26 September 2022

Business Update & Appointment of Chief Executive Officer

Record sales in H1 of Fiscal 2023, with continued Q2 sales growth in-store and online

Appointment of Nigel Oddy as Interim CEO to deliver the ongoing growth strategy

Launch of strategic sales process to recapitalise the business, with associated Board changes

Q2 TRADING FOR THE 13 WEEKS TO 27 AUGUST 2022 (FISCAL 2023):

- Revenue of £286.4m (2022: £264.7m, 2020: £292.0m)[1]
- Record H1 sales performance with ongoing growth momentum
- EBITDA post adoption of IFRS16 of £36.7m (2022: £61.0m, 2020: £42.8m)[2]
- Restated EBITDA under IAS17 of £13.1m (2022: £38.9m, 2020: £16.3m)
- Closing unrestricted cash on balance sheet of £101.6m (2022: £173.0m, 2020: £73.3m)

[1] Q2 Fiscal 2020 represents a 14-week financial period.

[2] EBITDA is reported before and after the adoption of IFRS 16-Leases, to also reflect performance under the previous accounting standard IAS17-Leases.

APPOINTMENT OF INTERIM CEO

Matalan is pleased to announce the appointment of Nigel Oddy as Interim CEO of Matalan Retail Ltd, following a careful and extensive recruitment process, which has been underway over the past year. He will be joining the business initially on an interim basis, with effect from 3rd October 2022. Nigel has significant retail experience in senior leadership roles, most recently at New Look as CEO and formerly COO. Nigel joined New Look in 2019, and strengthened the business through his three-year tenure, successfully navigating the Covid-19 pandemic. He enhanced the brand's broad-appeal within the mid-market fashion sector, while leading the delivery of its omnichannel strategy. From April 2017 to 2019, Nigel was CEO at The Range, recognised as the UK's fastest growing independent discount store retail chain and achieving record sales and improved margins through his tenure. Nigel's career prior to 2017 spanned multiple other C-Suite positions at House of Fraser, Furnitureland and Blacks Leisure, as well as varied roles at Marks and Spencer in senior positions across retail, buying, merchandising and sourcing, providing him with a deep understanding and expertise in the retail industry.

Nigel's priorities will focus on the delivery of the ongoing growth strategy; to drive performance in the core business; further build and develop our omni-channel capabilities; unlock and deliver new growth opportunities; and reposition the brand.

Commenting on his appointment, Nigel Oddy, incoming Interim CEO of Matalan, said: *"I am delighted to be joining Matalan and very much look forward to working with the wider team, which includes many long-established suppliers and franchise partners, as we progress with the execution of the growth strategy of this unique and iconic retail business. I have followed Matalan closely through my career and have admired its excellent value and quality focused credentials. I have noted its particular momentum in recent years in driving ahead with its mission to offer an excellent omnichannel experience for the millions of families it serves up and down the nation, and beyond. Matalan has a long standing and loyal customer base, and we need to continue to offer them, as well as new customers, what the business has been known for over the past 37 years – great product at fantastic prices. Now more than ever, value is so important to every shopper."*

REFINANCING UPDATE: NOTEHOLDER FINANCING AGREEMENT AND LAUNCH OF STRATEGIC SALES PROCESS

Matalan is pleased to announce that it has secured an agreement with over a majority of its First Lien Secured noteholders on the key terms of a comprehensive recapitalisation.

The agreed transaction (which is documented in a framework agreement) provides for:

- an extension of the maturity of the First Lien Secured debt for a significant period;
- a material reduction in the total debt of the Group; and
- a significant strengthening of Matalan's financial position which will enable it to execute on its business plan and deliver its growth strategy

To facilitate the above, the Board has initiated a strategic sales process. In support of this process, an ad hoc group of First Lien Secured noteholders (the "AHG"), representing over a majority of the First Lien Secured debt, has offered to provide £200m of senior secured, stapled financing to interested parties. Furthermore, the AHG has committed to support Matalan's intent to extend the maturity of the First Lien Secured Notes of £350m maturing in January 2023 by 6 months.

The AHG has also committed to a recapitalisation transaction (if required) which provides a positive outcome in all scenarios for Matalan and for the benefit of our employees, customers, suppliers and other stakeholders. This alternative recapitalisation would result in a material reduction of Matalan's debt and an extension of the maturity of First Lien Secured debt from January 2023 to September 2027. The support of the AHG ensures that Matalan has the requisite consents to implement the transaction.

