Loungers plc

Results for the 24 weeks ended 3 October 2021

LOUNGE

COSY CLUB

DECEMBER 2021

Strategy and Operations Review

Nick Collins – CEO

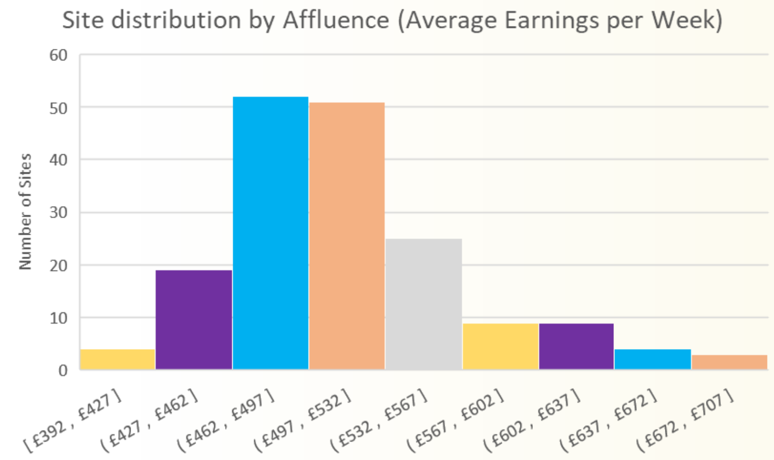
Highlights

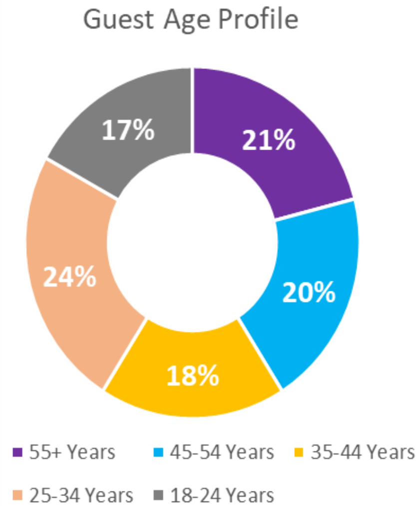
- Very strong financial performance in H1
- Market leading LFL sales performance reflects the relevance of our brands and operational strength
- Strong EBITDA conversion continues to benefit from Government initiatives
- Cost pressures well managed and underlying margin expansion
- Net debt further reduced despite new site opening programme back at pre Covid run rate
- Opened 12 new sites in H1, 11 Lounges and one Cosy Club, a further four Lounges opened to date in H2 bringing the total estate to 184 sites
- Expect to open 25 new sites this financial year

	H1 FY22 £000	H1 FY21 £000	Var %
Sales	102,361	53,493	+91%
LFL Sales (%)	+26.6%	+25.1%	
Adjusted EBITDA IFRS 16	27,086	13,205	+105%
Net debt (non-property)	11,890	13,554	
No. of sites	180	167	

Understanding our out-performance – Broad demographic profile

- Lounge serves everyone for every occasion
- Ageless and classless, 61% female
- 90% of our customers visit for more than one occasion
- Cosy Club has a similar demographic profile, but more occasion led





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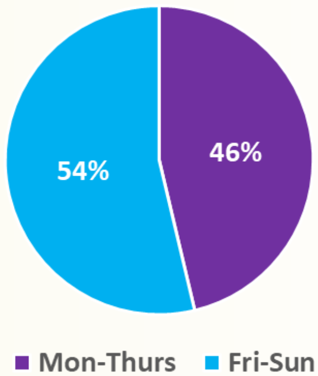
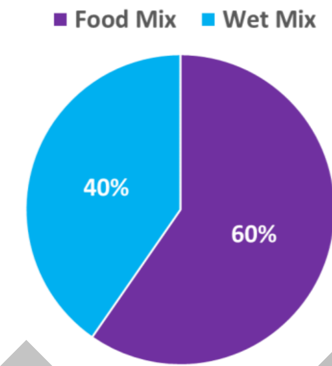
Understanding our out-performance – All-day trading

