MATALAN

REAL LIFE READY

BUSINESS UPDATE

21 February 2022

Matalan, a leading omni-channel fashion and homeware retailer, today issues a business update following our well received earnings release.

STRATEGY UPDATE

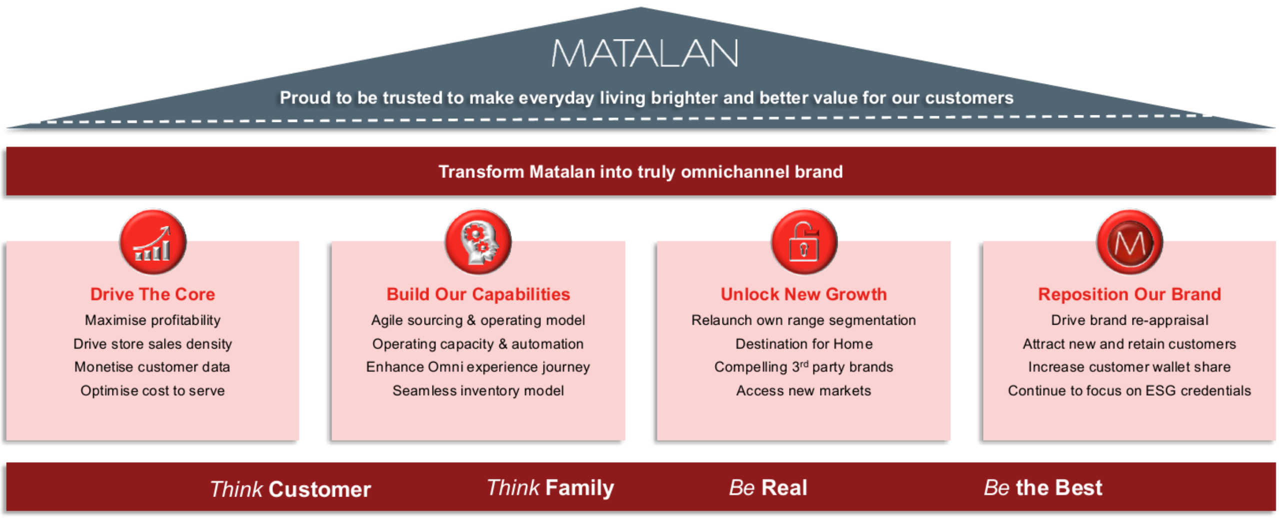
We focus on providing a unique blend of quality, design and price across our broad product range, together with a compelling customer shopping experience through our store network and website. We believe we have demonstrated the resilience of our business model and a brand that resonates with our customers. In addition, we believe that we have established a significant position in the UK clothing market, achieving the operational and process agility necessary to consistently deliver our offering under a variety of external conditions, outlasting many of our competitors. While there is still progress to be made and further opportunities to be exploited, we view our business as well-positioned to transform into a truly omni-channel brand in the coming years.

We believe that our customers and employees increasingly relate to our vision as a trusted provider of value goods. Through the implementation of our business strategy, we aim to deliver our mission to transform into a truly omni-channel brand.

In the summer of 2021, we finalised a refreshment of our strategy and we have since then rolled out our investment programme to deliver our mission. Our strategy is designed to both capitalise on our existing strengths and evolve our capabilities while adapting to the changing marketplace and latest consumer behaviour trends. The strategy has four pillars, each of which is underpinned by the values with which we operate our business on a daily basis. We believe that our omni-channel brand will deliver a resilient and sustainable level of revenue growth, and will result in improvements to our profitability and cash generation.

To achieve these goals we have designed our strategy around the following four pillars, which are also highlighted in the following chart:

- drive performance in the core business;
- further build and develop our omni-channel capabilities;
- unlock and deliver new growth opportunities; and
- reposition the brand.



Drive performance in the core business

Now more than ever, we are attentive to our customers' needs and expectations and evolving how we operate accordingly to ensure that we continue to cater to changing consumer preferences. We intend to continue to do this while remaining acutely aware of the role that we play in our consumers' lives. At our core, we are a brand that provides a range and value that enables our consumers to dress themselves and their families and decorate their homes with style and quality at an affordable price. We use our deep understanding of our customers' attitudes, behaviours, lifestyle, and product propensity to meaningfully segment our customer base and tailor our range architecture to appeal to their needs. In doing so, we offer a clear range and sub-brand architecture through our three tiered product range: "Good", "Better" and "Best", while maintaining competitive opening price points that anchor our value proposition and overall brand positioning. We also offer in-house designed brands such as "*Soon*", within womenswear, and "*Lincoln*", within menswear, and have utilised our investments in design, fabrics, and distinct visuals (such as unique brand handwriting) to generate sub-brand equity and greater price flexibility in support of our overall blended margin position.

Strong and consistent execution of our core offering will remain paramount to our strategy and, as such, so will our focus on maintaining deep and enduring relationships with our suppliers and the development of compelling ranges that offer value, as well as making those ranges available to our consumers when and how they want to buy them. In pursuing these objectives, we expect to continue exploiting the benefits of RFID inventory tracking, which is now fully implemented across our ranges. RFID inventory tracking provides enhanced availability to consumers, more accurate replenishment and a leaner and more efficient management of working capital. Between the 2018 and 2021 Fiscal Years, we invested approximately £4.0 million to implement our RFID inventory tracking.

