Loungers plc
Results for the 52 weeks ended 16 April 2023

LOUNGE

Brightside ROADSIDE DINING

COSY CLUB

12 July 2023

Highlights

- Record revenue of £283.5m, industry-leading LFL's and a record 29 new sites opened
- Margin pressures largely mitigated and inflationary pressures diminishing
- New site openings performing well and expect to open 34 sites in the current financial year
- Believe the potential scale of Lounge business in the UK is at least 600 sites
- Launch of Brightside, our new roadside dining brand, with two sites now open
- Our value for money focus means we remain well-positioned in the event of a consumer downturn
- Pleased with the start to FY24, no change in consumer behaviour, current trading remains strong

Financial Review

Gregor Grant - CFO

Results summary FY23 vs FY19

	FY23 £m	FY19 £m	Var
Revenue	283.5	153.0	85.3%
Gross profit	113.2	63.5	78.2%
	39.9%	41.5%	(160bps)
Adjusted EBITDA IFRS16	47.3	28.5	65.9%
	16.7%	18.7%	(200bps)
Adjusted EBITDA IAS17	34.2	20.6	66.3%
	12.1%	13.5%	(140bps)
Adjusted operating profit IFRS16	24.1	15.0	61.0%
	8.5%	9.8%	(130bps)
Profit / (loss) before tax IFRS16	7.3	(7.2)	

- **Comparison vs FY19**
  - Last full year pre Covid
  - No distortion from restricted trading or government support
  - Illustrates strong growth post IPO
- **Revenue of £283.5m up 85.3%**
  - Additional 76 sites at period end (+ 52%)
  - Four-year LFL sales performance (+ 22.8%)
- **Gross profit growth of 78.2%**
  - Impacted by inflationary pressures
  - Margin down 160bps – labour cost impact
- **IAS17 EBITDA growth of 66.3%**
  - Margin down 140bps
  - Partial recovery vs IFRS16 through rent costs
- **Profit before tax of £7.3m**
  - Includes net impairment charge of £1.6m

Results summary FY23 vs FY22

	FY23 £m	FY22 £m
Revenue	**283.5**	**237.3**
Exclude 8 weeks external only / Omicron	(46.0)	(22.6)
Exclude VAT Benefit in FY22	-	(15.1)
Underlying Revenue	**237.5**	**199.6**
Adjusted EBITDA IFRS16	**47.3**	**53.6**
EBITDA Margin	16.7%	22.6%
Exclude 8 weeks external only / Omicron	(8.6)	(2.1)
Exclude VAT benefit in FY22	-	(15.1)
Add back business rates	5.6	2.3
Underlying EBITDA IFRS16 pre rates	**44.4**	**38.7**
EBITDA Margin pre business rates	18.7%	19.4%
Profit before tax IFRS16	**7.3**	**21.6**

- **Comparison vs FY22**
  - FY22 significantly impacted by:
    - The positive impact of government support measures in FY22, notably VAT reduction and business rates support
    - The negative impact of external trading only in opening four weeks of FY22 and four weeks of Omicron impacted Christmas 2021
- **Revenue of £283.5m up 19.5%**
  - Excluding one-off impacts underlying total revenue up 19.0%
- **IFRS16 Adjusted EBITDA of £47.3m**
  - Headline margin down by 590bps
  - Excluding one-off impacts underlying margin down 70bps – labour and energy
- **Profit before tax of £7.3m**

LOUNGE Brightside ROADSIDE DINING COSY CLUB

LFL sales performance

- **Three-year LFL of +17.6%**
- Covers 44 weeks
  - Excludes Covid impacted final 8 weeks of FY20
  - No Covid distortion

