Loungers plc

Results for the 52 weeks ended 17 April 2022

LOUNGE

COSY CLUB

JULY 2022

Highlights

- Record level of sales, profits and number of openings
- Continued out-performance of the market
- A significant year of evolution and innovation, despite Covid challenges
- 5th build team added, increasing roll-out capacity to around 32 sites per year
- Uniquely well positioned to weather short-term uncertainty whilst continuing to evolve and open new sites
- Current trading remains very strong

Financial Review

Gregor Grant - CFO

Results summary

	FY22 £m	FY20 £m	Var
Revenue	237.3	166.5	+42%
Gross profit	102.9	68.0	+51%
	43.4%	40.8%	260bps
Adjusted EBITDA IFRS16	53.6	28.8	+86%
	22.6%	17.3%	530bps
Adjusted EBITDA IAS17	42.3	18.8	+125%
	17.8%	11.3%	650bps
Adjusted operating profit IFRS16	34.0	12.0	+283%
	14.3%	7.2%	710bps
Profit / (loss) before tax IFRS16	21.6	(14.8)	

- **Comparison vs FY20**
  - More comparative than FY21
  - Limited Covid trading impact in both years
  - FY21 only traded 34% of available weeks
- **Revenue of £237.3m up 42.5%**
  - Benefits from VAT reduction (£15.1m)
  - Suffers from opening 4 weeks – external only / closed and Omicron over Christmas
  - FY20 (4 weeks closed, 2 weeks impacted)
- **IFRS16 Adjusted EBITDA of £53.6m**
  - EBITDA margin ahead by 530bps
  - Driven by Government initiatives
- **IAS17 EBITDA Margin ahead by 650bps**
  - Underlying margin (P2-P6) ahead by 40bps
- **Profit before tax of £21.6m**

LFL sales performance

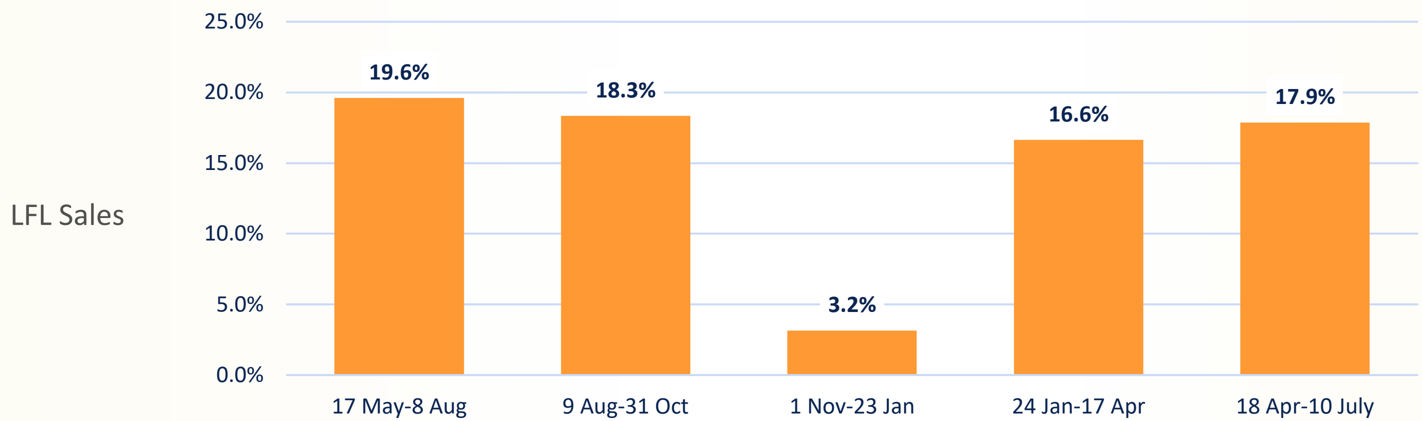
- **Headline three year LFL of +22.1%**
- **Underlying three year LFL of +14.2%**
- **Covers 48 weeks**
  - Resumption of full trade on 17 May 2021
  - Includes impact of Omicron disrupted Christmas

LFL Sales – 3 Year	FY22 48wks
Underlying LFL Sales	14.2%
VAT Reduction Impact	7.9%
Reported net LFL Sales	22.1%

- **FY23 three year LFL of +17.9%**
- **Covers 12 weeks**
  - 18 April 2022 to 10 July 2022
- **Consistent with FY22 performance**