Our direct sourcing model is based on establishing strategic partnerships with key long-term suppliers, who are not reliant on a single country but have multi-country sourcing capabilities. These strategic partnerships allow us to increase our efficiencies through collaboration and innovation. Currently, our largest 20 merchandise suppliers account for approximately 50% of all our goods purchased by value. We believe that our focus on such suppliers with multi-country sourcing capabilities will enable us to be more agile and increase a variety of production options to decrease the risks associated with supply chain volatility. We believe one of the advantages of working with suppliers who provide multi-country supply options is our ability to split our orders between countries such as China and Turkey without comprising the quality of our products or our ethical standards relating to production and supply. Additionally, as a result of potential energy and raw material disruptions across China, we plan to move a proportion of our buy to Short Lead Time[1] suppliers, which will result in an increase in purchases from Turkey and a decrease in purchases from China. To offset any increases in costs of production by suppliers, we have started to work with our key suppliers on initiatives such as down time production and committing to fabric and raw materials at an earlier time to stabilise costs, while equally decreasing the impact of any supply chain delays. We believe that these initiatives will not only help us manage raw material cost inflation, but also, due to advanced commitments to fabric choices, early sample sign-offs and by locally sourcing packaging, will help condense the supply chain critical path and reduce lead times. In addition to these supplier initiatives, our highly skilled production engineers continually work on ways to re-engineer products to increase production efficiencies without detriment to quality, appearance and the after-care of products.

In 2021, we appointed a new and experienced Director of Merchandising to assist us in achieving greater efficiencies and effectiveness in our core business. To that end, we intend to continue developing and improving our merchandise planning, management, systems and processes. Specific areas of focus include our inventory allocation and the replenishment process and critical path from range design to inventory delivery. We believe that such improvements, enabled and backed by RFID inventory tracking, will present opportunities to operate with leaner inventory and deliver a higher representation of full price sales in the total mix, as well as corresponding reductions in markdowns. In the 52 weeks ended November 27, 2021, 80.9% of our sales were (non-discounted) full-priced sales, representing a 3.3% increase from the 52 weeks ended November 28, 2020.

Although we have significantly enhanced our online capacity over the last year in response to the periods during

[1] "Short Lead Time" refers to suppliers with a two to six week delivery period and includes suppliers from Europe and Turkey.

which the UK government mandated store closures, we remain as committed as ever to our in-store business. We have a significant presence in convenient, predominantly large-formatted and accessible out-of-town locations. We view our stores as assets, which proved resilient when they were permitted to open. During the 53 weeks ended February 29, 2020 (the most recent full fiscal period that was not significantly impacted by the COVID-19 pandemic), over 98% of our full price stores generated positive EBITDA pre-exceptionals (pre-IFRS 16). As of November 27, 2021, we refurbished 137 of our stores, and although we paused our store refurbishment programme during the period of closures in the second half of 2020 and in 2021 in order to support short-term liquidity, we intend to reinstate this programme in 2022 given the strong consumer response following store re-openings. Between the 2018 and 2021 Fiscal Years, we invested approximately £54.0 million towards our store refurbishment programme.

Our store refurbishment programme is intended to modernize and improve store navigation, create brand segregation through fixtures and spot lighting, and increase the level of customer choice by intensifying the use of store space. The refurbishment programme is intended to improve the in-store experience and increase both customer dwell time and the product offering through additional linear merchandising space. A key factor in the performance of our stores is the sales density, which is achieved by optimising our physical store footprint, allowing us to offer additional options to our consumers. In addition to displaying a greater proportion of our own label range, our more efficient use of space has also allowed us to add third-party range concessions, including *The Entertainer*, *Card Factory* and *Claire's Accessories*. We intend to continue to improve how we merchandise our store space to provide an efficient customer experience with the best offers and choice.

Our physical store estate plays a crucial role in our omni-channel strategy and we actively manage our store portfolio to maintain a high performing and customer-relevant footprint across the UK. As store leases approach maturity, we proactively consider the location, size and format of our physical locations in the relevant catchment and decide whether these leases remain the most appropriate environment for our consumers. As a result, on an annual basis, we anticipate either re-locating or extending our existing leases in a number of our stores. Our store estate also represents a significant proportion of our cost base. While we do not believe that out-of-town space is as over-rented in the current market as high street space, we continue to rebase rent costs where appropriate, as lease maturities approach.

We also believe that opportunities continue to exist for the addition of profitable new store space within the UK market. Recent changes in retail property economics within the market and the exit or contraction of a number of competitors have resulted in additional locations becoming viable and available for our stores. For example, in November 2021, a new store opened in the popular Cheshire Oaks Retail Park location after being vacated by a competitor, which presented an attractive opportunity for our store estate. In the current retail climate, although we do not have an aggressive store opening strategy, we aim to remain responsive and opportunistic in our approach.

A critical enabler to what we offer our customers is our ability to operate cost effectively. We continuously challenge ourselves to improve our processes, minimise waste and execute correctly the first time. During 2020, we successfully rolled out assisted checkouts in our stores, adding speed and convenience for consumers while also improving our own cost productivity. The success of this measure is supported by the results it produced: for the 52 weeks ended November 27, 2021, assisted checkouts accounted for more than 50% of all in store transactions. Additionally, within our supply chain, we believe the investment in Pocket Sorter Automation, at our Knowsley Distribution Centre in 2021, provided a material uplift in online fulfilment capacity. Furthermore, we believe it will deliver cost efficiencies of over £2 million per annum. In addition, we are making changes with how some of our ranges are shipped into the UK from our Long Lead Time supply base in 2022 in response to material increases in the cost of shipping. Finally, we will also transport more of our products in flat packed boxes that will then be re-processed onto garment hangers once in the UK. We believe that this change will improve container utilisation and end-to-end supply chain costs.

The steps highlighted above are part of our broader programme of continuous improvement with regard to cost efficiencies and effectiveness throughout our stores, supply chain and Headquarters.

Our experienced and committed senior management successfully led our business through a prolonged and unprecedented period of major disruption while managing to launch our refreshed strategy, driving continued investment to evolve our operating model and materially growing our online channel. To build on the momentum created by our management team and to further consolidate its strength, we plan to appoint a Chief Executive Officer, who will add to and complement our Board. The identification of the right candidate will be of paramount importance in our search, and will be prioritised over the speed of appointment.