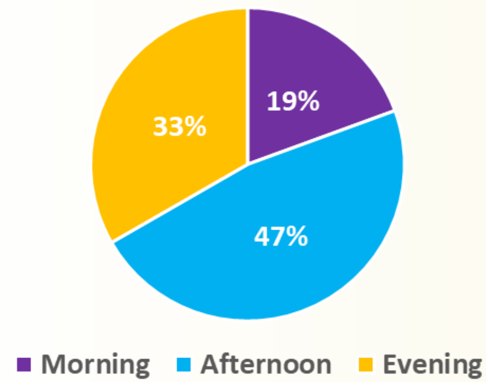
Lounge Sales Mix - Week vs Weekend



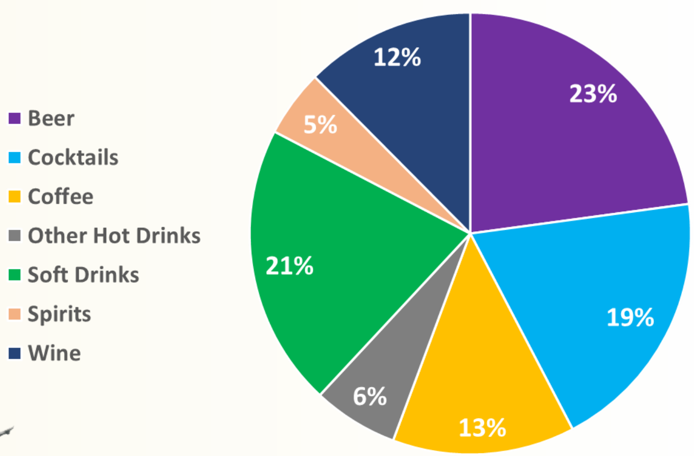
Sales Mix



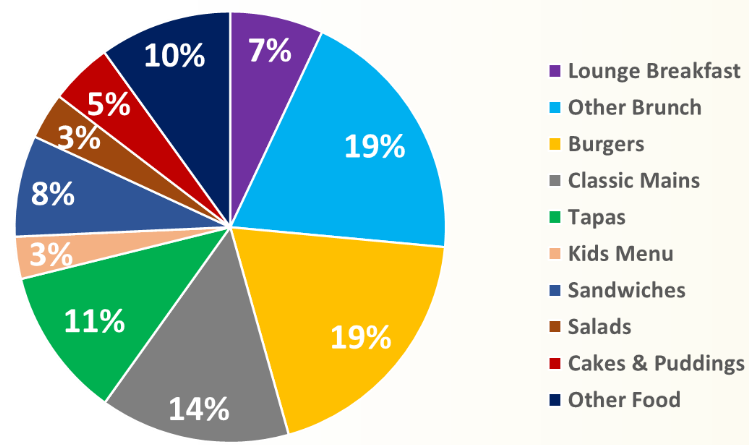
Lounge Sales Mix - By Daypart



Wet Mix