Matalan's Board is grateful to the AHG for their continued support of the Matalan Group, and in particular for the tangible actions they are taking to support the strategic sales process by offering a staple financing package and backstop undertakings to ensure Matalan has a sustainable capital structure with a lower debt amount which will allow us to deliver on our exciting growth opportunities.

BOARD UPDATE

Concurrently and in line with appropriate governance protocols, the business announces that while the strategic sales process is underway, John Hargreaves will step down as Chairman. Our Independent Non-Executive Directors, Tim Isaacs and Christopher Mallon, will be joined by Paul Copley, an experienced non-executive director, who is being appointed to the Board as an Independent Non-Executive Director. Following John stepping down as Chairman, Tim Isaacs, Senior Non-Executive Director, will become interim Chairman.

John Hargreaves, Founder and Chairman commented:

"*Matalan is a business that has been in my DNA since the day I founded it in 1985. I am stepping down as Chairman so that I can participate in the strategic sales process as a bidder. My focus and absolute commitment will remain to do what I believe is in the best interests of the Company and all its stakeholders, in particular the 11,000 people we employ. My intention is to be instrumental in positioning the business for long-term success. I am delighted to welcome Nigel Oddy as the business' new CEO and am confident Matalan is in good hands."*

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About Matalan

Matalan, a leading out of town fashion and homeware retailer, serves over 11m customers through 230 stores in the UK, an e-commerce platform and 53 overseas franchise stores. The ultimate parent company of the Matalan Group is Missouri Topco Limited, with the group being ultimately controlled by the Hargreaves family.

Business Update

Matalan, a leading omni-channel fashion and homeware retailer, today issues a business update following recent discussions between the Matalan Group, its shareholders and advisors representing an ad-hoc group of First Lien Noteholders regarding the First Lien debt maturity in January 2023. The business also updates on trading performance for the thirteen weeks ending August 27, 2022, outlook for the current financial year, and continued progress with the implementation of its strategy.

Q2 TRADING UPDATE

Based on preliminary results reflected in our non-IFRS management accounts, we believe our business is continuing to grow and deliver robust performance.

Trading for the 13 weeks to 27 August 2022 (Fiscal 2023)

- Total revenue of £286.4m (2022: £264.7m, 2020: £292.0m)[1]
- Record H1 sales performance with ongoing growth momentum
- EBITDA post adoption of IFRS16 of £36.7m (2022: £61.0m, 2020: £42.8m)[2]
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Liquidity as at 26 September 2022

Unrestricted liquidity (based on unrestricted bank balance) as at 26 September 2022: £91.1m

The business continued to deliver sales growth in the second quarter, both online and in stores. Overall growth was also delivered against 13 week adjusted pre-pandemic levels as well as last year. Sales for the first half of the year represent a record level for the business, a testament to how the business is delivering great value for customers in what remain challenging times. Inflationary pressures within the supply chain continued to weigh on profitability against historic comparatives, albeit in the context of only modest movements in like for like pricing during the Spring/Summer season. Current year profitability in the quarter is absent of last year’s non-recurring level of Covid stock provision unwinds and business rates relief.

STRATEGY PROGRESS UPDATE

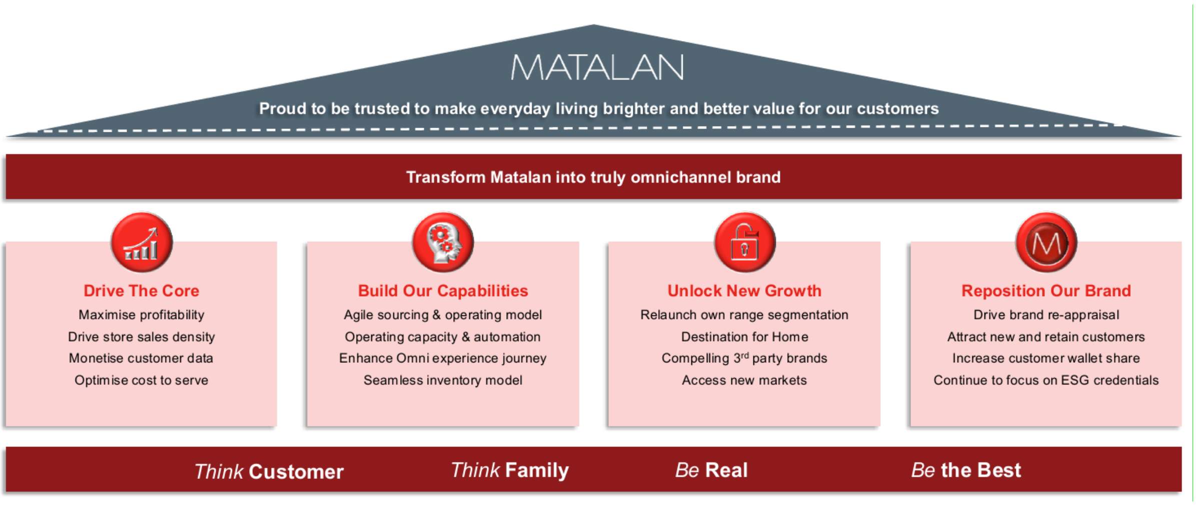
Matalan provides a unique blend of choice, quality, design and price across a broad range and price architecture, via a compelling shopping experience both in-store and online.