Further build and develop our omni-channel capabilities

Our online channel has experienced rapid and significant growth in recent years. From the 2018 Fiscal Year to the end of the 2021 Fiscal Year, our online sales experienced a 39.0% year-on-year increase. By the 52 weeks ended November 27, 2021 our online Sales totalled £228.0 million, an increase of 42.6% compared to £160.0 million for the 52 weeks ended November 28, 2020. However, the expansion of our online business has been complementary to our traditional retail store network. Our revenues by channel from our 2018 Fiscal Year to 28 November 2021 are set out in the following table (in £ millions):

					39 weeks ended	
	Financial Year 2018	**Financial Year 2019**	**Financial Year 2020**	**Financial Year 2021**	**28 November 2020**	**27 November 27, 2021**
Revenues from UK stores	963.8	978.6	975.4	518.7	433.1	600.7
Revenues from online sales	72.6	94.4	123.6	202.4	128.8	154.2
Revenues from international stores.....	26.6	30.9	30.4	23.0	16.2	23.0
Total revenues...................................	**1,063.0**	**1,103.9**	**1,129.4**	**744.1**	**578.1**	**777.9**

As our online business grows, so does the volume of omni-channel consumers. As of November 27, 2021, 2.5 million of our Matalan Rewards customers shopped both in-store and online (representing approximately 32.5% of our consumers and 46.3% of our revenue for the 52 weeks ended November 27, 2021). These consumers spend an average of £112 per year, 49% more than the average yearly spend of a store-only consumer. Further, we estimate there to be an additional 1.6 million of our Matalan Rewards who have also shopped both in-store and online over the same period. Our online consumers (including omni-channel consumers) have grown by 25%, from approximately 3.8 million consumers in the 52 weeks ended November 28, 2020, to approximately 4.8 million consumers in the 52 weeks ended November 27, 2021. This increase in online consumers has translated into an increase of 43% in online sales over the same period. In the 2021 Fiscal Year, we had 190.0 million website visits and we believe that our online channel will further grow in popularity, due to the involvement of our younger millennials customers between the ages of 25 and 34.

The free click-and-collect service available on online orders has proved popular with consumers, with such option having been chosen by our consumers in approximately 27.6% of online sales in the 52 weeks ended November 27, 2021. The click-and-collect option drives incremental customer visits to our stores, and, in turn, approximately 14.0% of such visits led to additional spending by our consumers for the two quarters ended November, 27, 2021. We believe that an increasing number of customers will continue to convert to shopping on an omni-channel basis (*i.e.*, both in-store and online), creating further opportunities to increase incremental spending as well as reaching new customers through the online entry route.

With the recent pace of changes in customer behaviour accelerating, we see the importance in continuing to improve our ability to respond quickly and operate effectively. In many areas, our improvements will involve capitalising on investments already made, as well as investing in new technology, process automation and digitalisation.

Our goal to become a fully omni-channel business impacts many of our operational processes. We are confident greater agility across channels can offer benefits to consumers and improve our efficiency and performance. During 2020, to enhance our online capacity, we accelerated the development of our "fulfil from store" system, aimed at fulfilling online demand from store inventory. Initially, we focused on operationalising back-end systems and in-store processes and, since November 2020, our stores have been successfully fulfilling a significant percentage of online demand, with a peak of 50% reached in November 2020. Our already-launched RFID inventory tracking was fundamental in allowing us to quickly adapt and enhance our online capacity. The development of our ability to fulfil from stores provides a greater opportunity for inventory to be sold at full price prior to the exit phase of its lifecycle, given the ability of a larger number of customers to access inventory located within an individual store through our online channel. While such rapid development has been a success, we will continue to further improve customer communications and order tracking post-purchase.

The ability to use our stores to fulfil online demand will remain a key element within our supply chain operation. However, we recognise that fulfilling online demand from our Knowsley Distribution Centre will always be the most cost-effective choice. Therefore, we have increased our online picking and dispatch capacity from the Knowsley Distribution Centre, which went live in October 2021. By installing batch-picking (*i.e.*, the picking of items collected for multiple orders simultaneously) and Pocket Sorting Automation, we have enhanced our capacity, efficiency and service levels, and now the Knowsley Distribution Centre is equipped to fulfil the majority of our online orders in a channel that we forecast will continue to grow. Between the 2018 and 2021 Fiscal Years, we invested approximately £17.0 million into Pocket Sorting Automation, representing our first major milestone in our multi-year supply chain development journey. This automation in connection with our online business logistics doubles the preceding online volume throughput capacity. In particular, it has the ability to process one million units per week, while our preceding capacity was 400,000 units per week. A greater level of automation also provides significant cost efficiencies by reducing the requirement for employee resources in the process. As a result, we anticipate to experience efficiency savings in excess of £2.0 million per annum, based on current volumes. Therefore, we expect to continue to invest in automation, capacity and volume throughput enhancements that, we believe, will materially improve the operations of the Knowsley Distribution Centre.

Following a strategic review of our growth strategy and existing website capabilities and development roadmap, we have taken the decision to migrate our website to an alternative platform in 2022. After significant due diligence, we have signed a letter of intent and agreed commercial terms with The Hut Group ("**THG**"), one of the UK's leading online retail and technology businesses, to migrate our systems onto the Ingenuity platform. We believe that partnering with THG will provide us with the platform and capabilities of a best-in-class eCommerce business. We intend to use this new platform to create a differentiated online selling experience that offers end-to-end digital service and experience and will set us apart from our competitors and other players in our industry, while allowing us to maximise our selling opportunities.

