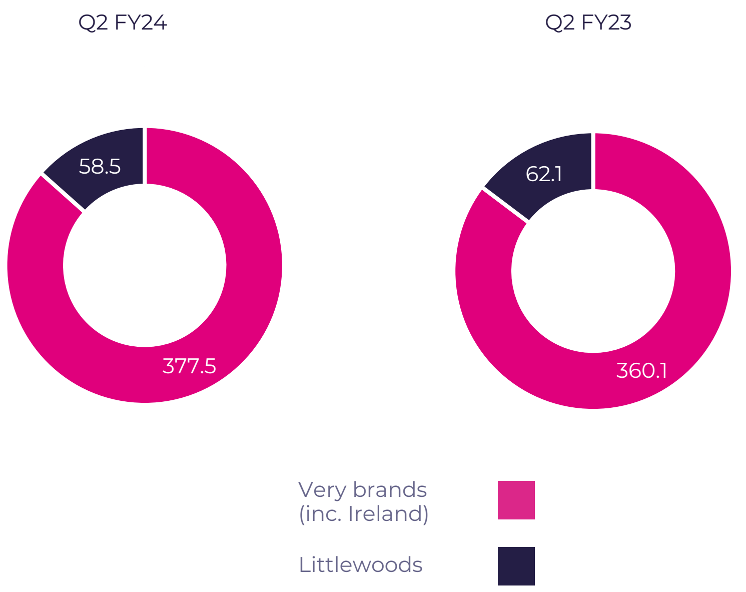
Bad debt as a % of average debtor book (£m)



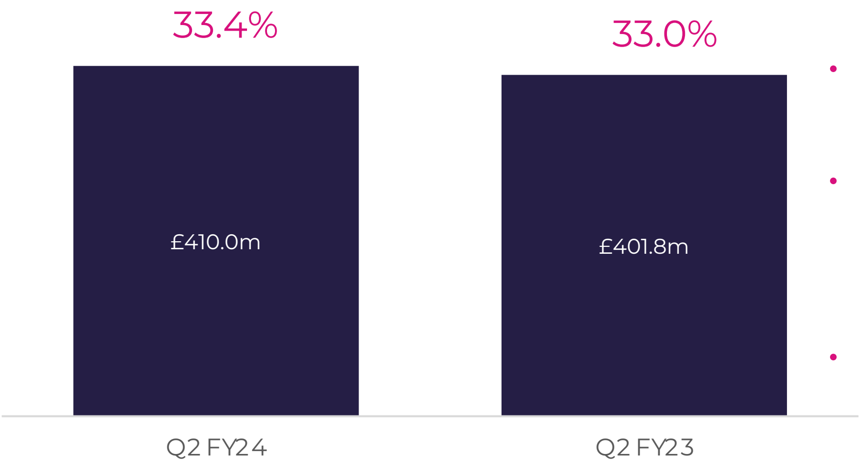

# Gross margin

Robust gross margin at 33.4% following pricing investment and strong Very Finance margin

Gross margin by brand[1] (£m)




Gross margin (£m) and gross margin rate




- Gross margin for Q2 FY24 YTD was 33.4%, an increase of 0.4%pts versus last year (Q2 FY23 YTD: 33.0%).
- This increase is despite annualising against a £10.7m benefit through recovered VAT in Q2 FY23.
- The improvement in Q2 FY24 reflects the growing contribution of Very Finance as we continue to grow our debtor book, alongside our efforts in improving bad debt.
- Gross margin is further supported by higher delivery income on the back of strategic changes in our delivery proposition.