Food Mix



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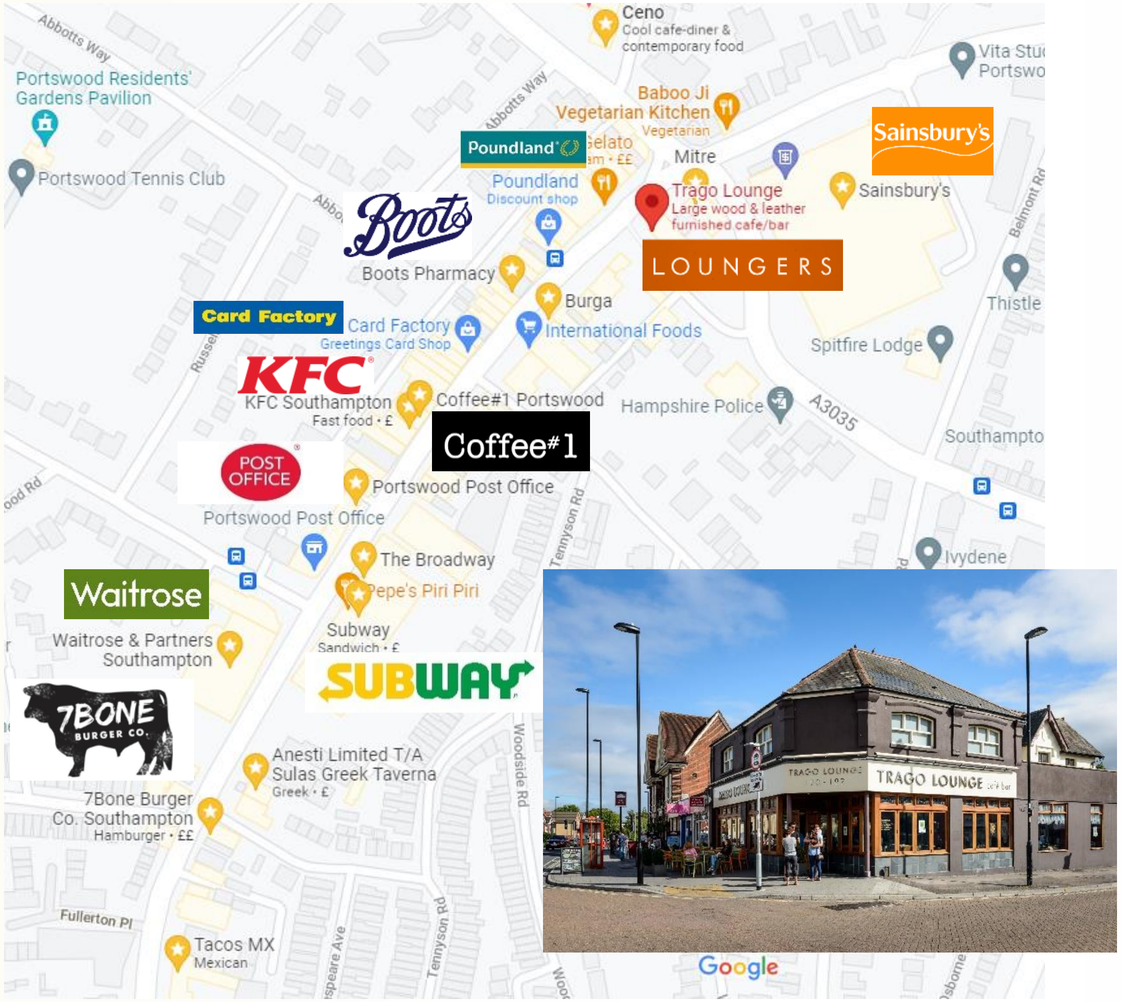
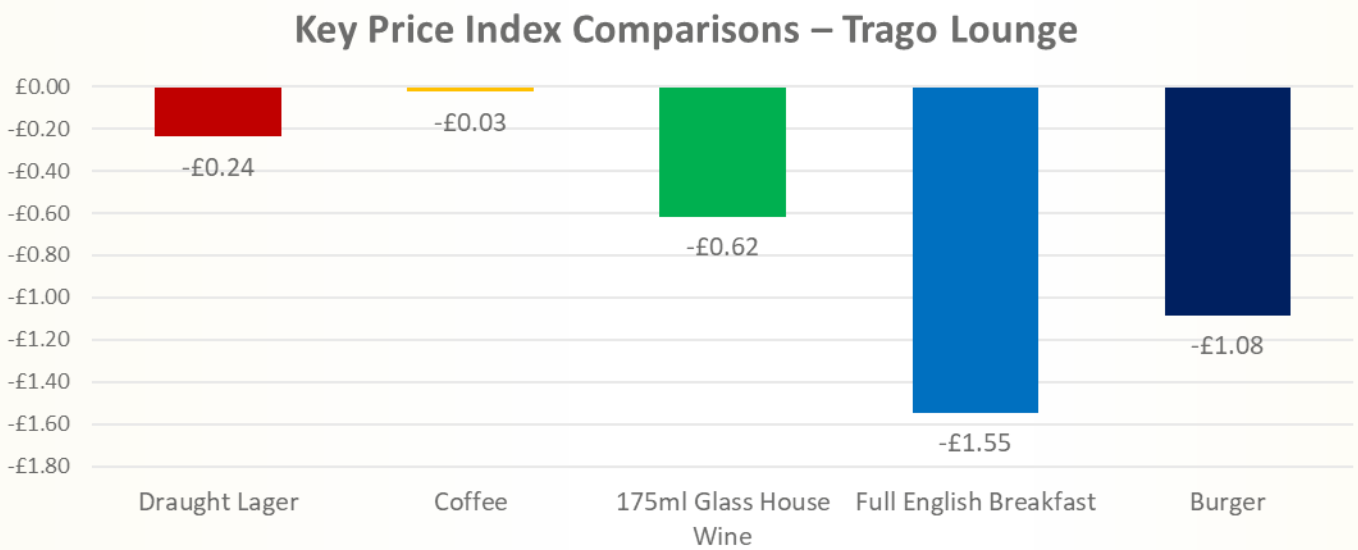
Understanding our out-performance – The competitive landscape