We believe that the Ingenuity platform will allow us to transition from transactional to relationship-led commerce with an integrated loyalty scheme and curated, content-driven customer journeys, guiding consumers through thousands of items with seamless navigation. The improvements to functionality that we will deliver include the ability to merchandise store inventory for online orders beyond the sell-through of our distribution centre's stock, an integrated reward scheme, order tracking, site search, and extended payment options, including deferred payment. The Ingenuity platform is a fully integrated solution and will replace a number of our existing disparate third-party systems, improving our overall website speed and performance, while improving cost efficiency. We believe that the re-platforming of our website, as well as increased improvements to the customer journey, will add more agility to how we manage cross-channel availability and full-price product sell through from a more efficient inventory position. In addition, we aim to further develop our ability to expand the direct-delivered range of our branded partners on our website, generating revenue without impacting working capital. These ranges, which include curtains, furniture, art and lighting, will be retailed on our website but delivered to consumers directly by those third-party vendors. As we roll out the Ingenuity platform in 2022, we intend to expand our range of branded partner ranges on our website while nevertheless retaining the ability to selectively add and remove branded partner products to ensure such ranges are complimentary with our own offerings.

Unlock new growth

We have a large customer base and our product range appeals to a broad spectrum of the UK population. While we believe that Matalan has a wide appeal, our frequent Matalan customers are typically between 35 and 55, from lower socioeconomic demographic groups, and predominately female. Furthermore, our customers are typically fashion-conscious, but do not demand cutting-edge fast fashion.

Research tells us that the breadth of our customer base, wide brand appeal, and existing scale, in both the physical and digital retail space, present several opportunities to accelerate and unlock new and existing routes to growth.

We have developed a growth plan that builds upon our existing core business and will allow us to continue to transition into a multi-branded omni-channel platform.

First, we aim to continue capitalising on the success of our online channel, which has grown rapidly in the last two years. From the 52 weeks ended February 23, 2019 to the 52 weeks ended February 27, 2021, our online sales grew by 114.4%, from £94.4 million to £202.4 million, which was partially due to store closures during the COVID-19 pandemic but also, we believe, as a result of improved customer experience (*e.g.*, through personalising our website to match our customers' needs and improvements to the speed of our website), investments in customer acquisition and the increase of our fulfilment capacity. We believe a significant opportunity exists to convert our loyal brick and mortar-only consumers into omni-channel consumers, increasing shopping frequency and customer value. Therefore, we will continue to capitalise on increased fulfilment capacity and further improve the customer journey through the migration of our website to the THG Ingenuity platform to continue the progress already underway.

Second, we intend to focus on our range growth plan. From a range perspective we believe that we have a strong apparel-led position with value-conscious, over-45 year old consumers (our "**Core Consumers**"). Our Core Consumers relate to our offering, but we believe we have not historically translated this into what could be the maximum potential share of their expenditures in apparel and homeware. As such, our growth plan for our range will be centred around our apparel proposition, with an aim to occupy a larger share of our consumers' wardrobe. Furthermore, we aim to expand the range choice within our homeware department, to cater to a wider variety of consumers.

In late 2020, we also completed the necessary website developments to launch our first direct-delivered range extensions via branded partners. We intend to focus on developing customer awareness in relation to our expanded online range of products while we add to the brands currently offered, including well-known and popular fashion brands that we believe will appeal to our consumers. In autumn 2021, we extended our third-party offer to test the appeal of a small number of fashion brands on a limited scale. These brands proved to be not only popular with existing consumers, but also with new consumers, as evidenced by 16.6% of consumers who bought such third-party brands at Matalan being new consumers, with almost four out of five of those consumers also having purchased Matalan label products in the same transaction. For this reason, we view the addition of new third-party brands to our offering as a key way to both attract new consumers and retain existing ones, rather than as a threat to the sale of our own labels and products. We believe many of our existing consumers also purchase third-party brands through other retailers and therefore, we expect that allowing them to make such purchases through our website will incrementally drive our sales. With the breadth of our customer base and extensive reach, we also intend to broaden the services that we offer to partner brands to include customer engagement via access to our consumer and distribution channels. We believe these benefits will provide a compelling recruitment story in support of the onboarding of leading brands. Therefore, we will take a disciplined approach in order to build a consistent brand portfolio that complements our consumers' interests. To support the addition of the new third-party fulfilled branded ranges online, many of which retail at higher price points than our core clothing and homeware range, we will develop the capability to provide buy-now-pay-later ("**BNPL**") options through a third-party partner in our new website, a service which we anticipate will be available starting in 2022.

We recently re-appraised the existing segmentation of our customer database and, as a result, we have adjusted our customer segmentation to focus on a more actionable set of four customer profiles. These profiles identify common customer traits, which include age, spending channel mix, product category preferences and attitude to price, style and quality. We benefit from understanding our consumers' attitudes, behaviours, lifestyles, product propensity and media consumption and we believe that these four new customer profiles will drive customer-focused decisions in our approach to range development. In addition, we believe there are significant opportunities for growth within our own range, which we aim to take advantage of by exploiting this refreshed customer segmentation to better align our ranges with the customer segments we are targeting, driving greater spend penetration. Furthermore, staying "on-brand", while nuancing the messages, channels and experiences we use to engage with our key customer segments will enable us to better serve their diverse features and needs (from those of young families and on-trend "fashionistas" to those of people simply looking for comfort, style and quality).

Third, we aim to increase the choice, convenience, and value we offer our consumers by building on our already-successful in-store concessions that complement our own range of products and allow us to utilise surplus space created through more efficient merchandising techniques. We plan to continue exploring further opportunities to provide additional incremental choice for our customers through our concession partners where this may complement our own ranges. In particular, a category where we believe significant potential lies is that of branded beauty products. In autumn 2021, we began retailing beauty brands, including *Rimmel* and *Maybelline*, in a small number of stores and online. We are currently assessing the optimal range and operating model through which we may choose to scale up the offering of such products, before we commit to further expanding our third-party beauty offering.

