Q1 FY24 Investor Call
July 2023

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Introductions

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Strengthened Leadership team in place have landed with immediate impact

Strong leadership team quickly assembled, strengthening key areas of Commercial, Digital, Customer and Operations

Chair
Karl-Heinz Holland

Chief Executive Officer
Jo Whitfield CBE

Chief Financial Officer
Stephen Hill

Chief Trading Officer
Ben Smith

Chief Customer & Omni Channel Officer
Ali Jones

Chief Supply Chain Officer
Phil Hackney

Chief Retail Officer
Katherine Davis

Chief People Officer (interim)
Catherine Muirden

Executive Summary

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Disappointing Q1 significantly mitigated by a strong June with FY24 outlook updated

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Further management interventions and material locked in cost reductions to drive improved H2 outlook and significant year-on-year performance improvement

Performance and Outlook

- Market weakness added to by internal execution challenges
- Two specific areas of challenge were online performance and the competitiveness of our price position and options for customers
- Much greater resilience seen in store trading than online
- Strengthening of leadership team will drive and support business transformation across product, supply chain and omnichannel
- Overall June performance strong and driving a much better Q2
- Full year outlook reforecast to EBITDA (IAS17) of £60m-£65m
- Q2 - Q4 forecast ahead of original plan and against weak comparatives
- Outlook underpinned by management interventions and material cost upsides
- Heavy focus on improvements to online performance, range and margin and improving the customer journey

Capital Structure

- Capital structure maturities commence January 2027 providing a runway for transformation and growth
- Liquidity further bolstered via issuance of £25m committed Super Senior Notes
- Further debt structure flexibility available but not anticipated as being required

Q1 Backdrop and Context

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Weak Q1 market conditions combined with business specific execution challenges

Management have identified opportunities to improve ranging, pricing, stock management and online, underpinned by enhanced and stable leadership capability and experience

Q1 market conditions

- Ongoing cost of living crisis impacting discretionary retail
- Spring weather unusually late with unseasonal conditions until late May
- Online market slow down
- Product cost inflation and increased selling prices in Spring/Summer, resulting in lower volumes across the market
- Cost and selling price deflation now coming through for Spring/Summer 2024

Business specific execution

- Ownership / Management turbulence and leadership distraction at the start of the year
- Missed key market fashion trends in our ranges and challenges in seasonality mix of product
- Range and price architecture under-represented at entry level affecting value for customers
- Multiple factors behind online performance challenge

Multiple online performance factors identified and being actioned

Several factors contributing to outlying level of online underperformance are being addressed, driven by a strengthened digital leadership team

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- Market shift away from online and back towards stores requiring a more focussed online customer acquisition plan to drive traffic
- Online leadership team strengthened to drive improvements with online trading team also upweighted
- Customer conversion level weakened and requiring better range execution and management
  - Lack of choice in entry level prices within the range very visible online where customers browse and shop differently than in stores
  - Reduction in online exclusive options limited choice and reasons to visit frequently
  - Stock depth and availability not optimised across channels, negatively impacting online
- Some 3rd party brand ranges positioned at style and price points not attractive to our customers
- Online platform transition to THG Ingenuity, a significant program of bedding in functionality & understanding
- Working with THG in partnership on iterative configuration and functionality enhancements to drive improved customer conversion

Q1 Results

(All prior year comparatives are Q1 Missouri TopCo Ltd)

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Challenging Q1 performance but greatly improving exit trend

Refreshed leadership team in place and interventions delivered to positively impact future performance

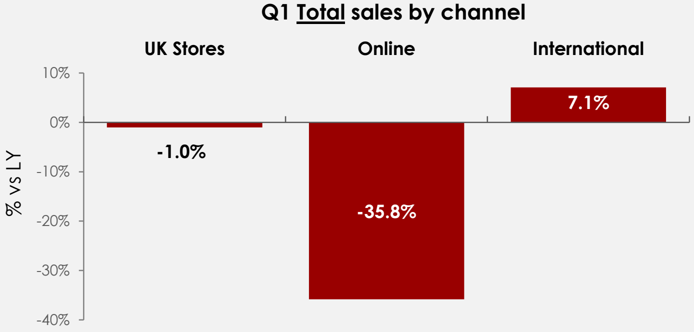
£m	13 weeks ended 27 May 2023	13 weeks ended 28 May 2022	vs. Prior Year
Revenue	**263.6**	**286.5**	**(22.9)**
EBITDA post adoption of IFRS16	**26.1**	**44.4**	**(18.3)**
EBITDA post adoption of IFRS16 %	9.9%	15.5%	-5.6%
EBITDA restated under IAS 17	**2.1**	**20.2**	**(18.1)**
EBITDA restated under IAS 17 %	0.8%	7.1%	-6.3%
Unrestricted closing cash	**70.6**	**121.0**	**(50.4)**