Our brand and proposition resonate with our customers and are more relevant than ever in the current economic environment. We believe this positions us well within the market to help families as they struggle with the cost of living crisis. Our strategy, which we refreshed in the Summer of 2021, is designed to capitalise on our existing strengths and evolve our capabilities while adapting to an evolving marketplace and fast-changing consumer behaviour. We continue to pursue this clear strategic path confident in the knowledge that our strategic direction aligns with broader market trends and conditions.

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 through the implementation of this strategy we will deliver on our mission to transform into a truly omni-channel brand that will deliver a material and sustainable level of revenue growth in the coming years.

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

As the cost of living crisis bites, we are attentive to our customers' needs and expectations and we are continually evolving how we operate to cater to these changing consumer requirements. We are acutely aware of the role that we play in our consumers' lives, because at our core we are a brand dedicated to providing style and quality to our customers at outstanding value-for-money. We leverage off our unique consumer data and insight to ensure we tailor our range architecture to appeal to our customer base.

Our three-tiered product ranging of “Good”, “Better” and “Best” gives us a compelling offering that appeals to a wide range of customers, whilst our commitment to maintaining competitive opening price points helps anchor our reputation for value.

Strong and consistent execution of our core offering remains key to our strategy and we are committed to driving sales through the ways we make our compelling ranges available to our customers. In that respect we continue to invest in our retail estate, drive sales densities and seek to optimise our use of space.

During FY23, we have been investing in store intensification projects, with the introduction of more space efficient layouts and fixtures, to ensure we can provide our customers with maximum choice without compromising the overall shopping experience.

To support our expansion of our homeware ranges, we have increased the selling space of our home departments whilst maintaining their current footprint. This has been achieved by the introduction of deeper shelving and higher gondolas. The new home concept layout has been rolled out to roughly half of the store estate in anticipation of the new homeware range launches this Autumn. In addition, 14 of our stores have been classified as ‘Home Flagship’ stores, with these stores featuring our dropship furniture ranges.

We have also sought to maximise our use of space for our fashion ranges in many of our smaller stores to increase range and choice whilst also improving availability for our customers. Almost a quarter of our stores have received updated layouts and kit to ensure we can deliver the best possible offering to our customers. These initiatives have increased our overall merchandisable space in these stores by 20% without any increase in the physical footprint.

We also believe that opportunities continue to exist for the addition of profitable new store space within the UK market. Favourable changes in retail property economics presents attractive opportunities for well-positioned retailers like Matalan. In the current retail climate, although we do not have an aggressive store opening strategy, we believe that there will be opportunities to grow our store estate over the next four years. We have a modest opening programme planned of up to 10 new stores through to FY26, including the potential for one in late FY23 or early FY24.

Our well-developed direct sourcing model remains one of our core strengths and is based on best-in-class strategic partnerships with our key long-term suppliers. These strategic partnerships drive efficiencies and agility through collaboration and innovation. Currently, our top 10 merchandise suppliers account for approximately 50% of all our goods purchased by value, with our largest supplier accounting for between 25% and 30% of our goods.

The use of long-standing strategic partnerships with our core supply base provides us with the advantages of reliability and consistency of supply as well as material cost savings. Suppliers based in the Far East and South Asia supply more than 80% of our goods by cost, but most of our key strategic suppliers can offer multi-country sourcing capabilities which provides us with significant flexibility, enabling us to proactively respond to worldwide supply chain volatility. This increased agility gives us the optionality to switch supply between factories and between countries without compromising on the quality of our products or our ethical standards relating to production and supply.