	FY23 H1 24wks	FY23 44wks
LFL Sales – 3 Year	17.0%	17.6%

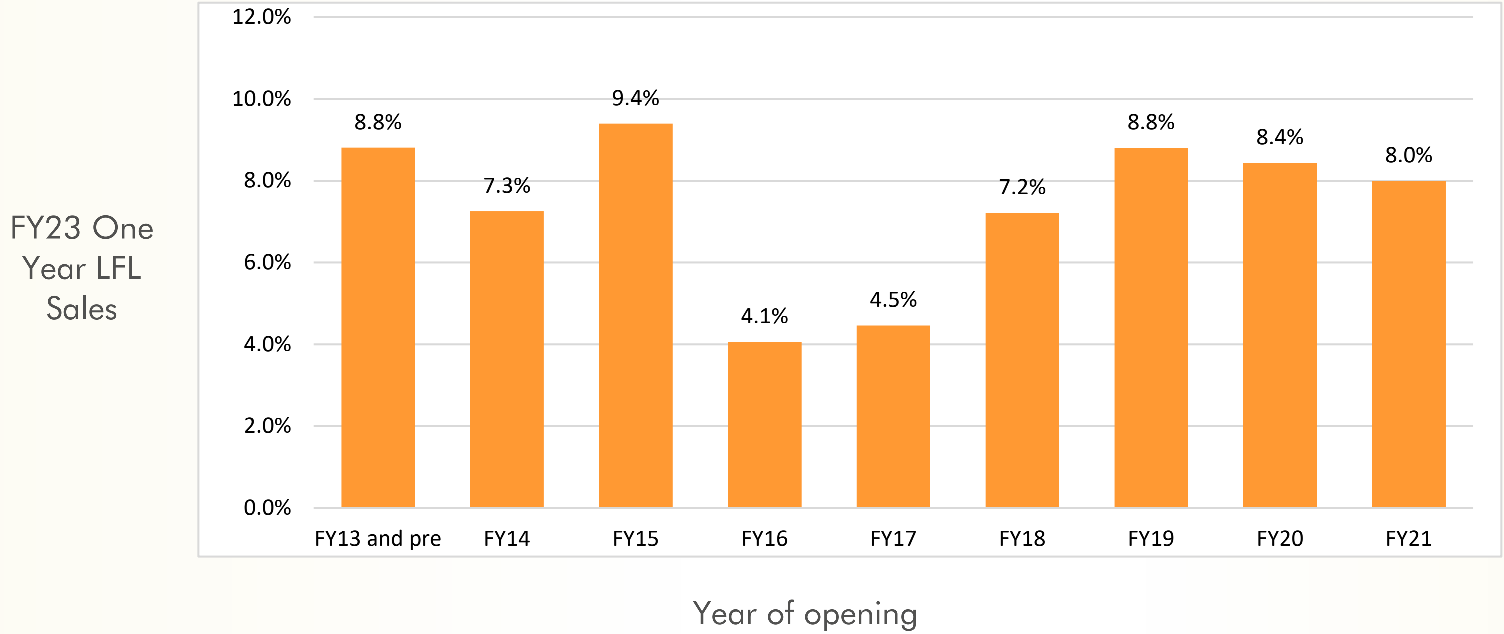
- **One-year LFL of +7.4%**
- Covers 48 weeks
  - Excludes external only trading at re-opening in 2021
  - H1 Result reflects very strong re-opening comparative

	FY23 H1 20wks	FY23 48wks
LFL Sales – 1 Year	1.5%	7.4%

- **FY24 One-year LFL of +5.7%**
- Covers 12 weeks to 9 July
  - Impacted by timing of Easter holidays, excluding w/e 23 April +6.5%

	FY24 12wks
LFL Sales – 1 Year	5.7%

Consistent one year LFL performance across site age cohorts



- **Reasonably consistent split of +7.4% across the various age cohorts**
- **Strong showing from the 55 sites in the FY15 and earlier cohorts**
- **FY16 and FY17 cohorts relatively weaker – fewer sites in double digit growth**

Underlying margin FY23 vs FY19

FY19 Adjusted EBITDA Margin IAS17	**13.5%**
Cost of sales (inc. site labour)	(1.4%)
Variable costs	(0.3%)
Energy	(0.5%)
Site rent rates and service charge	1.0%
Central costs	(0.2%)
FY23 Adjusted EBITDA Margin IAS17	**12.1%**

- **IAS17 Adjusted EBITDA margin down 140bps vs FY19**
- **Cost of sales (inc. site labour) negative 140bps**
  - CGS margin growth of 120bps offset by labour ratio up 260bps
- **Variable costs negative 30bps**
- **Energy costs negative 50bps**
- **Site fixed costs positive 100bps**
  - Rent to revenue ratio improved to 4.5% from 5.2%
- **Central costs negative 20bps**
  - Continued investment to support growth
  - Print and insurance costs
- **IAS17 FY23 Adjusted EBITDA margin of 12.1%**
  - H2 Margin of 12.9% compares to 11.0% in H1
  - H2 Margin uplift consistent with FY19 uplift