- Trago Lounge, Portswood
  - Southampton suburb
  - Opened October 2009
  - Second quartile sales
  - LTM EBITDA £320k
  - Total capex £631k

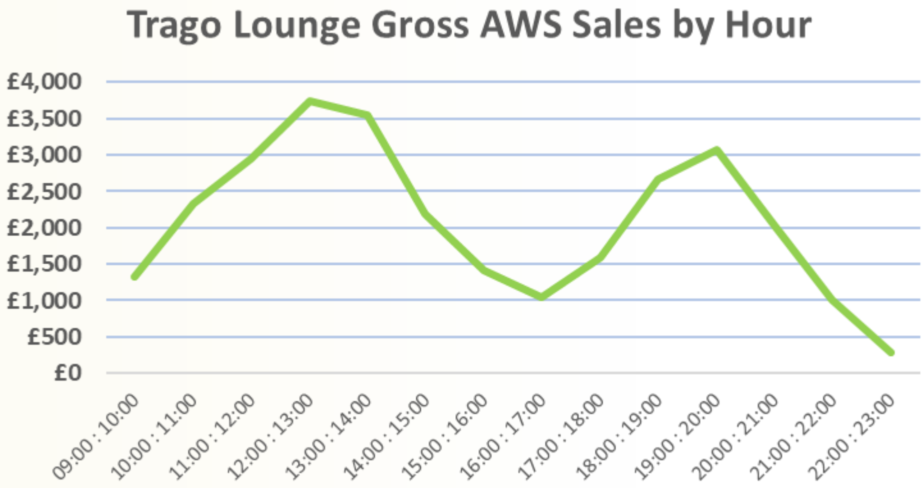
- Competitive landscape
  - A typical Lounge High Street
  - Mix of retail and leisure
  - 2.5 miles to West Quay Shopping Centre

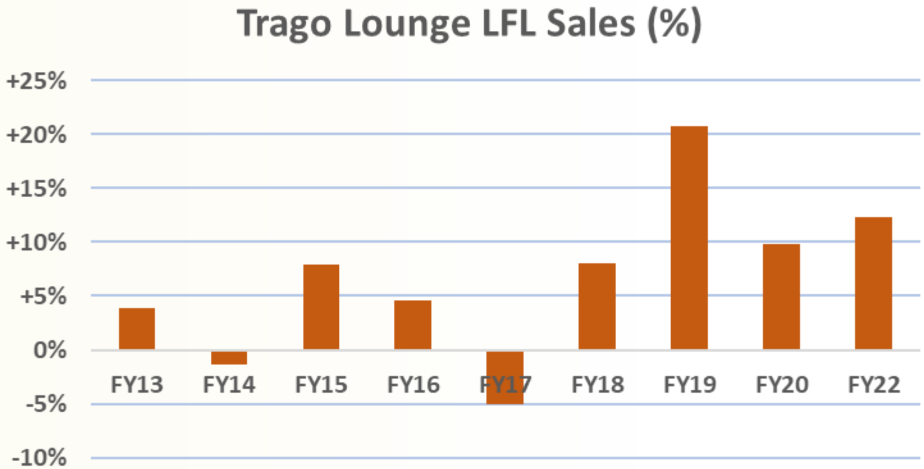
Understanding our out-performance – Value for Money



- Price comparison analysis maintained at a number of sites to monitor competitiveness and the actions of competitors
- Trago is in Lounge price band C (the lowest of our three price bands)
- Competitor set includes Costa, Coffee #1, Caffè Nero, Brewhouse & Kitchen, 7Bone, local independent venues and a Greene King Pub

Understanding our out-performance – All-day trading





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COSY CLUB

Cosy Club evolution

Elevation of the customer experience at Cosy Club through:

- Fully re-worked menu
  - Introduced 40 more elevated, foodier dishes
  - Re-worked every recipe on the menu
  - Reduced the dish count (from 65 to 50)
  - Reduced the SKU/ingredient count (from 250 to 180)
- New more grown-up, art deco inspired design for all point of sale materials
- Introduced new furniture across all sites, more fitting for our beautiful interiors
- Enhanced the customer journey through small improvements to ensure the customer receives more attention
- Changes have now been rolled out across all 31 Cosy Clubs following a trial at 5 sites