Further build and develop our omni-channel capabilities

Over recent years we have achieved rapid and significant growth in our online channel, with our revenue from e-commerce growing by over 150% between the 2018 fiscal year and 2022 fiscal year. This expansion in our online business has been achieved in a complementary way to our physical store network with our mission to be a truly omni-channel brand at the heart of everything we do.

As consumer behaviour continues to evolve, we believe we can drive significant incremental revenue growth from our online channel which is expected to grow from 19% of total revenue in the 2022 fiscal year to 26% in the 2026 fiscal year. To achieve this, we will continue to improve our operational capacity, efficiency and agility via continued investment in technology, process automation and digitalisation.

The successful implementation of batch-picking and pocket sorting automation in our Knowsley Distribution Centre in the 2022 fiscal year enabled the business to enhance its capacity, efficiency and service levels.

The automation in connection with our online business logistics doubled the online throughput capacity, whilst providing significant cost efficiencies by reducing the requirement for employee resources in the process. In addition, our investment in the pocket sorter allows for greater flexibility to deliver a consistent set of service levels and to extend next-day order cut offs to be more responsive to our customer needs.

We continue to invest in automation and building operating capacity with work currently underway on a second Pocket Sorter and further automation within our Knowsley Distribution Centre. The capability to fulfil online orders from stores also continues to remain an important tool to flex fulfilment mixes in optimising supply chain capacity and stock utilisation between stores and online. We are also working to develop a seamless omni-channel inventory model that will enable store inventory to be fully transactable online, improving cross channel availability and stock efficiency.

Our Strategic partnership with The Hut Group ("THG"), one of the UK's leading online retail and technology businesses, continues in its development. This partnership and our transition to their best-in-class Ingenuity platform will transform our omni-channel proposition. It will create a differentiated online selling experience that offers end-to-end digital service and experience that sets us apart from our competitors.

Functionality improvements provided by the migration to the Ingenuity platform will drive our transition to relationship-led commerce with an integrated loyalty scheme and curated, content-driven customer journeys. An enhanced customer experience will at the same time increase choice by enabling us to expand the direct-delivered range of complementary branded partners on our website* via an integrated best-in-class marketplace capability.

The development and migration project continues to progress, following a period of detailed scoping and design workshops. We now have a clear roadmap and a second letter of intent has been agreed with THG in readiness for a transition to the Ingenuity platform in Spring 2023.

**Domain name owned by Matalan Retail Ltd.*

Unlock New Growth

One of the core strengths of Matalan is its large and loyal customer base and our product proposition appeals to a broad spectrum of the UK population.

Whilst we are fully aware of the importance to the business of our core customers, research tells us that the breadth of our customer base, wide brand appeal and existing scale present several opportunities to accelerate and unlock new routes to growth.

We remain committed to the ongoing evolution of our range architecture with a focus both on maximising the potential of our core customers and at the same time more effectively serving slightly younger consumers in the 35 to 45 age range within our overall target audience. Our recently launched Matalan own label brands, "Et Vous" and "T&W" have served to highlight the potential within this expanded core demographic.

These new brands are designed to provide a more contemporary look, bridging the gap between everyday casual and smart sophistication and we believe successfully cater to the shopping preferences of this group of consumers that we have previously under-potentialised. Customer reaction to these new brands has been very strong, validating the potential of these new labels, design handwriting and previously underserved consumers. As a result, the "Et Vous" range has subsequently been rolled out to our entire store estate.

Equally successful has been the roll-out of our online-only brand “Be Beau” which is a range of fun and contemporary clothing with a distinct handwriting which targets our younger customers. The range caters for relaxed but stylish social occasions and has received a very strong reaction among our online consumers. As a result, this range will be further expanded and also be placed in selected stores to further grow its reach and profile.

We also know from our research that customers would like us to expand our homeware range, so we are extending our range in key categories to better equip us to drive cross-shopping from clothing into homeware. The investment we have made in our store estate to increase the selling space of our home department sets us up well for the roll-out of our new homeware ranges this Autumn, and is key to our aim to enhance our reputation for providing a great value and stylish homeware and garden offering. We believe that these initiatives will help grow our market share in homeware.