Fourth, another key area where we believe significant opportunities lie is the more effective targeting of consumers in the 35-to-45 age range. While many of our existing consumers are already in this bracket, we believe that we have not targeted them as effectively as our Core Consumers in the 45+ age range. We further believe there is an opportunity to target this demographic and create a second core clientele. Two recently launched Matalan label brands provide an example of our plans to develop this existing, but historically underserved, customer group ("*Et Vous*", in womenswear, and "*T&W*", in menswear). The *Et Vous* brand includes categories of products such as blazers, dresses, formal trousers and blouses, while the *T&W* brand focuses primarily on casual menswear and activewear. These new brands are designed to provide a more contemporary look, bridging the gap between everyday casual and smart sophistication. We believe these brands will successfully cater for shopping preferences of this group of existing consumers. In addition, in spring 2022, we also plan to launch an online-only dress and separates range called "*Be Beau*", targeting our younger Core Consumers and catering for relaxed but stylish social occasions.

Finally, research shows that our consumers would like us to expand our homeware range, so we are extending our range in key categories, which will better equip us to drive cross-shopping from clothing into homeware. We aim to create a reputation for having a stylish homeware and garden offering. Thus, categories within which we aim to improve the depth of our range and the and choice we offer to our consumers is outdoor living and kitchen areas (both through our own label and third-party brands). Other categories of our homeware offering, including bedroom and bathroom, are already strong, although we aim to continue growing our market share by increasing the range of our offering.

Reposition the brand

We have a well-established relationship with our base of active consumers and are focused on maintaining their interest in our brand and keeping them highly engaged in our offering. We estimate that we have over 12 million active consumers, approximately eight million of which are active members of our Matalan rewards loyalty scheme ("**Matalan Rewards**") who have shopped with Matalan in the last year. Matalan Rewards offers customers a range of benefits, including exclusive promotional discounts. As a result, Matalan Rewards members accounted for 61.1% of our revenue during the 52 weeks ended November 27, 2021, making our loyalty scheme an important element of our marketing and customer management strategy, while also supporting our growing omni-channel business.

We had more than five million customer email addresses as of November 27, 2021. Our email database provides us with important data points (e.g., the age of the customer) that we use to improve our customer-centric strategies. We also monitor the effectiveness of our emails in influencing customer behaviour, for example by considering email open rates, the number of readers who visit our website by clicking links in our emails, and how many of those entering the website make a purchase, as well as details of the purchase. This detailed tracking and analysis facilitates the optimisation of the email programme in order to deliver the most incremental revenue from the email address database.

The Matalan application ("**Matalan App**") has been downloaded 3.9 million times since its inception. In addition, over the same period, we had 1.8 million new customers register on the Matalan App. Members can use the Matalan App as a digital rewards card, an offer wallet, and a portal to our mobile website. We also use the Matalan App to communicate with our members, with approximately 24 million push messages being sent to our customers each month.

Despite being one of the leaders in the UK value retail market, we believe there are significant opportunities to further improve style and quality perceptions, as well as the emotional connection that consumers and potential customers have with our brand. We expect that the targeted progress we are currently implementing and we plan to implement in the future, discussed below, will further increase customer awareness about us and our offering.

The first step we took to achieve this was to implement a refreshed and innovative "*Real Life Ready*" brand marketing strategy in 2020 with the objective of beginning to establish a deeper connection with our customers and further develop our brand personality and fashion credentials. The theme of this positioning is centred around responding to our customers need for ranges that are specifically tailored to fit "real life" occasions. Real Life Ready's authentic visual style and distinctive messaging, result in a differentiated identity. Real Life Ready conveys what we believe our customers value about our brand: value, quality, style and range, in a relatable and optimistic way.

The Real Life Ready branding campaign did not only aim to change consumers' view of our brand, but also the way they "feel" about Matalan. We believe emotion to be key for driving brand engagement, consideration, purchase behaviour and customer loyalty to our brand. With a clear focus on fashion, relatability and value, Real Life Ready appeals to current and prospective customers alike, providing the framework to deliver a consistent and engaging brand experience across all channels and touchpoints.

In 2022, we aim to further evolve this strategy to continue driving brand re-appraisal during a transformational period in retail by addressing outdated perceptions of our brand and proposition and reaching younger audiences within our target customer demographic that are looking for on-trend fashion and homeware at convenient prices. We believe that the economic backdrop within the UK presents the perfect opportunity to position our brand as the go-to choice for consumers re-appraising their spending as a result of the increased constraints to their non-essential spending. Therefore, we intend to capitalise on what we see as an addressable gap in the clothing and homeware market for a business that can deliver an omni-channel proposition for consumers without compromising fashion, quality, choice or value.

While influencers are a relatively new marketing channel for our business, we intend to accelerate our approach in this area to support the enhancement of our brands. In 2022, we plan to invest in our influencer strategy to drive higher reach, engagement and conversion. Our diverse influencer strategy will incorporate hero ambassadors, a new employee advocacy programme and an "always on" influencer family, while incorporating user-generated content and investment into video and stills content to maintain our competitive position. Our social media channel strategy for 2022 will focus on customer acquisition, launching on emerging channels and growing existing channels where there is opportunity. This strategy is based on our new customer segmentation approach and the social media that such consumers use, including *YouTube*, *TikTok*, *Instagram* and *Pinterest*.

In 2022, we also plan to rebrand our loyalty programme, Matalan Rewards. We expect our rebranded programme to include greater clarity on member benefits, improved in-store and online navigation, and an improved self-checkout process. Such loyalty scheme is a key tool through which we manage our customers' ongoing engagement, retention and value. The programme has been running for over 30 years and has an active membership approaching eight million customers. We provide incentives and rewards to our active members, which in turn can influence the amount of time spent shopping at our stores or online and lead to an increase in sales. By updating this scheme to further enhance customer engagement, we believe we will be able to more effectively influence brand advocacy, trust and loyalty. The loyalty scheme will be fully integrated into our Ingenuity platform and the Matalan App, creating a seamless omni-channel loyalty and customer management experience.