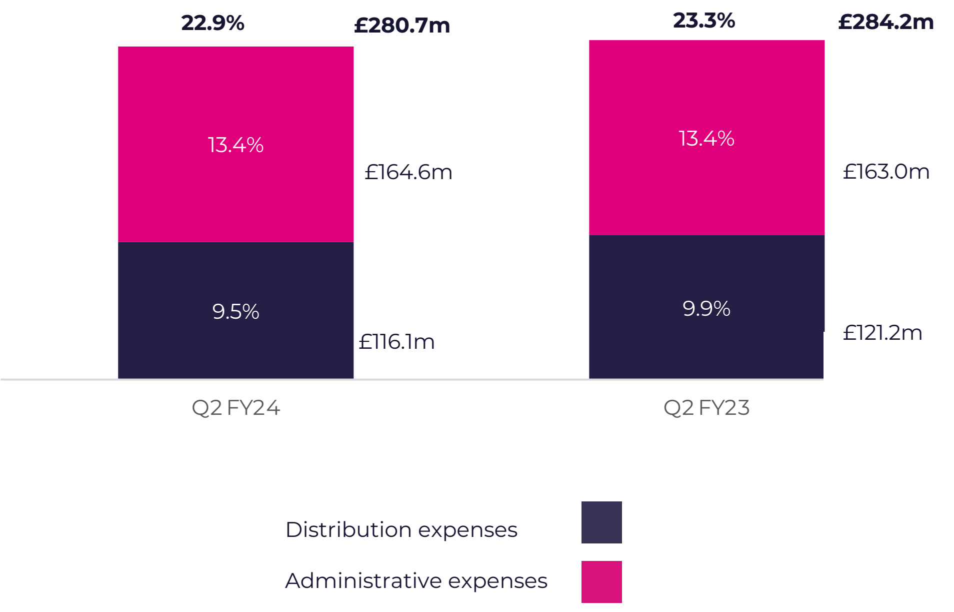
1 – Gross margin by brand does not include some central allocated costs, but these are included in the group gross margin figures

# Cost control

## Costs remain tightly managed as we navigate the high inflation environment

- Operating costs decreased 1.2% year-on-year to £280.7m. This represents a decrease of 0.4%pts to 22.9% as a percentage of revenue.
- This comprises distribution costs which fell £5.1m year-on-year to £116.1m and now represent 9.5% of revenue.
- The reduction in distribution costs is driven largely by the introduction of multiple delivery options, with costs saved through customers opting for longer delivery terms.
- Administrative expenses increased slightly to £164.6m reflecting the phasing of marketing as we increased activity in the first half of the year, as well as the increased tech spend year-on-year.

Operating costs[1] as % of revenue (£m)




1 – Operating costs are stated exclusive of depreciation and amortisation.

# Adjusted EBITDA

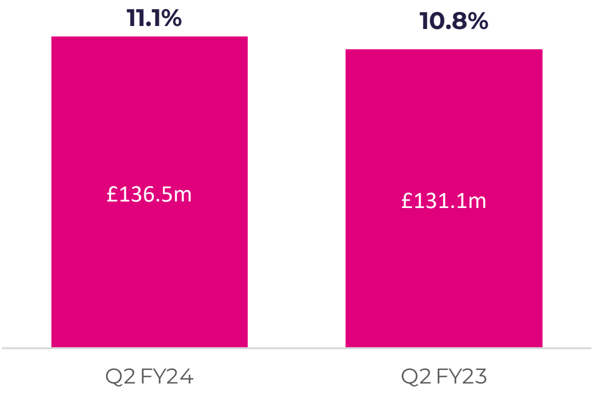
## Earnings growth despite a challenging retail market

- Our top line performance and effective cost management has resulted in strong earnings for Q2 FY24
- In the first half of this year, we delivered reported EBITDA of £130.7m, an increase of 10.1% year-on-year supported by the gross margin performance.
- Adjusted EBITDA has also increased, growing by £5.4m to £136.5m.
- As with gross margin, the EBITDA performance is despite annualising against £10.7m VAT benefit in the prior year.