Enhanced range segmentation and the development of a refined set of four customer profiles provides the business with significant new growth opportunities. These profiles identify common consumer traits, including age, spending channel mix, product preferences and attitude to price, style and quality. As a result, we can use this segmentation to drive better and more customer-focussed decisions in our approach to range development. Through this better understanding of our customer base, we can tailor brands, ranges and communication strategies in a way that will resonate more with our customer profiles.

We continue to develop our strategy to enhance our third-party branded offering to our customer base. We have for many years utilised store surplus space, through working with Brand leaders like the Entertainer, Cardfactory and Claire’s Accessories, to provide incremental choice through concession arrangements. These arrangements have proved mutually beneficial to all parties due to the complementary nature of their product offerings.

Since its introduction in late 2020, our online direct-delivered ranges via branded partners has further highlighted the benefits of working with the right third-party brands. These ranges have delivered both incremental revenue and online traffic to the business and have been well received by our customers. Our strategy of selecting well-known and complementary brands has not only appealed to our existing customer base but has also proved effective in attracting new customers.

For this reason, we view the addition of new third-party brands to our offering as a key way to attract, grow and retain customers, with these brands, ranges and price points carefully selected and curated to ensure complementary and incremental choice. We have recently added a number of exciting and well-known third-party brands to our online range and plan to further build out the brand stable over the next three years.

The introduction of the Ingenuity platform in Spring 2023 will enable us to accelerate this on-boarding of third-party brands through the introduction of an integrated marketplace platform in parallel. To support the addition of these new third-party fulfilled branded ranges online, many of which retail at higher price points than our core clothing and homeware ranges, we are developing our capability to provide buy-now-pay-later (“BNPL”) options.

Reposition the Brand

We have a well-established relationship with our customer base and remain focussed on maintaining this and further enhancing their engagement with our brand and proposition.

Despite our position as one of the leaders in the UK value retail market, there remain significant opportunities to further improve brand perception as well as the all-important emotional connection that existing and potential new customers have with our brand.

We believe that we are uniquely placed to provide people with real quality at outstanding value for money which has never been more vital than in the current economic climate. Our “Real Life Ready” brand marketing strategy, which was introduced in 2020, was designed with the objective of beginning to establish a deeper connection with our customers whilst developing our brand personality and fashion credentials. Its purpose was to not only change consumers' view of the brand, but also the way they "feel" about Matalan.

We are confident that this brand positioning fits perfectly with the current environment and will continue to resonate strongly with our customer base, helping to drive brand engagement and customer loyalty. We believe our reputation for outstanding value presents the perfect opportunity to emphasise our brand as the go-to choice for consumers, as they re-appraise their spending as a result of the challenging economic backdrop.

Mirroring consumer sentiment, we have been effectively evolving our tone of voice, more boldly highlighting our price points and value across our range. We see an addressable gap in the market for a business that can deliver a truly omni-channel proposition without the need for customers to compromise on either design, quality, choice or more importantly than ever, value.

We also believe our partnerships with third party brands will serve to support this brand re-appraisal with our choice of partners helping to further enhance Matalan's own brand and fashion credentials.

The recent relaunch of our loyalty programme, Matalan Me, is also a key driver of enhanced customer engagement. Through its rebranding and its use of more customer targeted rewards, we believe we can more effectively influence brand advocacy, loyalty and trust.

Since the introduction of the new loyalty scheme, we have seen an improvement in loyalty scheme engagement and data capture, enhancing CRM capabilities and insight into the spending habits and consumer behaviour of our customer base.

Whilst our customers trust us to provide quality goods at outstanding value for money, they also expect us to uphold high environmental and social responsibility standards. We have for many years been laying down the foundations to build a sustainable future for our business, our employees and the communities in which we operate and have remained focussed on being able to maintain the high standards that customers and stakeholders expect.

Since the introduction of our new sustainability team, we have been successful in bringing even greater cohesion and strategic focus to the many environmentally and socially responsible things we do. Through this more structured approach to ESG, we continue to progress our ESG Strategy, and improve our transparency in relation to the ESG related work we are undertaking.

Our employer brand and colleague engagement are also extremely important to us. Consequently, we continue to invest in developing our people, enriching roles, and developing our ways of working to maximise efficiency and effectiveness and cementing our credentials as an attractive employer to work for. We have now formalised many of the ways of working initiatives we put in place in response to the Covid-19 pandemic with our head office colleagues adopting a hybrid working model incorporating both home and our Knowsley Head Office. We are fully committed to retaining a vibrant office environment and firmly believe that innovation and design flourishes through face-to-face collaboration. Matalan Retail Limited holds a lease agreement on our head office until 2039, and whilst there is a lease review in the next 5 years, we believe the business will continue to benefit from the provision of a high-quality working environment.