We have a long history of providing outstanding value to our customers, who trust us to provide high quality clothing and homeware at attractive prices, and they also expect us to uphold high environmental and social responsibility standards. Over the past five years, we have laid down the foundations to build a sustainable future for our business, our employees and the communities in which we operate. We have defined ESG priorities and intend to continue to demonstrate our commitment to minimising the potential harm to the environment by sustaining and improving such environment through a careful consideration of design, selection of materials and operational procedures, as well as compliance with all regulatory and legislative environmental requirements throughout our business. To this end, we have created a sustainability team, led by our Head of ESG, to improve our sustainability pledges, including those related to supply chain and environmental impact.

We understand that improving our transparency in relation to the significant ESG-related work already undertaken is, and will be, critical to our overall brand perception.

Capex Plans to support our Strategy

Our capital expenditure varies from period to period based on the number of stores we refurbish or open in that period and, more recently, on our investment in business improvements. Following the COVID-19 pandemic, capital expenditure has been limited to the key strategic developments focused on our business growth plan, including increasing our online capabilities.

Consistent with our business growth plan, investment will continue to be made on the store refurbishment programme, information technology systems, the distribution centre, reconfiguration and projects such as inventory RFID tracking and merchandise system modernisation. We anticipate resuming new store openings in the 2023 Fiscal Year. The capital expenditure connected to these new store openings will be sustained by our operational cash flows in furtherance of our business strategy. We expect our capital expenditure (subject to business performance and financial de-leveraging) in each of the 2023, 2024 and 2025 Fiscal Years to range from approximately £40.0 million to £50.0 million per annum (approximately £8.0 million of which we expect to be maintenance capital expenditure), although commitment levels are minimal, providing significant flexibility in this program.

MANAGING INFLATION AND COSTS

Inflation generally affects us by increasing our payroll costs, direct merchandise costs, including our supply and transportation costs, and the costs of goods and services not for resale that we purchase including the costs of our store portfolio. We aim to mitigate some of the upward inflationary pressure on costs by maintaining a constant focus on improving our cost efficiency and effectiveness. All areas of our business are within the scope of such focus, including our operating overhead costs and areas of margin erosion.

Our store and distribution centre leases provide for rent reviews. Many of these leases require such a review every five years, at which time our rents could increase (but not decrease). The average rental increase at point of review has reduced in recent years compared to before the 2008 economic recession, as retail rental levels have declined in the market more generally, despite lease specific terms being heavily influenced by local market factors. There is an opportunity to reduce rent as leases approach maturity and negotiations with landlords regarding new leases are commenced. If the local property market has weakened and market levels of rent decline, the new lease may be agreed at this lower market level of rent. In recent years, this has resulted in a significant number of rent reductions and new lease renewal incentives from landlords. In the 39 weeks ended November 27, 2021, we completed 16 lease renewals, nine of which included a reduction in rent and 14 of which also included a period of rent-free occupation. For the 2021 Fiscal Year, we reduced annual rental costs by £0.8 million and we are in the process of reducing our annual rental costs by an additional £1.1 million. We expect that 84 of our current store leases will expire in the next 5 years, providing us with further opportunities to maximise our rental expenses over this period.

The majority of our store based employees are paid at the rate of the national living or minimum wage. This is set by the UK government on an annual basis and has risen significantly over recent years. In 2017, the UK government introduced a new levy as a way of funding training for apprentices. This levy is a fixed percentage of an organisation's payroll costs.

The business continually re-assesses organisational design, process efficiency and resource levels in seeking to remain cost effective as wage rates rise.

Within our stores, our continued focus on cost efficiency has enabled improvements in several areas, supporting a reduction in our selling cost-to-sales ratio from 32.6% in the 52 weeks ended February 24, 2018 to 29.3% in the 53 weeks ended February 29, 2020. Within our stores, we have successfully rationalised the number of supervisory staff in 2020, improved our energy efficiency by installing LED lighting and commenced the implementation of self-checkouts in 2020, which in turn led to a reduction in our cost of personnel. Stores have also benefitted significantly from simplified stock management practices as a result of the implementation of

RFID inventory tracking. In addition, we have improved our utilisation of digital marketing channels, moving away from expensive paper-based marketing. Within our supply chain, we have also sought to increase cost efficiencies through the introduction of double-decked distribution vehicles and amended working shift patterns within the warehouses to maximise productivity. In October 2021, we implemented best practice batch-picking and automated online order sorting in the Knowsley Distribution Centre, enabling us to achieve material productivity improvements. Across our Headquarters, we utilised technology to improve process efficiency, including updates to our marketing campaign management system, and have undertaken restructurings relating to our personnel, in order to improve its effectiveness and agility and to enable investments within our commercial teams, particularly those focusing on our online channel and general merchandising.

We estimate that in the 2023 Fiscal Year pay rate inflation will drive an increase in our cost base of £12.7 million from the 2020 Fiscal Year. Through a sustained focus on productivity, process improvements, investment in technology and automation and organisational design, we expect to offset this impact through initiatives which we estimate will contribute approximately £24.7 million of productivity benefit to our cost base by the 2023 Fiscal Year, more than fully offsetting the impact of inflation.

In addition, as we source more than 80% of our goods for resale from Asia, we are reliant on shipping to transport goods from our global suppliers to the UK, and our business and cost base are impacted by trends in the global shipping market. As a result of the COVID-19 pandemic, global shipping prices have increased significantly. When our existing freight contracts are renewed in March 2022, we anticipate contracting for a term of between one and two years at higher shipping rates than we have paid under our existing contracts due to this significant freight market inflation and predict, based on indicative shipping provider pricing, that this price inflation could add £43.0 million of additional cost in the 2023 Fiscal Year compared to the 2020 Fiscal Year on an equivalent volume basis.