- Resilient store sales with much weaker online performance, showing significantly stronger exit trend into June
- Margin dilution driven by need for additional discounting in March and April with stronger full price mix in May
- FX rate deficit to last year largely offset by lower freight costs, with product cost price inflation offset in selling prices
- Costs well managed against inflationary backdrop with variable costs flexed down with sales volumes
- May closing cash subsequently added to by £25m additional committed super senior debt issuance
- Ongoing focus on cash and working capital management

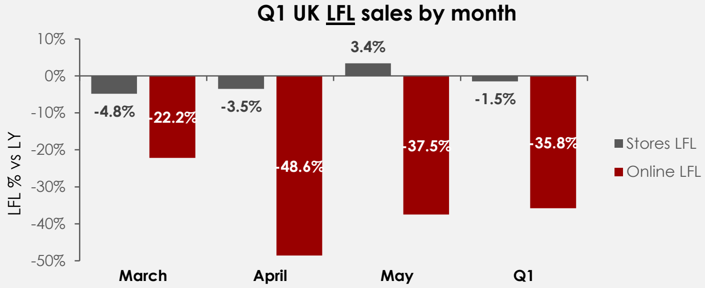
Resilient store performance with online more challenging

Stronger exit trends in May driven by a very strong final week, which continued into June

- Total sales of £263.6m for the quarter were (8.0)% behind last year
- Q1 sales last year of £286.5m were a record level
- Decline against FY20 comparative (most recent pre-covid comp) of (3.6)%
- UK stores resilient against a strong FY23 comparative
- Online reflective of market weakness (Q1 Online Fashion market decline of 5%) but more so internal execution
- Some timing of international sales between Q1/Q2, due to shipment timing



- Stores resilient, growing market share to April and delivered a strong exit trend
- Store trend improvement mirrored the market and normalising weather
- Online platform cutover (end of March) and post cutover learnings in April
- Online mix of sales of 12% from 17% last year, offering future upside potential



Margin dilution driven by product cost prices, FX and additional markdown

Multiple points of margin erosion partially offset by materially improved shipping costs

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£m	13 weeks ended 27 May 2023	13 weeks ended 28 May 2022	vs Prior Year
Revenue	263.6	286.5	(22.9)
Cost of goods sold	(155.7)	(160.8)	5.1
Cost of goods margin	107.9	125.7	(17.8)
Cost of goods margin %	40.9%	43.9%	-2.9%

- Product cost inflation offset via range mix and selling price changes
- Modest subsequent selling price re-sets in H1, further changes forecast into H2 within updated outlook, with broader re-set in H1 FY25
- Q1 margin erosion of (380)bps from FX. Differential vs last year lessens in H2
- Reduced freight costs worth £7m / 280bps to margin in Q1
- Reduced online fulfilment volumes added back 50bps to margin
- Markdown increase of (10)% required in Q1 to manage stock position and underperformance, diluting margins by (240)bps
- Markdown profile improved through quarter enabling stronger margin performance in May with fewer category level offers
- Stock loss beginning to stabilise post interventions, although remains high across the market requiring ongoing focus

Costs well controlled against an inflationary backdrop

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Material pay rate inflation and online platform transition costs mitigated by fall in volume driven variable costs and impact of group restructuring related fair value asset adjustments

£m	13 weeks ended 27 May 2023	13 weeks ended 28 May 2022	vs Prior Year
Selling expenses	(76.1)	(79.7)	3.6
Distribution expenses	(11.1)	(13.6)	2.5
Administrative expenses	(18.2)	(15.4)	(2.8)

- Selling and Admin expenses reflect group acquisition balance sheet fair value adjustments, impacting depreciation and amortisation charges, a £2.9m reduction in Selling and a £(2.4)m increase in Admin. Both impacts are non-cash
- Pay rate inflation largely offset by handling lower unit volumes through supply chain and stores alongside improved productivity
- Absence of business rates relief offset by lower property rateable values
- Energy costs in line with last year, with hedged pricing unwinding in H2 but better than originally anticipated
- Online platform transition related costs include some parallel services in Q1 and Q2
- Increased level of Marketing investment to support trading
- Admin expenses include leadership team build out and higher packaging levy and recycling costs

Strong management discipline over working capital and liquidity in the context of the Q1 profitability challenge

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Swift action taken to re-shape uncommitted stock profile with liquidity further bolstered