BUSINESS PLAN

We have developed a four-year business plan reflective of our strategy and prepared in the context of the challenging near term macro-economic environment in which we are operating.

Revenue and profitability forecast FY23-FY26:

	Financial Forecast £m			
	FY23	**FY24**	**FY25**	**FY26**
Sales	**1,199.2**	**1,284.0**	**1,381.9**	**1,444.6**
Gross Margin	511.4	558.6	608.4	643.5
EBITDA pre IFRS 16	**81.2**	**89.1**	**109.1**	**124.0**
IFRS 16 adjustments	97.2	99.0	99.0	99.0
EBITDA post IFRS 16	**178.3**	**188.1**	**208.1**	**223.0**
Decrease/(Increase) in Inventories	*19.0*	*(5.0)*	*(8.0)*	*(6.0)*
Decrease/(Increase) in Trade and Other Receivables	-	-	*(1.0)*	-
Increase/(Decrease) in Trade and Other Payables	*(33.0)*	*39.0*	*8.0*	*8.0*
Changes in working capital	**(14.0)**	**34.0**	**(1.0)**	**2.0**
Cash generated from operating activities	**164.3**	**222.1**	**207.1**	**225.0**
Repayment of lease liabilites (incl. interest)	(115.0)	(102.0)	(105.0)	(108.0)
Capex	(40.0)	(35.0)	(39.0)	(32.0)
Tax	-	-	-	(2.0)
CFADS	**9.3**	**85.1**	**63.1**	**83.0**

Outlook for the remainder of fiscal 2023 has been prepared against a backdrop of what represents a toughening market as consumers head into autumn/winter facing rising levels of inflation, particularly with regards to energy and food, which is likely to place strain on disposable incomes and discretionary spending. Whilst cautious about such consumer context, as a retailer offering choice across a broad range and price architecture, and famous for providing great value, we believe opportunities exist to support new and existing customers to continue to dress themselves and furnish their homes at affordable prices, without the need to compromise on the style and quality that are the essence of the Matalan brand. Price movements within H2 fiscal 2023 will continue to be measured and targeted with levers to manage this via category and range mix amendments alongside like for like product changes. Product availability for the autumn launch is improved in comparison to last year, although recent industrial action at UK ports has begun to adversely impact stock flow, despite a number of measures in place to mitigate this. It is as yet unclear how sustained such disruption will be and its subsequent impact on availability and margins.

Inflationary pressure within the fiscal 2023 outlook remains significant. Shipping market inflation during fiscal 2023 is the most material element and represents an increase of £35m cost to the business, net of £9m of supply chain efficiency improvements, when compared to pre-pandemic levels (total freight costs of c.£28m in fiscal 2020). Whilst shipping market rates have begun to fall, the business is contracted for the majority of its freight requirements through fiscal 2023 and fiscal 2024 in order to lock in vital capacity and provide visibility on price. Energy costs are largely hedged until fiscal 2024, which results in a contained increase of £3m during fiscal 2023, adding to an underlying energy cost base of £11m in fiscal 2022. The risk of ongoing inflationary pressure in energy becomes much more significant in fiscal 2024 and fiscal 2025. With regards currency requirements, the business was well hedged as it entered fiscal 2023, with 80% of its anticipated USD requirements hedged at an average rate of c$1.37 providing a good degree of currency certainty for the year.

As at the end of the second quarter of fiscal 2023 the business had £101.6m of unrestricted available cash on balance sheet plus a further £0.3m of cash held as collateral to facilitate an existing letter of credit. We forecast to close fiscal 2023 with unrestricted available cash on balance sheet of £65.8m plus a further £10m of cash held as collateral to facilitate additional letters of credit and currency hedging. Over the next 12 months our liquidity position is forecast to fluctuate in line with our normal seasonal working capital swings, with troughs driven principally by supplier payments for Autumn/Winter stock in September/October with unrestricted bank balance reaching c£25m, before increasing to c.£125m in December during the Christmas trading period. We are targeting to maintain a minimum unrestricted liquidity of at least £25m. The £60m loan facility that replaced our pre-existing revolving credit facility in July 2022 has an up to 18-month maturity with exit fees payable in certain circumstances and a springing maturity shortly prior to the maturity of the First Lien notes in January 2023 (unless otherwise extended or refinanced).