### Year-on-year adjusted EBITDA reconciliation

| (£m) | Q2 FY24 YTD | Q2 FY23 YTD | % |
|---|---|---|---|
| **Pre-exceptional EBITDA** | **130.7** | **118.7** | 10.1% |
| *Adjusted for* | | | |
| Fair value adjustments to financial instruments | (1.6) | 1.8 | |
| FX translation movements on trade creditors | (1.2) | 3.2 | |
| SaaS related adjustments | 8.6 | 7.4 | |
| **Adjusted EBITDA** | **136.5** | **131.1** | 4.1% |
| *Pre-exceptional PBIT* | *106.7* | *88.8* | *20.2%* |

### Adjusted EBITDA



# Adjusted free cash flow

## Positive adjusted free cash inflow of £38.8m

£38.8m

Q2 FY24 YTD ADJUSTED FREE CASHFLOW

### Cash flow

| (£m) | Q2 FY24 YTD | Q2 FY23 YTD |
|---|---|---|
| **Adjusted EBITDA (post SaaS and management fee)** | **131.7** | **127.4** |
| Securitisation interest | (58.6) | (39.7) |
| **Adjusted EBITDA (post securitisation interest, SaaS and management fee)** | **73.1** | **87.8** |
| *Net working capital movement:* | | |
| Movement in inventories | (18.7) | (14.5) |
| Movement in trade receivables | (203.7) | (183.0) |
| Movement in prepayments and other receivables | (49.7) | (17.7) |
| Movement in trade and other payables | 156.6 | 135.8 |
| Movement in securitisation facility | 104.2 | 113.0 |
| **Net working capital (post securitisation funding)** | **(11.3)** | **33.6** |
| Other adjustments | (0.8) | - |
| Capital expenditure | (22.2) | (23.8) |
| **Adjusted free cashflow** | **38.8** | **97.6** |

- For the first half of FY24, we delivered an adjusted free cash inflow of £38.8m.
- The year on year decrease reflects:
  - A £18.9m increase in securitisation interest costs year on year;
  - A c.£11m benefit through recovered VAT in the prior year comparator; and
  - Timing differences between the debtor book growth and securitisation movement, causing a net increase in cash outflow of £29.5m.
- The movement in prepayments and other receivables includes the impact of greater marketing spend and the associated prepayments balance, higher level of pre-paid interest and supplier rebates.
- The movement in trade and other payables reflects the amounts owed to suppliers following the peak trading season, which will be paid down across the next quarter.
- Capital expenditure reflects spend across a number of business as usual and strategic investments.

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# Forward view

# Outlook

## As we continue to deliver a robust performance in the face of economic headwinds, our decision to invest in the future is benefitting our business and our customers

1. Despite the headwinds still present, in the first half of FY24 we have seen a market beating retail performance and an improving gross margin, which combined with our diligent cost management and improving bad debt position has seen robust earnings.

2. Our debtor book is continuing to grow as customers increasingly value our proposition. Meanwhile, bad debt is well managed, underpinned by our advanced credit decisioning and strong risk management. Very Finance provides us with a quality source of earnings for future periods.

3. Looking ahead, challenges remain on the horizon, but we will continue to focus on earnings, earnings quality and liquidity. We will continue to achieve this using the range of strategic levers at our disposal, including strategic pricing, cost reduction, and working capital management, alongside the expert risk management of our debtor book.

4. In addition, following the strategic partnership announced today, we have the support of Carlyle and IMI as we pursue these initiatives and embark on the next stage of growth for the business.

5. As such, whilst the second half of FY24 is expected to remain challenging, we are confident that our resilient business model will allow us to continue navigating the current headwinds facing our sector.