Profitability

£m	13 weeks ended 27 May 2023	13 weeks ended 28 May 2022	vs Prior Year
EBITDA post adoption of IFRS 16	26.1	44.4	(18.3)
EBITDA restated under IAS 17	2.1	20.2	(18.1)

- EBITDA deficit an improving trend through the quarter
- Stronger momentum continued into June

Stock

£m	13 weeks ended 27 May 2023	13 weeks ended 28 May 2022	vs Prior Year
Inventory	150.6	147.2	3.4

- Sub optimal opening stock mix improved through Q1
- Early proactive management of Spring / Summer position
- July Sale entry volumes managed well
- Autumn/Winter incoming stock profile less front loaded

Capex

£m	13 weeks ended 27 May 2023	13 weeks ended 28 May 2022	vs Prior Year
Purchases of tangible assets	(6.4)	(7.8)	1.4
Purchases of intangible assets	(6.1)	(2.4)	(3.7)

- Q1 Capex focused around Supply Chain and Online
- Full year Capex forecast remains c£40m
- Broader investment program will align with refreshed strategy

Liquidity

£m	13 weeks ended 27 May 2023	13 weeks ended 28 May 2022	vs Prior Year
Unrestricted closing cash	70.6	121.0	(50.4)

- High management focus on liquidity retained
- £70m minimum likely liquidity across remainder of Q2
- Liquidity further bolstered by additional £25m debt issuance in June
- As is usual, next working capital high point is late October

June and Cumulative Performance

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Strong June performance supported by arrival of Summer weather

Sales growth and improved margins with delay in Sale launch by one week to fully capitalise on strong demand

£m	5 weeks ended 1 July 2023	5 weeks ended 2 July 2022	vs. Prior Year
Revenue	**122.5**	**116.1**	**6.4**
EBITDA post adoption of IFRS16	**33.6**	**18.8**	**14.8**
EBITDA post adoption of IFRS16 %	27.4%	16.2%	11.2%
EBITDA restated under IAS 17	**24.6**	**9.4**	**15.2**
EBITDA restated under IAS 17 %	20.1%	8.1%	12.0%
Unrestricted closing cash	**69.4**	**99.5**	**(30.1)**

- Sales 5.5% ahead of the prior year in June (+6.2% LFL)
- Targeted promotions and more profitable sales mix with early stock interventions allowing strong full price sales
- Summer Sale launch delayed by one week to capitalise on demand pattern (some margin moved to June from Jul/Aug)
- Reduced freight costs continue to benefit comparatives along with disciplined cost control
- Profit was strong, significantly ahead of last year
- Robust closing liquidity, aided by trading performance and issuance of £25m committed super senior debt
- June will underpin an improved Q2 vs Q1 performance consistent with the revised FY24 outlook

June recovery takes cumulative profit performance towards that of last year

Improved exit trend from Q1 continued into June, significantly reducing cumulative deficit to prior year

£m	18 weeks ended 1 July 2023	18 weeks ended 2 July 2022	vs. Prior Year
Revenue	**386.1**	**402.6**	**(16.5)**
EBITDA post adoption of IFRS16	**59.7**	**63.2**	**(3.5)**
EBITDA post adoption of IFRS16 %	15.5%	15.7%	-0.2%
EBITDA restated under IAS 17	**26.7**	**29.6**	**(2.9)**
EBITDA restated under IAS 17 %	6.9%	7.4%	-0.4%
Unrestricted closing cash	**69.4**	**99.5**	**(30.1)**

- Cumulative sales (4.1)% behind last year with the weaker Q1 performance largely offset by the June improvement
- Cumulative profit deficit much improved since Q1 at £(2.9)m IAS17 EBITDA
- Strong exit trend within the cumulative position to underpin Q2
- Volatility within cumulative performance reflective of both wider market and business transformation and improvement

Strengthened Capabilities and Core Focus

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Progress being driven at pace by strengthened leadership team

Clear priorities and focus on critical areas of execution and margin improvement

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Strengthened capabilities in key areas

- Online platform phase 1 in final completion stages, with configuration and optimisation work ongoing
- Strengthened leadership team and introduction of best in class retail experience
- Improved design and sourcing capability via introduction of experienced external subject matter experts to accelerate progress

Core areas of focus for future profit improvement

- Immediate trading and ways of working via improved decision making tools and disciplines
- Range and margin enhancement via a value creation program including range breadth, depth, product mix and pricing
- Online performance via a series of targeted interventions to improve traffic, choice and conversion
- Customer focus and improving the journey via removing friction points and trialling improvements to service and visual merchandising
- Cost focus via ongoing supply chain automation, challenging returns on investment and end to end cost efficiency and effectiveness review