Margin outlook – inflation moderating

	FY24 July Expectation	Update
Selling Price	6%	c4% price taken in April menus
CGS Food	6%	Pressure moderating
CGS Drink	3-4%	Benefit from new draught range
Labour	8%	Rate of pay pressure
Utilities	20%	Impact of spreading new hedges across mature estate

- **Food inflation**
  - Top 20 ingredients saw weighted average inflation of 13.2% April 2023 vs April 2022
  - Same top 20 products have seen marginal deflation over Q1 FY24 – oil price reduction offsetting pork and eggs
  - If prices remain steady through Q2 expect September 2023 to be c9% higher than September 2022
- **Drink inflation**
  - Top 20 products saw weighted average inflation of 6.8% April 2023 vs 2022
- **NLW April 2023**
  - Average hourly rate increase of c7% post NLW increase

Medium term goal to restore pre Covid EBITDA margin

- **Food and drink margin**
  - Renegotiated food supply contract from Q2 onwards
  - Drinks contracts – like for like products nil to low single digit inflation
  - Further supply consolidation opportunities
- **Site labour**
  - NLW increases forecast to continue to exert pressure on margins
  - Estate wide update of flex labour budgets
- **Site variables**
  - Wide-range of projects underway – laundry / cellar gas / print / refuse collection
- **Site fixed**
  - Forecast continued benefit from tenant friendly property market / rateable value challenges
- **Central costs**
  - Leverage of central cost base
- **Energy costs**
  - Impact of May 2020 hedge ending in September 2024

Cash flow IAS17 – continuing strong cash generation

	FY23 £m
Adjusted EBITDA IAS17	**34.2**
Pre-opening costs	(3.6)
Corporation tax	(0.1)
Changes in working capital	5.6
Cash generated from operations	**36.1**
Maintenance capex	(7.9)
Interest paid	(1.1)
Employee share awards	(0.2)
Free cash flow	**26.9**
New site capex	(27.9)
Freehold / leasehold premium	(1.2)
Route acquisition	(2.7)
Cash outflow	**(4.9)**
Cash b/f	31.3
Cash c/f	**26.4**

- **Cash generated from operations of £36.1m**
- **Represents 106% of Adjusted EBITDA**
- **Working capital inflow of £5.6m**
  - Reflects new site roll out and positive LFL sales
- **Maintenance capex includes all non-new site capex**
  - Included £2.7m on the Lounge kitchen re-set programme
- **Free cash flow of £26.9m funds**
  - New site capex cash outflow of £27.9m
  - Freehold / leasehold premiums £1.2m
  - Route acquisition £2.7m (net of cash acquired)
- **Closing cash of £26.4m**

Capital expenditure

	FY23 £m
New site	34.1
Landlord contributions	(4.5)
Net new site spend	**29.6**
Maintenance	3.9
Splash and dash / external area	0.6
Kitchen re-set	2.7
Furniture refurb	0.6
Central	0.6
Freehold / Leasehold Premium	1.2
Net spend	**39.2**
Capex creditor movement	(2.2)
Cash out flow	**37.0**

- **Net new site capex of £29.6m**
  - Includes £26.9m spend re 29 new sites built and opened in the period, 24 Lounges, four CC and one Brightside
- **Maintenance capex of £3.9m**
  - Represents 1.3% of revenue (FY22 1.1%)
  - P&L maintenance spend was 1.6% of revenue (FY22 1.9%)
- **Kitchen re-set**
  - 61 re-sets completed in the year. Project completed in May
- **Furniture refurb spend £0.6m**
  - Opportunity taken to refurb furniture removed from sites during Covid
- **Central**
  - Includes cost of consolidating build and look and feel team into single fit for purpose warehouse
- **Freehold / leasehold premium**
  - Includes freehold purchase of CC Canterbury site and reverse premium paid for Martello Lounge (passing rent £15k)

Lounge roll-out investment – FY23 vs FY19

	FY23	FY19
Lounge sites opened	24	23
Average incentive months	24	13
Landlord contributions (£m)	2.8	0.8
Contribution incentive months	21	7
Rent free incentive months	3	6
Average lease length	15.0	15.6
Average rent (£k)	67	62
Rent to revenue ratio	4.9%	4.9%
Average capex net of LLC (£k)	835	649
Average covers	140	125
Year 1 Gross AWS (£k)	30.9	22.7
FY23 Gross AWS (£k)		27.4