Over the coming years we expect to deliver a compound annual revenue growth rate over the period between the 2022 fiscal year and the 2026 fiscal year of 8.9%. This will be driven by increasing sales volumes primarily through the online channel, as we continue to deliver against the opportunities for sustainable growth outlined within our strategy. This growth will be enabled by the ongoing capital investments being made to enhance the online customer experience, extend the online range proposition both internally and with third parties and improve service levels and product availability. Alongside, we will continue to develop the supply chain to accommodate and deliver this significant level of growth. Online fulfilment costs will increase in absolute terms as volume grows but are forecast to continue at around 9% of online sales.

We forecast the online sales channel[1] to continue to increase its share of total group revenues over the period:

	FY23	FY24	FY25	FY26
Online Sales %	**19%**	**21%**	**24%**	**26%**

[1]Table shows online and dropship sales as a proportion of total group revenue in each of the forecast years

In addition, particularly in the 2023 and 2024 fiscal years, revenue growth will come from an increase in our average selling price, within the parameters of what will still represent great value for our customers. Within this overall increase, a significant proportion will come from an evolving range and category mix, as well as targeted like for like increases, consistent with our relative position in the market and price movements being made by peer group retailers.

We will remain disciplined in our commitment to inventory against this growth profile, being increasingly agile and responsive to changes in market conditions and consumer behaviour in managing availability and margins. As a result, we believe we can use the tools available to us to protect full price sales performance and maintain price markdowns at historic levels to help mitigate margin erosion from product cost inflation.

Price markdowns over the forecast period are assumed to be modestly above levels of performance that have been achieved historically, driven by investment in the loyalty programme and targeted product promotions, consistent with the trend in the wider market, while controlling more margin-dilutive clearance discounts.

The business plan reflects the macro-economic headwinds facing the sector including the key inflationary pressures of increased worldwide shipping costs, exponentially rising energy prices, and a substantially weakened sterling against the dollar.

The increase in global shipping rates has caused a significant increase in our freight costs in the 2023 fiscal year compared to historic levels. Our current freight contract covers the majority of our freight requirement for both the 2023 fiscal year and 2024 fiscal year, securing our required capacity at a fixed cost. Since the contract was negotiated, we have started to see a decline in market shipping costs as international demand has fallen on the back of worldwide inflationary pressures. We therefore expect our freight costs to reduce from the highs we will see in the 2023 fiscal year, so that, as our fixed contracts roll off, we should be able to renegotiate at a more favourable rate.

Between the 2024 fiscal year and the 2026 fiscal year we expect to see up to £25m of freight cost unwind from the unprecedented highs we are now experiencing and expect most of this unwind to be weighted towards the later years of the business plan. For prudence, even with this expected cost unwind, we are assuming that shipping costs remain significantly above historic levels throughout the forecast period.

In terms of the unprecedented rises in energy, our hedging strategy means that we are largely hedged and therefore insulated from these rising prices until the 2024 fiscal year. As our hedges expire we expect to see a marked increase in our energy costs with a total increase across fiscal year 2024 to fiscal year 2026 in the region of £20m with much of the increase in cost weighted towards the earlier period as energy costs are expected to then stabilise as the volatility in energy markets recedes.

With the majority of our merchandise purchases made in US dollars, movement in cable rates creates significant volatility in our cost base. As a result, we seek to hedge our currency requirements where we can. As a result, with strong hedging levels in place for fiscal year 2023, we are well insulated against the weakening seen in sterling over recent months. Beyond fiscal year 2023, our level of mitigation against the strength of the dollar is significantly reduced with the FX cover we have in place largely limited to fiscal year 2023. Consequently, we expect to be managing margin pressure for the next couple of years, as will much of the UK retail sector. Our business plan reflects a weakening of sterling against previously hedged rates with the forecast forward rates in the business plan based on assumptions prevailing at the time the plan was produced.