1 – Per company analysis of third-party market data

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# Q&A

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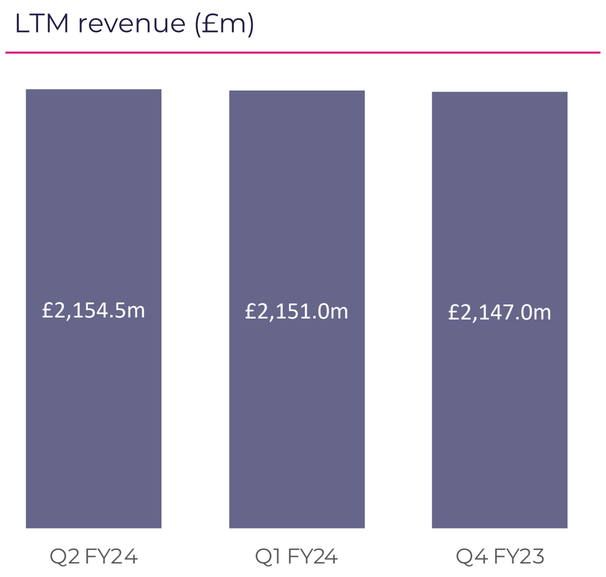
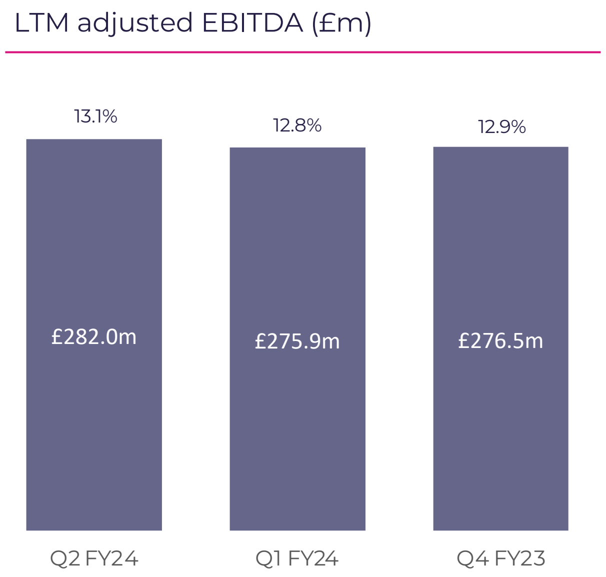
# Appendices

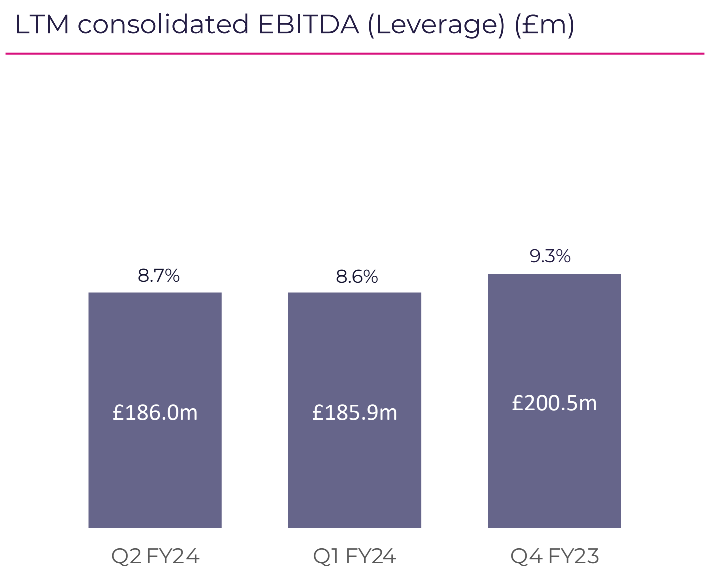
# INCOME STATEMENT

| £m | Q2 FY24 YTD | Q2 F23 YTD | Variance (%) |
|---|---|---|---|
| Very UK | 1,058.1 | 1,029.8 | 2.7% |
| Very Ireland | 39.6 | 42.0 | (5.8)% |
| Littlewoods | 128.9 | 147.3 | (12.5)% |
| **Group revenue** | **1,226.6** | **1,219.1** | **0.6 %** |
| Gross margin | 410.0 | 401.8 | 2.0% |
| *% margin* | *33.4%* | *33.0%* | |
| Distribution expenses | (116.1) | (121.2) | 4.2% |
| Administration expenses | (164.6) | (163.0) | (1.0)% |
| Other operating income | 1.4 | 1.1 | 27.3% |
| **Pre-exceptional EBITDA** | **130.7** | **118.7** | **10.1%** |
| *% pre-exceptional EBITDA margin* | *10.7%* | *9.7%* | |
| *Operating costs as % of revenue* | *22.9%* | *23.3%* | |
| **Pre-exceptional adjusted EBITDA** | **136.5** | **131.1** | **4.1%** |
| *% adjusted EBITDA* | *11.1%* | *10.8%* | |