- **Compare Lounge FY23 cohort to FY19 cohort**
  - 24 Lounges opened in FY23, 23 in FY19
- **Significant uplift in landlord incentives**
  - Increase from 13 months to 24 months
- **Typical lease length remains 15 years**
- **Rent to revenue ratio maintained at 4.9%**
- **Average net capex £835k**
  - Ex Martello Lounge £785k
- **Increased capex spend reflects**
  - Larger average size - 12% increase in covers
  - Enhanced design and build
  - Inflationary impacts
- **FY23 sites year 1 gross AWS £30.9k**
  - 36% higher than FY19 year 1 performance
  - 13% higher than FY19 sites FY23 performance
- **30%+ CROCCI maintained**

Non property net debt

	FY23 £m	FY22 £m
Cash	26.4	31.3
Term Loan	(32.5)	(32.5)
Net debt	**(6.1)**	**(1.2)**
Deferred Covid-19 liabilities	-	(1.4)
Underlying net debt	**(6.1)**	**(2.7)**

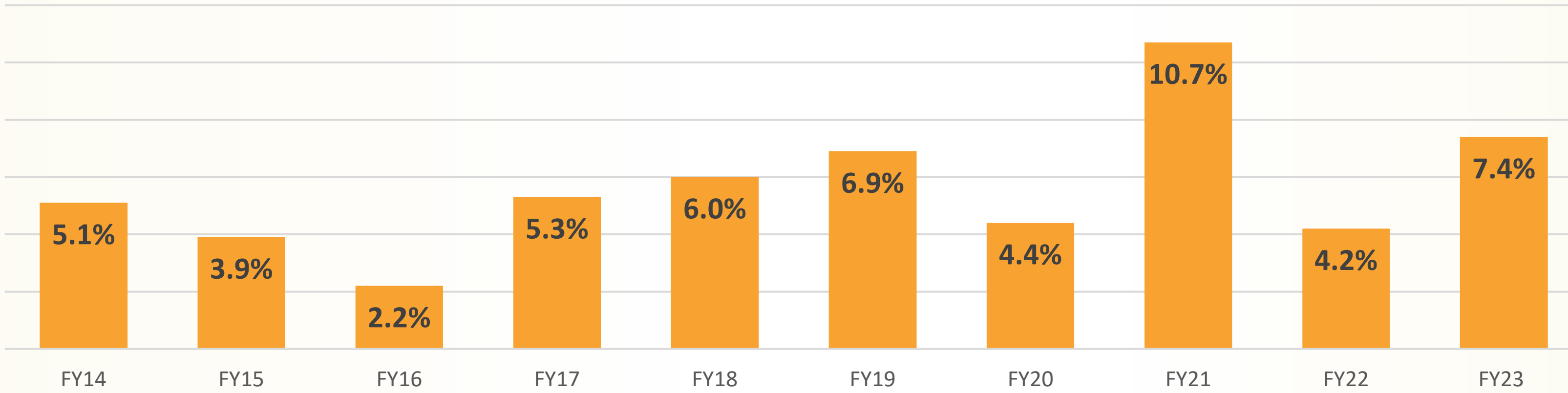
- **Net debt £6.1m**
- **Year on year £3.4m increase in underlying net debt, after**
  - £37.0m capex outflow
  - £2.7m outflow fund Route acquisition
- **Bank facilities re-financed June 2023**
  - Term loan reduced to £20.0m (from £32.5m)
  - RCF increased to £22.5m (from £10.0m)
  - No change in total liquidity
  - No change in covenants
  - Facility to June 2026
- **Strong balance sheet and funding position**

Strategy and Operations Review

Nick Collins – CEO

Sector leading sales performance

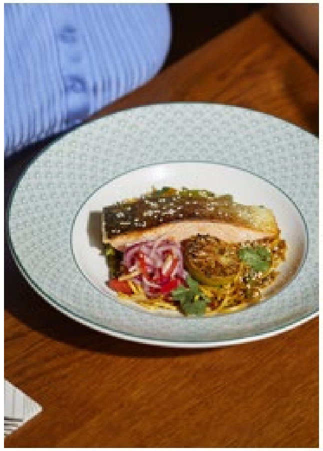
- **Loungers is unique in having consistently grown LFL sales over the last 10 years, including having accelerated that growth post-Covid**