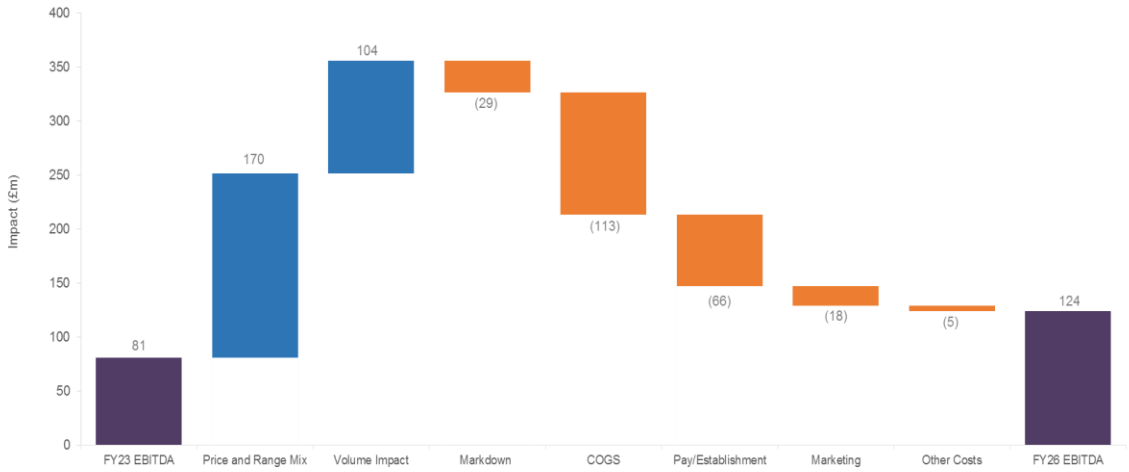
We believe that we have the strategy and business model to mitigate a large proportion of these unprecedented inflationary cost increases with a manageable level of erosion in profitability in the 2023 fiscal year and 2024 fiscal year. As the level of cost pressure eases in the later years of the forecast, gains made in market share and revenue will begin to translate into a material growth in profitability.

Working capital changes in the forecast period reflect timing differences in year-end supplier payments in fiscal year 2023 and fiscal year 2024 and increased inventory levels to reflect forecast sales growth that are largely offset by the movement in trade and other payables.

The taxable losses generated by the group in fiscal year 2021 as a direct result of the Covid pandemic are capable of carry forward, resulting in lower tax payments across the fiscal years 2023 to 2026.

In summary, the key drivers of our increase in profitability over the forecast period within the context of an inflationary operating environment are illustrated below:

FY2023 to FY2026 EBITDA (pre-IFRS16) Bridge, £m:



Capital investment to support our Business Plan

Our capital expenditure plans are aligned with our strategic roadmap and will be managed in a disciplined manner, consistent with the level of business performance and managing appropriate levels of liquidity and deleveraging. During the Covid-19 pandemic, capital expenditure was flexed down to cover only business maintenance and key strategic developments, with specific focus on increasing supply chain capabilities in support of accelerating online growth.

The business plan forecasts a return to greater levels of capital investment compared to the reduced levels seen during the pandemic period as we accelerate investment in the growth strategy. Consistent with our strategy, investment will be focussed on the store refurbishment programme, our supply chain infrastructure and warehouse automation, and the transformation of our front-end web platform including the migration to THG Ingenuity. In addition, the plan includes the required capital expenditure connected to the new store opening programme outlined in our Strategy.

Our planned annual capital expenditure is summarised below:

	Financial Forecast £m			
	FY23	**FY24**	**FY25**	**FY26**
Total capital expenditure	40.0	35.0	39.0	32.0

The majority of the planned capital expenditure is discretionary in nature with the majority of the investment focussed on business growth. Actual maintenance capital expenditure is expected to be in the range of approximately £8m to £12m per annum over the forecast period. With maintenance capital expenditure representing a relatively small proportion of the proposed capital investment and with minimal commitment levels for the 2024 fiscal year and beyond, the business retains significant flexibility in this investment programme in order to remain agile in responding to future trading conditions.

NEXT STEPS FOR HOLDERS OF FIRST LIEN SECURED NOTES

We would encourage holders of First Lien Secured Notes who wish to discuss the transaction and to receive the framework agreement described above to contact Perella Weinberg UK Limited ("Perella Weinberg Partners") who act as financial advisors to the AHG at **pwpprojectmaryland@pwpartners.com**. The framework agreement and other relevant documents are available to holders of the First Lien Secured Notes, subject to providing satisfactory evidence of their beneficial holdings to Kroll as Information Agent, and signing a confidentiality agreement on terms proposed by the Company.