Lounge evolution

- The kitchen revolution continues:
  - Kitchen management system now installed across entire Lounge estate
  - Electronic ticket intelligence feeding into operational monitoring, menu design etc.
  - £0.3m capex spend in H1
  - Kitchen Reset program (improved ergonomics and equipment) to be completed in remaining 61 sites in 2022. Forecast cost £1.8m

- Insights and feedback:
  - Feedback massively increased due to introduction of the App (c. 4,000 pieces per week)
  - Investment in Customer Insights Manager to analyse feedback and inform operational and innovation sides of the business

Build and property evolution

- Tom Trenchard promoted to Director of Property and Build
  - Start to finish responsibility – from site finding through to fit-out
  - Head of Development – focus on ensuring we take the right sites from a build / development perspective and sustainability
  - Head of Construction – new appointment (ex TRG). Responsible for site management / cost control
- Development of the build team structure to:
  - Future-proof our organisational structure as we continue to grow
  - Create the capacity to add a fifth build team and accelerate our opening programme as circumstances permit
  - More efficiently manage capex
- Third party QS support appointed to undertake thorough review of existing supply / contract arrangements and ensure that we are getting best value
- The pipeline remains very strong, reflecting the broader market conditions
- We continue to open sites very well, increasing the average level of unit EBITDA in the business

People, recruitment and retention

- Recruitment and retention within the sector remains challenging
- It's not everywhere:
  - Most pronounced in Devon and Cornwall over the summer
  - Market towns are more difficult than city centres and suburbs
- What impact is it having:
  - Negligible impact on sales
  - We continue to open new sites
  - Tough on our existing teams who have shown enormous commitment
- Our sense is the situation is gradually improving
- What are we doing:
  - Significant engagement and consultation with our teams
  - Addressing the root causes including committing to protecting the work-life balance of our teams
  - Investing in apprenticeships and increased focus on training our teams in the kitchen
  - Emphasising our strengths around progression opportunities and share ownership

Financial Review

Gregor Grant - CFO

Results summary

	H1 FY22 £000	H1 FY20 £000	Var
Revenue	102,361	79,827	+28.2%
Gross profit	46,031	33,165	
	45.0%	41.5%	350bps
Adjusted EBITDA IFRS16	27,086	14,475	+87.1%
	26.5%	18.1%	+840bps
Adjusted EBITDA IAS17	22,018	10,222	+115.4%
	21.5%	12.8%	+870bps
Operating profit	15,968	5,706	+179.8%
	15.6%	7.1%	+850bps
Profit / (loss) before tax	12,809	(2,494)	

- Comparison vs FY20 (Pre Covid)
  - Consistent with LFL presentation
  - Comparator founded in reality
  - FY21 included greater lockdown / EOTHO
- Revenue of £102.4m up 28.2%
  - Benefits from VAT reduction
  - Suffers from opening 4 weeks – external only / closed
- IFRS16 Adjusted EBITDA of £27.1m
  - EBITDA margin ahead by 840bps
  - Driven by Government initiatives
- IAS17 EBITDA Margin ahead by 870bps
  - Underlying margin (P2-P6) ahead by 40bps
- Operating profit margin ahead by 850bps
  - Underlying margin (P2-P6) ahead by 60bps