- FY23 LFL sales are 17.6% higher than FY20 (i.e., pre-Covid).
  - On a LFL basis, average weekly sales in FY23 are £30,500 per week vs £25,900 (based on 142 sites open in FY20, VAT benefit removed), reflecting significant volume growth as well as price
- We have seen no change whatsoever in consumer behaviour or sentiment – based on our experience the UK consumer remains positive.
- No dramatic shifts in sales mix or regional performance:
  - Brunch/daytime sales continue to dominate growth, but evening growth is encouraging.
  - Some post-Covid changes in behaviour are starting to slow down, e.g. cocktail & pudding sales

Evolution and value for money continue to drive sales growth

- **Menu innovation no longer constrained by labour concerns**
  - Flatbread sales overtaken sandwich sales at around 16,000 per week
  - Introduction of Nasi Goreng alongside old favourite Bang Bang chicken means Asian dishes represent 15% of mains in Lounge
  - Introduction of sea bass alongside salmon and fishcakes means fish dishes now represent 18% of mains sales in Cosy Club
- **Significant changes coming in the draught line up across Lounge and Cosy Club**
  - Refreshed range will introduce Hofmeister, Cruzcampo, Menabrea and Henry Westons
  - Driven by desire to stand apart from high street brands
  - Cash margin benefit due to estate growth
- **We represent excellent value for money in both Lounge and Cosy Club, and our competitiveness has improved**
  - Our competitive position has improved across the year as others have taken more price
  - Lounge – Burger & fries £10.95, pint of Moretti £5.60
  - Cosy Club – Burger & fries £14.50, pint of Moretti £6.10



Hofmeister HELLES

Cruzcampo SEVILLA

MENABREA BIRRA BIONDA PREMIUM ITALIAN LAGER

HENRY WESTONS VINTAGE CIDER

LOUNGE

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Continued investment and innovation in operational support

- **Introduction of regional community manager role in Lounge**
  - Encouraging sharing best practice
  - Driving community involvement through charity fund-raising, quizzes and encouraging community groups
- **Introduction of Head of Brand for Cosy Club marketing**
  - Opportunity to drive awareness through social media and online presence
  - Build sales through more targeted use of customer database within CRM
- **New online booking facility for Lounge**
  - Primarily for use over Christmas, allowing our teams to easier manage bookings and pre-orders
- **Introduction of regional recruitment and talent managers**
  - Providing more resource for our Operations teams to ensure we are finding and keeping the best people

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Ongoing focus on improving conversion

- **Medium term goal to restore EBITDA margins to pre-Covid levels**
- **Investment in regional operating structure / low site to ops ratio**
  - Driving improvement in gross margin consistency
  - Reducing costs associated with staff turnover
- **Labour**
  - Constant challenge
- **Targeted cost savings from smaller cost lines**
  - Cooking oil
  - Cellar gas
  - Print
  - Laundry
- **Longer term initiatives focused on**
  - Energy consumption
  - Waste to landfill

Our people and culture drive our continued success

- **Supporting our team through the cost of living crisis**
  - 11% Salary increases funded through buying out 50% of the bonus potential alongside average 6% uplift
  - Continued support through free food and drink whilst working and staff discount
- **Continued investment in learning and development**
  - 67% of the Lounge ops team have been promoted internally from site roles
- **Working hard to be an even better employer**
  - The Commitments launched in FY22 are at the heart of our responsibilities as an employer
  - Annual staff engagement survey ensures we understand how our team feel about working at Loungers, and where we need to be even better as an employer
- **Loungefest**
  - Biggest and most important investment in the cultural side of the business