# LTM KPIs


LTM revenue (£m)
£2,154.5m
£2,151.0m
£2,147.0m
Q2 FY24
Q1 FY24
Q4 FY23


LTM adjusted EBITDA (£m)
13.1%
12.8%
12.9%
£282.0m
£275.9m
£276.5m
Q2 FY24
Q1 FY24
Q4 FY23


LTM consolidated EBITDA (Leverage) (£m)
8.7%
8.6%
9.3%
£186.0m
£185.9m
£200.5m
Q2 FY24
Q1 FY24
Q4 FY23

# CASHFLOW STATEMENT

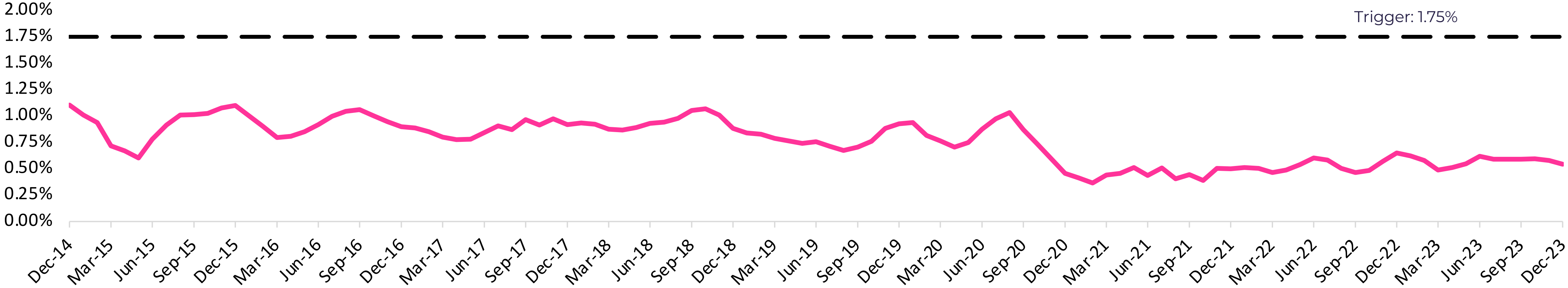
| £m | Q2 FY24 YTD | Q2 FY23 YTD |
|---|---|---|
| **Adjusted EBITDA (post securitisation interest, management fees and SaaS)** | **73.1** | **87.8** |
| *Net working capital movement:* | | |
| Movement in inventories | (18.7) | (14.5) |
| Movement in trade receivables | (203.7) | (183.0) |
| Movement in payments and other receivables | (49.7) | (17.7) |
| Movement in trade and other payables | 156.6 | 135.8 |
| Movement in securitisation facility | 104.2 | 113.0 |
| **Net working capital (post securitisation funding)** | **(11.3)** | **33.6** |
| Other adjustments | (0.8) | - |
| Capital expenditure | (22.2) | (23.8) |
| **Adjusted free cashflow** | **38.8** | **97.6** |
| Interest paid (excluding securitisation interest) | (35.7) | (23.3) |
| Dividend paid | (3.8) | (3.8) |
| Income taxes (paid) / received | (0.8) | - |
| Cash impact of exceptional items (excluding customer redress) | (13.4) | (19.5) |
| Management fees | (3.8) | (3.8) |
| Cash paid to parent company | (2.5) | (2.5) |
| (Repayments of) / draw downs from finance leases | (6.1) | (5.5) |
| (Repayments of) / draw downs from bank loans | (3.5) | (3.6) |
| Movement in revolving credit facility | 30.0 | (75.0) |
| **Net increase in cash and cash equivalents** | **(0.8)** | **(39.4)** |