To improve our shipping container utilisation, we have identified a greater proportion of our products that can be transported in container boxes rather than on hanging rails. This change is expected to deliver a reduction in the number of containers we use per annum, based on an equivalent volume basis. We are also working with a number of our most trusted and largest strategic partner suppliers on a direct shipping model, which we anticipate will allow us to bypass our consolidation hubs, both reducing shipping times and driving reductions in cargo freight costs. Some of our largest suppliers also have facilities in Turkey and Moldova, with the opportunity for significantly reduced transportation costs and lead times. We estimate that the initiatives we plan to undertake can partly offset shipping rate inflation and reduce our costs by approximately £9.3 million in the 2023 Fiscal Year compared to the 2020 Fiscal Year. Fluctuations in the exchange rate between the U.S. dollar (in which we buy more than 70% of our goods for resale), and the pound sterling (in which substantially all of our revenue is denominated), have also historically impacted the price we pay for goods. With respect to 79% of our U.S. dollar requirements for the 2023 Fiscal Year, we are currently hedged at average rates that are more favourable than those achieved in the 2020, 2021 or 2022 Fiscal Years, providing some further mitigation to inflationary pressures. For the 2023 Fiscal Year, we are hedged at an average rate of $1.37. This compares to an average rate of $1.32 in the 2020 Fiscal Year 2020, $1.33 in the 2021 Fiscal Year and $1.29 in the 2022 Fiscal Year. We expect this improvement in our hedged currency rates to improve our margins on an equivalent currency volume basis by £11.8 million in the 2023 Fiscal Year when compared to the 2020 Fiscal Year.

In the past, we have been significantly impacted by material variations in the prices of certain commodities, particularly cotton. In 2021, the market price of cotton rose significantly as a result of stronger demand following the initial impact of the COVID-19 pandemic and as a result of weather-driven supply disruption. We have undertaken and continue to undertake a number of initiatives to mitigate these inflationary pressures including working with our key suppliers on down time production and committing to fabric and raw materials at an earlier stage in the products' critical path. We are also actively re-engineering the composition of some products where it can be done without detriment to the resulting quality, appearance or aftercare of the product. We aim to continue making balanced decisions on production geographies taking into account the combined impact of such factors which include relative territory production costs.

The level of inventory in our business significantly influences our operating costs. Inventory requires storage, transportation and handle costs. Our strategic investment in RFID technology and its beneficial impact on inventory accuracy and management processes enables what we believe will be an ability in the future to operate the business with diminished levels of inventory compared to historical levels, reducing associated costs and margin erosion.

In the context of the scale, anticipated longevity and net impact of such inflationary movements with regards to raw materials costs and shipping rates, we proactively manage other factors that influence the success and profitability of our ranges. These other factors include the mix of product volume, price points and relative product profitability within and across our ranges, the ticketed selling prices of our products and the expected realisable selling volume and prices of products after discounts. These factors are also examined in the context of competitor selling price movements and the broader inflationary consumer backdrop within which we operate. We consider this holistic set of factors when making range mix and pricing decisions that we believe retain or improve our overall competitive positioning, including that on price, and in managing our resultant sales volumes and cash margins.

Given the broader inflationary backdrop and scale of publicly announced planned price movements by some competitors, we believe there exist opportunities to offset, through a mix of selective increased ticketed selling prices and reduced discounting, some of the commodity and shipping-related cost increases without detriment to our competitive position. This would be alongside freezing many of the iconic price points that we know are important to our customers and anchor our positioning for offering outstanding value. We do not believe such pricing opportunities to be in contrast with our overall intent to grow our sales volumes and cash margins as outlined in our overall strategy. We expect that, as a result of these selected price changes, we will be able to operate with product margins that are close to those of the 2020 Fiscal Year, exclusive of the negative impact of shipping inflation, positive impact of hedged currency rate changes or potential for further improvements in markdown levels. In addition, we believe that we have developed better tools than we had in the 2020 Fiscal Year with which to manage our product sell-through, discounting and liquidation. These include the ability to use store inventory to fulfil online orders and the inventory accuracy provided by RFID tracking. We believe that this provides an opportunity to further improve our markdown-to-sales ratio from that delivered in the 2018 and 2019 Fiscal Years, which formed the basis of the markdown adjustment performed in calculating our Adjusted EBITDA (pre-IFRS 16) for the 2020 Fiscal Year. By way of illustration, we expect that a further 5% improvement to the as adjusted 2020 Fiscal Year markdown cost would add a further £8.1 million to our product profitability.

As a value retailer, we believe that a period of sales price inflation within the UK clothing and homeware market would potentially benefit our business by increasing the absolute differential between some of our competitors' prices and our own, thus strengthening our competitive position. If inflation causes consumers to have less disposable income, they may reallocate their purchases to value retailers such as us, as we believe we offer much better relative value. As a result, we expect to grow our cash margins in the 2023 Fiscal Year.

FINANCIAL UPDATE

Impact of COVID-19

Our performance in the 2020 and 2021 Fiscal Years was significantly impacted by the various restrictions and measures implemented by the UK government to limit the spread of the COVID-19 pandemic. These measures included various lockdowns at local, regional and national levels. As Matalan's stores were not classified as "essential retail", under the COVID-19 measures introduced by the UK government, for a significant proportion of the financial period ended February 27, 2021 and the first quarter of the 2022 Fiscal Year, some or all of our retail stores were mandated to close or trade with significantly limited operations.