Leadership team further strengthened during the year

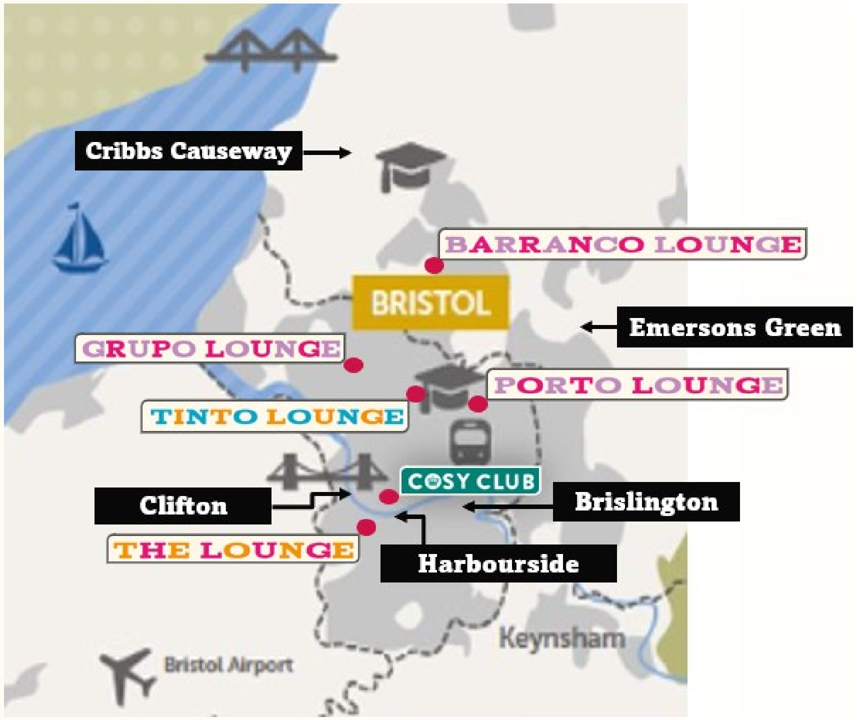
- **Guy Youll – Chief People Officer (Nov-22)**
  - Senior experienced leader dedicated to our teams
  - Previously Whitbread, Superdry, Inspired Education
  - Challenging all aspects of recruitment, L&D, and HR
  - Driving better engagement and strategic advice provided to our operators
- **Kate Lister – Marketing Director (Oct-22)**
  - New role for Loungers
  - Previously Byron and Ole & Steen
  - Pushing and challenging exec to invest time and cash in marketing
  - Owns Cosy Club and Brightside brand marketing alongside the Lounge community team
- **Jono Jenkins – Commercial Director (Jan-23)**
  - Internal promotion, previously Lounge Head of Food
  - Heads up purchasing and supply chain, risk and compliance, maintenance, ops and site process and comms
  - Critical role in improving our processes and efficiency as the business grows

Property headlines

- New site openings continue to perform very well, increasing average site EBITDA
- Growing confidence in Lounges working in many different location types
  - Secondary suburban high street and small / market towns continue to dominate our locations
  - We are seeing really strong performance in mixed use leisure / retail schemes
- Pipeline exceptionally strong, 34 sites planned to open in FY24
  - Expect to open 31 Lounges this year, 1 Cosy Club, 2 Brightsides
- Management now see scope for at least 600 Lounges across the UK
  - Our uniquely experienced in-house property team have produced an in-depth model of potential locations based on our detailed knowledge of the UK
  - Performance within the existing estate alongside references to competitor scale and performance suggest this is a conservative target
- Cosy Club remains an integral part of the business and is fundamental to our growth plans:
  - Cosy Club represents 22% of our sales and is one of the leading bar/restaurant operations in the UK
  - Potential scale of CC is realistically 50 to 65 sites
  - We open Oxford in September and will continue to put exciting new CC opportunities into the pipeline, but the ratio of CC openings to Lounge will reduce as the number of new CC opportunities reduces

Case Study: Bristol Area (1)

- **There is still an opportunity to double the size of the estate in Bristol – highlighting the scale opportunity for the Lounge brand**



- Porto Lounge relocated to bigger premises during the year
- Barranco Lounge opened during the year in the Abbeywood Retail Park
- The three existing Lounges all continue to trade strongly
- Cosy Club Bristol is one of the best EBITDA sites in the estate
- We would still strongly consider opening new Lounges in:
  - Cribbs Causeway
  - Emersons Green
  - Brislington
  - Bristol Harbourside
  - Clifton

Case study: Bristol area (2)

- **The relocation of Porto Lounge has more than doubled sales and EBITDA, demonstrating our ability to generate high returns on capital in secondary suburban high streets**

Old Porto Lounge:

- Original site opened October 2004
- Rent £24,000
- Landlord package nil
- Gross AWS £18,250
- Net capex £334,000
- CROCCI 40.5%

New Porto Lounge:

- Relocated site opened February 2023
- 15-year lease
- Rent £57,500
- Landlord package 12m rent free
- Gross AWS £43,100 (21 weeks)
- Net capex £972,000
- Forecast CROCCI 43%

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Case study: Bristol area (3)

- **Barranco Lounge is a great example of how well Lounges can work in the right retail schemes**

- Opened in March 2023
- 15-year lease (tenant only 10-year break)
- Rent £75,000
- Landlord package 28 months
- Gross AWS £42,400 (15 weeks)
- Net capex £860,000
- Forecast CROCCI 38%

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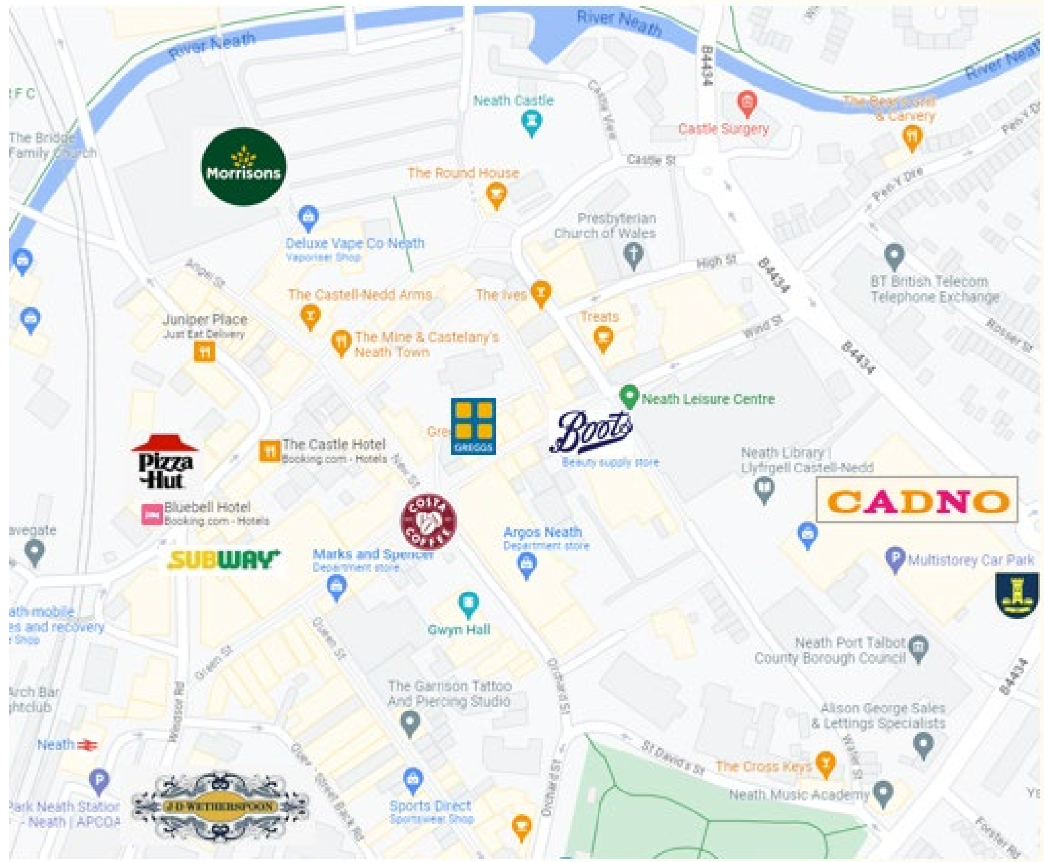
Case Study: Cadno Lounge, Neath

- **Our performance in Neath, opening this year, and our continued success in Wales, really help highlight the scale opportunity; there are many towns in the UK like Neath**

- Opened in Neath in March 2023
- 15-year lease
- Rent £37,500
- Landlord package 32 months
- Gross AWS £40,100 (13 weeks)
- Net capex £756,000
- Forecast CROCCI 33%
- Nearest sites: Swansea 6 miles, Mumbles 12 miles