Revenue and LFL sales performance

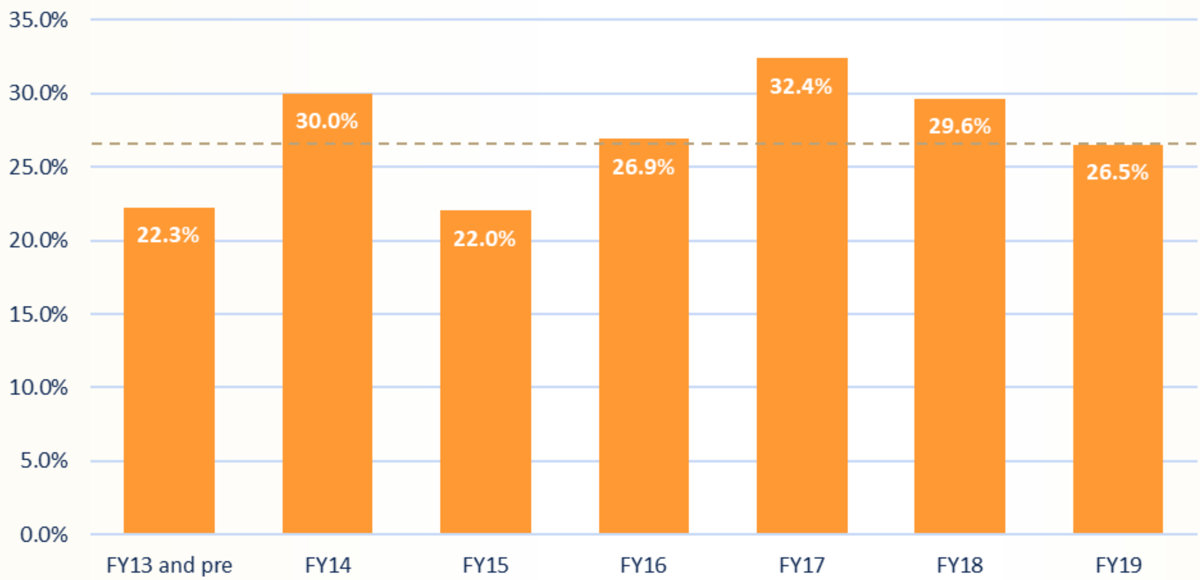
- Headline revenue growth of 28.2%
- Underlying growth across P2-P6 (17 May to 3 Oct) of 32.3%
  - Exclude P1 external only / closed
  - Remove VAT benefit from P2-P6
- Gross average weekly sales (AWS) of £30.5k, ahead by 15.2%

Revenue	H1 FY22 £k	H1 FY20 £k	Var
Headline	**102,361**	**79,827**	**28.2%**
Remove P1	(4,685)	(12,910)	
VAT Impact	(9,140)	-	
Underlying Sales P2-P6	**88,536**	**66,917**	**32.3%**
Average open sites	174	152	
Gross AWS	**30.5**	**26.4**	**15.2%**

- Headline LFL of +26.6%
- Underlying LFL of 13.6%
  - More confident consumer
  - Early day parts and shoulder periods
  - Staycation sites
  - External area investment
  - Cosy Club city centre locations

LFL Sales	FY22 28wks	FY22 20wks	FY22 9wks
Underlying LFL Sales	12.2%	13.6%	11.6%
VAT Reduction Impact	11.2%	13.0%	12.1%
Reported net LFL Sales	23.4%	26.6%	23.7%

Consistent LFL performance across age cohorts



- Headline LFL sales +26.6%
- Ranges from +22.0% to +32.4%
  - FY13 and pre includes a number of smaller sites – greater impact of reduced covers
  - FY15 includes two sites impacted by Covid closures / restricted hours
  - FY14 and FY17 both benefit from a number of staycation sites

Underlying margin expansion FY22 vs FY20

H1 FY20 Adjusted EBITDA Margin IAS 17	**12.8%**
Cost of sales (inc. site labour)	(0.6%)
Variable costs	0.3%
Site rent and service charge	0.7%
H1 FY22 Underlying Margin (P2-P6)	**13.2%**
P1 Impact	(2.5%)
VAT benefit	7.8%
Rates benefit	2.3%
Covid grants less costs	0.7%
H1 FY22 Adjusted EBITDA Margin IAS 17	**21.5%**

- IAS17 Adjusted EBITDA margin up 870bps vs FY20
- Underlying margin across P2-P6 up 40bps
  - Excludes negative impact of P1 closure / external trade
  - Excludes positive impact of government support measures
- Cost of sales (inc. site labour) negative 60bps
  - Driven by first 8 weeks post re-opening
  - Reflects labour inefficiency / “pingdemic”
  - Pre price differentiation introduction in mid July
- Variable costs positive 30bps
- Site fixed costs (ex rates) positive 70bps
  - Excludes positive impact of Covid rent waivers
  - Reflects further improvement in rent/revenue ratio
- One-off impacts add 830bps
  - Loss of P1 trade costs 250bps
  - VAT benefit adds 780bps
  - Rates holiday / 66% discount adds 230bps
  - Covid grants less direct Covid costs adds 70bps