FY24 Outlook

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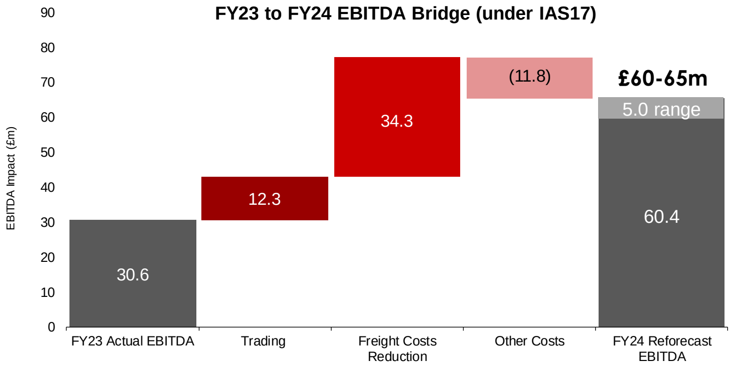
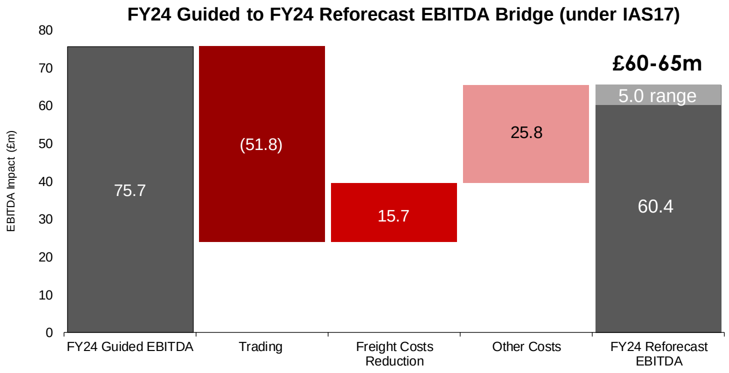
FY24 EBITDA outlook refreshed to £60m-£65m

Q2-Q4 forecast ahead of original plan and against weak comparatives

- Full year sales planned broadly in line with the prior year
- Improving full price mix in H2 post further refinement of Autumn/Winter buy and targeted promotions
- Greater focus to marketing and customer communications spend
- Discretionary costs and capex remain closely managed and tightened
- Next phase of supply chain automation on track for H2
- Freight cost reduction evident in Q1 will continue to drop through
- GBP appreciation vs USD better than original plan and near fully hedged
- Reduced Energy prices ahead of expectation and near fully hedged
- Work commenced to re-base product and supply chain margins for SS24 (FY25)





Summary and Key Takeaways

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Key Takeaways

Outlook remains that of significant earnings recovery, driven by a strengthened leadership team and ongoing business transformation underpinned by the injection of additional committed liquidity

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- Strengthened leadership team has landed with immediate positive impact
- Disappointing Q1 trading followed by strong end of May and June underpinning a much improved Q2
- Improved FX and cost outlook drives stronger Q2-Q4 than originally planned, against weak comparatives and net of re-based trading plan
- Clear on actions to address online challenges and drive performance improvement
- EBITDA outlook for FY24 of £60m-£65m represents significant earnings recovery against the prior year


Q&A
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Thank you for joining

Appendix

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IFRS3 Business Combinations - Acquisition fair value Balance Sheet impacts

Acquisition of the Matalan group by Maryland Holdco Limited required fair value adjustments under IFRS3, impacting several parts of the balance sheet and subsequent depreciation and amortisation charges

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- All assets, liabilities and purchase cost fair valued at the date of acquisition (26 January 2023) supported by Deloitte specialists
- Fair value of net assets exceeded fair value of purchase cost creating a gain on bargain purchase of £51.2m recognised immediately in the FY23 income statement
- Fair value of assets and liabilities largely mirrored their NBV, key exceptions being;

  - Recognition on balance sheet of Matalan's brand value
  - International franchise agreements recognised as an intangible asset
  - Lease right-of-use assets and liabilities revalued to reflect market conditions at the acquisition date
- New group debt issued on 26 January of £336.2m and 10m new shares also fair valued at combined £250m, with fair value allocated via Monte Carlo methodology
- Note 6 of the Q1 accounts reconciles the difference between the principal value of debt and its fair value, this difference unwinding over the life of the debt maturities along with its issuance costs
- Subsequent post acquisition group income statements reflect the amortisation of the newly created intangible assets (within Admin expenses) and reduced depreciation charges relating to the adjusted right-of-use assets (largely within Selling expenses)
- All FY23 financial comparatives within FY24 quarterly accounts are draft and remain subject to audit. Audit is expected to complete February 2024, following completion of new auditor onboarding (see company announcement 23 December 2022)