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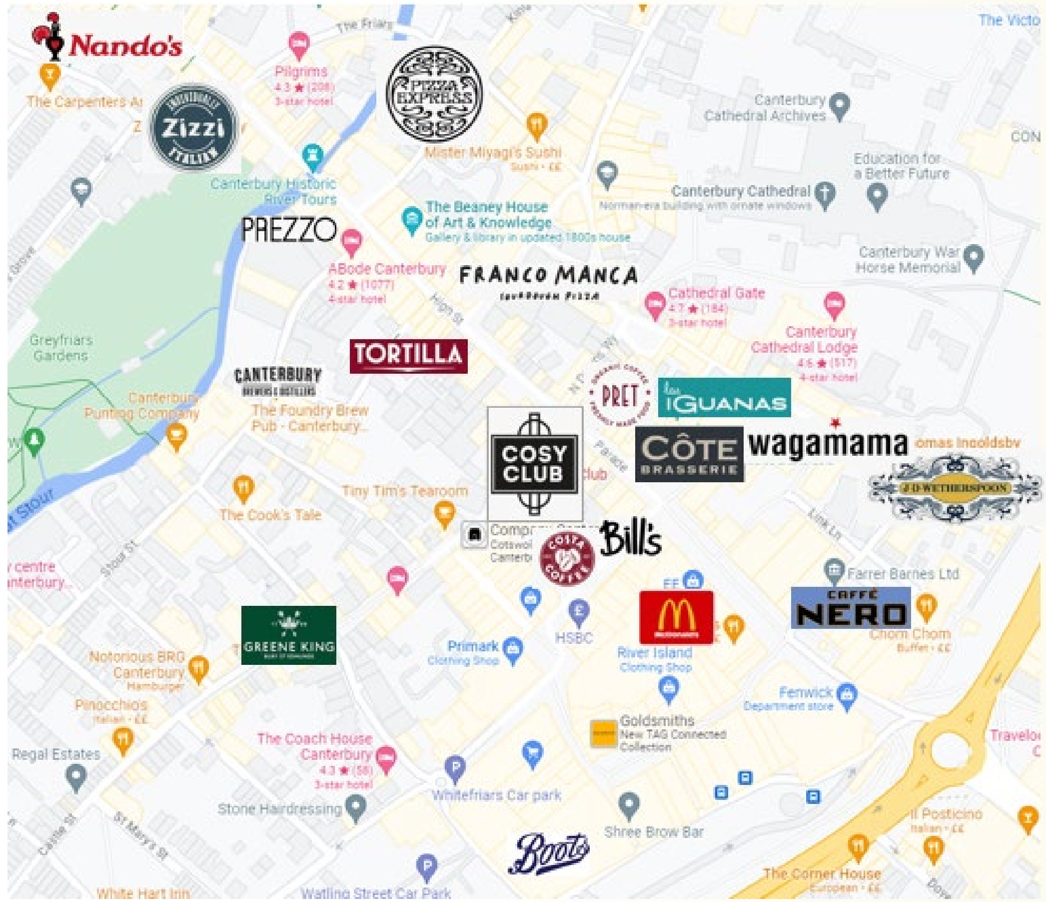
Case Study: Cosy Club Canterbury

- Opened in August 2022
- Freehold purchase £850k
- Gross AWS £48,600 (45 weeks)
- Net capex £1,352,000
- Forecast CROCI 29.0%



Brightside

- **Exeter opened in February, Saltash in June**
- **Honiton due to open early August**
- **It's early days but we are relatively pleased with the sales performance**
- **We expect to learn a lot more over the next six weeks of summer holidays, when sales will peak**
- **Key observations and learnings so far**
  - Local customer base just as important as passing motorists
  - More legacy loyalty than we expected
  - Speed of service is everything for the traveller
  - Recruitment has not been as challenging as we had been led to believe
  - Pizzas are not as popular at lunch as we had expected
  - Everyone loves an avocado bathroom suite

Final thoughts

Loungers is uniquely well-positioned to deliver continued out-performance

- Sector leading performance
- Relentless focus on evolution and value for money to drive LFL sales growth
- New sites performing very well and roll-out accelerated to 34 sites in FY24
- Roll-out self funded from consistently strong cash generation
- Identified potential for at least 600 Lounges in UK
- Best in class senior team and continued investment in our people
- Inflationary pressures diminishing and clear medium-term goal to return margins to pre Covid levels

Thank you

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