Margin outlook

- Margin expansion in H1 against a background of inflationary pressure
- Using growing scale and ability to take modest price to manage margin
- Food and drink costs
  - Food increases to date not out of line with typical experience
  - Drink costs continue to benefit from the Q4 2019 contracts
  - Central distribution exploratory project commenced
- Labour costs
  - NLW increase of 6.6% April 2022
  - Track record of managing annual NLW increases
  - Recruitment / retention a key focus, pay is not the only measure of satisfaction
- Utilities
  - Electricity and gas hedged to September 2024 at May 2020 prices
- Property costs
  - Little upward rent pressure
  - Rent to revenue ratio dropped to 4.8% across 20 weeks of full trading in H1

Cash flow IAS 17

	H1 FY22 £000	H1 FY21 £000
Adjusted EBITDA IAS 17	22,018	8,734
Pre-opening costs	(1,267)	(346)
Corporation tax	-	1,131
Changes in working capital	9,168	6,857
Cash generated from operations	**29,919**	**16,376**
Exceptionals	-	(622)
Cash generated post exceptionals	29,919	15,754
Capital expenditure	(6,494)	(1,367)
Interest paid	(592)	(603)
Issue of shares	(135)	8,079
Borrowings repaid	(7,000)	-
Cash inflow / (outflow)	**15,698**	**21,863**
Cash b/f	4,912	4,083
Cash c/f	**20,610**	**25,946**

- Cash generated from operations of £29.9m
- Working capital inflow of £9.2m
  - Includes £2.0m reduction in CJRS debtor
  - Rebuild of working capital position
  - Deferred Covid liabilities in respect of rent and HMRC reduced from £12.9m to £5.6m over H1
- Net capex outflow of £6.5m
- RCF draw repaid
- Closing cash of £20.6m
  - Nil drawn under available RCF of £25m

Capital expenditure

	H1 FY22 £000	H1 FY20 £000
New site	9,072	10,752
Landlord contributions	(675)	(1,533)
Net new site spend	**8,397**	**9,219**
Maintenance	955	813
External areas / splash and dash	217	208
Kitchen re-set	318	687
Central	125	151
Net spend	**10,012**	**11,078**
Capex creditor movement	(3,518)	101
Cash out flow	**6,494**	**11,179**

- Net new site capex of £8.4m
  - 12 New sites in H1 includes three sites essentially complete in FY21 during lockdown
  - Includes £7.1m spend re nine new sites built and opened in H1, eight Lounge and one CC
  - Increase in average site cost reflects lower average landlord contributions, impact of four ex Pizza Express sites
  - Total landlord contributions for FY22 openings expected to be £2.5m
- Maintenance capex of £1.0m
  - Represents 1.0% of revenue (FY20 1.0%)
  - P&L maintenance spend was 1.9% of revenue (FY20 1.8%)
- Kitchen re-set spend of £0.3m
  - Covers completion of the screen install programme
  - Final equipment instal elements of the re-set programme to be completed in H1 of CY2022

Net debt and liquidity

	H1 FY22 £000	H1 FY21 £000	H1 FY20 £000
Cash	20,610	25,946	3,160
RCF	-	(7,000)	-
Term Loan	(32,500)	(32,500)	(32,500)
Net debt	**(11,890)**	**(13,554)**	**(29,340)**
Deferred Covid-19 liabilities	(5,600)	(11,600)	-
Underlying net debt	(17,490)	(25,154)	(29,340)

- Balance sheet strength maintained and enhanced
- Headline net debt of £11.9m
- Adjusting for deferred Covid-19 liabilities underlying net debt of £17.5m
  - Deferred liabilities include VAT and rent
- Significant reduction in underlying net debt relative to pre Covid
  - £11.8m reduction to H1 FY20
- Term loan £32.5m to April 2024
- Total RCF facility of £25m provides £45.6m liquidity
  - £25m RCF includes incremental £15m that runs to Oct 2022

Looking ahead with confidence

- The business continues to trade very well
- We are encouraged with the level of Christmas bookings in Cosy Club
- It is too early to understand if the latest variant will have any impact on our trading over the festive period
- More broadly we are optimistic with regard to performance in both brands as demonstrated by their consistently strong trading over the past seven months
- Our growth and operational discipline mean we are well-placed to manage and mitigate most inflationary pressure
- Our new site openings are performing very well, we have a very strong pipeline, and management believe the potential scale of both brands is very exciting

Thank you