# NET LEVERAGE

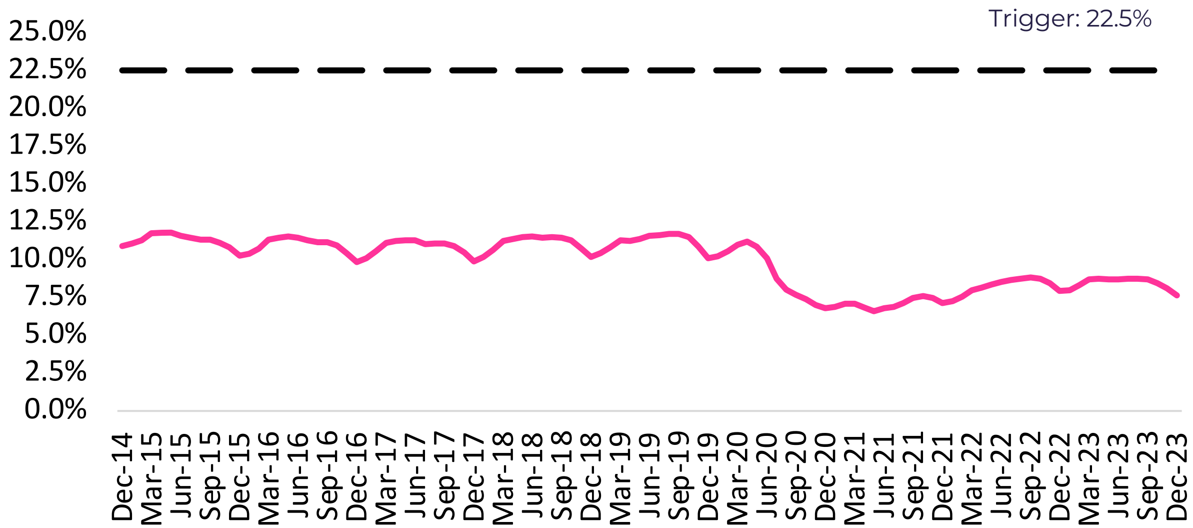
| Net leverage<br>(£ millions) | Q2 FY24 | Q1 FY24 | Q4 FY23 | Q3 FY23 | Q2 FY23 | Q1 FY23 | Q4 FY22 | Q3 FY22 | Q2 FY22 | Q1 FY22 | Q4 FY21 | Q3 FY21 | Q2 FY21 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cash and bank balances** | **38.8** | **37.8** | **39.6** | **62.2** | **4.0** | **4.0** | **43.4** | **41.7** | **5.6** | **22.0** | **78.1** | **92.5** | **55.7** |
| Fixed rate notes | (575.0) | (575.0) | (575.0) | (575.0) | (575.0) | (575.0) | (575.0) | (575.0) | (575.0) | (575.0) | (550.0) | (550.0) | (550.0) |
| Revolving credit facility | (100.0) | (150.0) | (70.0) | (150.0) | - | - | (75.0) | (150.0) | - | (90.0) | (90.0) | (150.0) | - |
| Other debt | (31.3) | (30.6) | (34.4) | (35.3) | (39.2) | (39.2) | (42.2) | (0.2) | (8.2) | (2.7) | (0.7) | (0.8) | (1.1) |
| Total gross debt (excluding securitisation) | (706.3) | (755.6) | (679.4) | (760.3) | (614.2) | (614.2) | (692.2) | (725.2) | (583.2) | (667.7) | (640.7) | (700.8) | (551.1) |
| **Total net debt (excluding securitisation)** | **(667.5)** | **(717.8)** | **(639.8)** | **(698.1)** | **(610.2)** | **(610.2)** | **(648.8)** | **(683.5)** | **(577.6)** | **(645.7)** | **(562.6)** | **(608.3)** | **(495.4)** |
| **LTM Consolidated EBITDA (Leverage)** | **186.0** | **185.9** | **200.5** | **219.4** | **220.5** | **220.5** | **244.7** | **272.9** | **274.4** | **262.2** | **256.5** | **262.5** | **247.3** |
| **Net leverage** | **3.59x** | **3.86x** | **3.19x** | **3.18x** | **2.77x** | **2.77x** | **2.65x** | **2.50x** | **2.10x** | **2.46x** | **2.19x** | **2.32x** | **2.00x** |