During these lockdown periods, the first of which began on March 24, 2020, we rapidly shifted focus towards our online channel, by continuing to serve customers through our home delivery and click-and-collect services, while closely following the UK government's guidance. To support short term liquidity, we undertook a number of actions to establish a sizeable liquidity cushion through November 27, 2021. Such actions included the deferral of store lease liabilities and monies owed to HMRC and extended payment terms with many of our product suppliers. In addition, we worked collaboratively with our suppliers to manage and re-shape stock commitments in light of the scale of disruption to trading. In addition the business benefitted from £41.2 million reduction in costs driven by the business rates holiday deferral which applied to most of the store estate, further reduced by

£2.5 million due to UK government grants available in the 2021 Fiscal Year. As a result of the COVID-19 pandemic related store closures, a sizeable number of employees were placed on furlough, giving rise to £28.8 million of furlough benefit in the 2021 Fiscal Year, alongside further underlying labour reductions, when compared to the previous year

When our stores were allowed to reopen under the newly implemented COVID-19 legislation, we rolled out new and enhanced health and safety measures to ensure that all of our stores were fully compliant with applicable governmental regulations. All of our stores have been fully open and operational since April 2021.

As of November 27, 2021, we paid all monies owed to HMRC, clearing all of our outstanding deferred tax liabilities. As of the date of this Business Update, we have started to pay our deferred store lease liabilities and we intend to pay off all such outstanding liabilities during the first half of the 2023 Fiscal Year. The terms of our arrangements that we have negotiated with certain of our product suppliers have, at the date of this Business Update, either reverted to the originally agreed terms or have been permanently amended.

Despite this disruption to our business, in the 52 weeks ended November 27, 2021 we generated revenue of £943.9 million, EBITDA pre-exceptionals (pre-IFRS 16) of £73.2 million and an operating profit of £55.1 million, with an operating profit margin of 5.8%. For this purpose, "EBITDA pre-exceptionals (pre-IFRS 16)" means operating profit/(loss) before depreciation and amortisation and exceptional items, as adjusted to exclude the impact of IFRS 16.

The 2020 Fiscal Year was the most recent full fiscal period that was not significantly impacted by the COVID-19 pandemic, and so may present a useful reference point regarding the underlying performance of the business. In the 2020 Fiscal Year, we generated revenue of £1,129.4 million and an EBITDA pre-exceptionals (pre-IFRS 16)of £80.3 million. However, when assessing our performance in the 2020 Fiscal Year, there are certain items included in the EBITDA pre-exceptionals (pre-IFRS 16) which we believe are not indicative of the underlying operating performance of the business. Our EBITDA for the 2020 Fiscal Year was impacted by the extraordinary level of selling price markdown incurred in the 2020 Fiscal Year, following our release of several product ranges during the 2020 Fiscal Year, particularly ladieswear, that did not align with the tastes and expectations of our customers. As a result, we were required to offer price discounts for these specific ranges and broader discounting on all of our products to appeal to customers who were generally dissuaded from engaging with our brand as a result of the release of these ranges. Our percentage of price markdown amounted to 18.0% in the 2020 Fiscal Year, compared to 13.9% in the 2019 Fiscal Year and 14.5% in the 2018 Fiscal Year. We believe that this issue negatively impacted our EBTIDA by £20.3 million, calculated by re-stating the selling price discount ratio back to the average ratio delivered across the previous two fiscal years. We believe that adjusting our EBITDA pre-exceptionals (pre-IFRS 16) for the 2020 Fiscal Year by an additional £20.3 million is more representative of the underlying and recurring level of price discounting within our business model given the corrective actions taken both within senior management, ranging process and alignment of our ranges with our customer base.

Current Trading

Based on preliminary results reflected in our non-IFRS management accounts, we believe our business is continuing to deliver robust performance. These preliminary results indicate that for the five weeks ended January 1, 2022, we generated revenue of £130.7 million, representing an increase of 8.0% over the same period in the prior year. Like-for-like sales increased by 7.1% compared to the same period in the prior year. Full priced sales over these five weeks increased by 1.8% and markdown cost decreased by 32.9%, in each case compared to the corresponding five-week period in December 2019. In the five weeks ended January 1, 2022, we generated EBITDA pre-exceptionals (pre-IFRS 16) of £21.0 million, representing a decrease of 2.5% compared to £21.5 million in the same period in the prior year, albeit experiencing a significantly reduced level of business rates relief and bearing the additional costs of managing significant disruption within our supply chain. EBITDA pre-exceptionals for the five weeks ended January 1, 2022 was £30.2 million, representing a decrease of £1.5 million compared to the same period in the prior year. In addition, we had a closing cash position of £163.3 million as of January 1, 2022.

However, we anticipate our cash will reduce by between £45-55 million to the end of the 2022 Fiscal Year due to certain other cash outflows expected in the last fiscal quarter of the 2022 Fiscal Year, including planned capital expenditure, quarterly VAT return payments, interest payments and the unwinding of certain mitigation actions put in place as a result of the COVID-19 pandemic, including scheduled rent deferral payments for certain property rate collections which have been delayed following the end of the English business rates holiday.

The increase in our revenue was driven by the re-opening of our stores without the mandated store closures which occurred over the same period in the prior year and an online sales contribution of £23.2 million, which represented 17.8% of our total sales over the same period. Our main winter clearance event, launched on December 26, 2021 (the "**Boxing Day Clearance Event**"), with 6.3 million units of inventory included, a reduction of 0.4 million units, or 6.4%, compared to the same event held in 2020, and a reduction of 1.5 million units, or 19.5%, compared to the same event held in 2019, demonstrated a healthy exit position with regard to winter stocks. More than 60% of the product volume that was on sale in the Boxing Day Clearance Event was sold in the following three weeks. Following this period of robust Christmas trading, the Business retains a strong cash and liquidity position. Matalan is continuing to evaluate alternatives and monitor market conditions with respect to a potential refinancing of its outstanding indebtedness.