# SECURITISATION PERFORMANCE COVENANTS

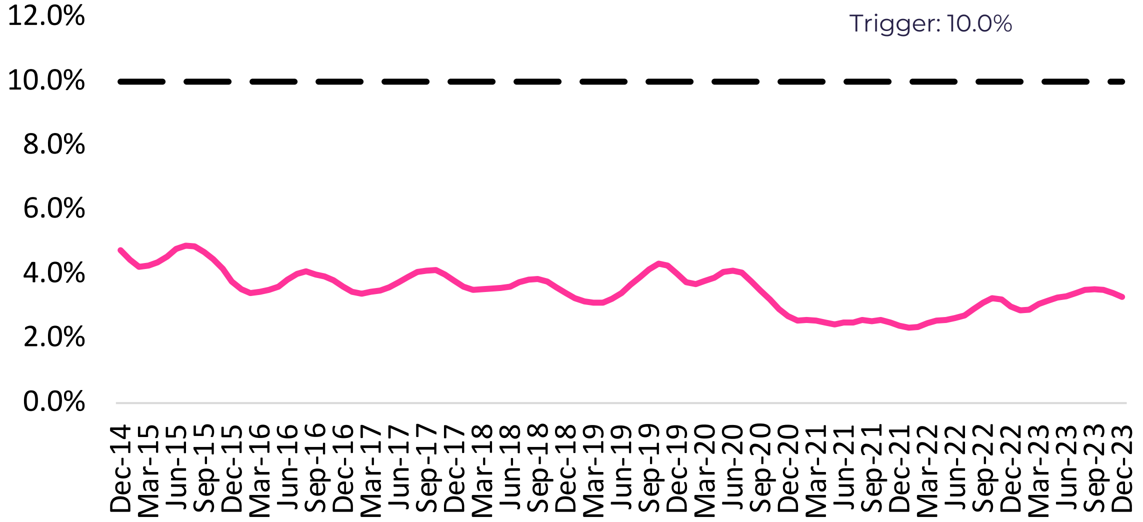
Default three month moving average




One to five month delinquency rates




Five-plus months delinquency rates



# BALANCE SHEET

| £m | Q2 FY24 | Q2 FY23 |
|---|---|---|
| **Non-current assets** | **1,229.8** | **1,225.3** |
| **Current assets** | **2,118.3** | **1,984.0** |
| *Of which:* | | |
| *Inventories* | *124.4* | *126.6* |
| *Trade and other receivables* | *1,949.9* | *1,846.8* |
| *Cash and bank balances* | *38.8* | *4.0* |
| **Current liabilities** | **(846.5)** | **(764.8)** |
| *Of which:* | | |
| *Trade and other payables* | *(695.7)* | *(663.3)* |
| *Securitisation borrowings* | - | *(50.0)* |
| **Non-current liabilities** | **(2,330.9)** | **(2,250.3)** |
| *Of which:* | | |
| *Retirement benefit obligations* | *(1.2)* | *(1.3)* |
| *Securitisation borrowings* | *(1,596.0)* | *(1,504.7)* |
| **Equity attributable to owners of the company** | **(170.7)** | **(194.2)** |
| **Total equity and liabilities** | **(3,348.1)** | **(3,209.3)** |