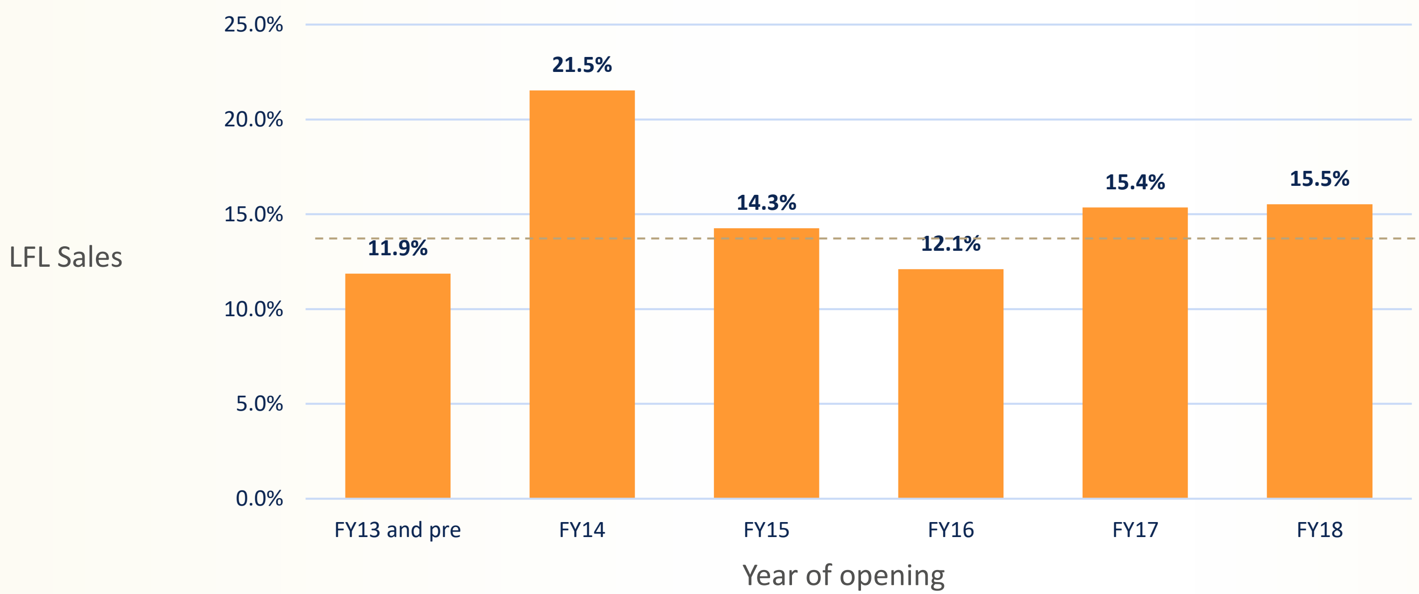
LFL Sales – 3 Year	FY23 12wks
Underlying LFL Sales	17.9%

Consistent Three Year LFL performance maintained into FY23



- **Three year underlying LFL excluding VAT – consistent with +14.2% reported for FY22**
- **Impact of Omicron evident**
  - December LFL was -9.1%
- **Outside of that quarter, results are consistent, range of +16.6% to +19.6%**
  - Strong performance post re-opening (May and June) , offset by impact of "pingdemic" (July)
  - Strong summer staycation performance August and September
  - Consistent performance post Omicron
- **One year LFL for 8 weeks to 10 July +2.3%**
  - Comping against very strong performance immediately post re-opening

Consistent Three Year LFL performance across site age cohorts



- **Consistent split of +14.2% across the various age cohorts**
- **Ranges from +11.9% (FY13 and pre) to +21.5% (FY14)**
  - FY13 and pre cohort – 29 sites / average age 11.8 years
  - FY14 smallest cohort – 10 sites / average age 8.6 years

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Underlying margin expansion FY22 vs FY20

FY20 Adjusted EBITDA Margin IAS17	**11.3%**
Remove P9 FY20	(1.3%)
FY20 Adjusted EBITDA Margin ex P9	10.0%
Cost of sales (inc. site labour)	(0.8%)
Variable costs	0.2%
Site rent and service charge	1.0%
Central costs	-
FY22 Underlying Margin ex P9	**10.4%**
Rates benefit	1.8%
VAT benefit	5.7%
FY22 Adjusted Margin ex P9	17.9%
Add back P9	(0.1%)
FY22 Adjusted EBITDA Margin IAS17	**17.8%**

- **IAS17 Adjusted EBITDA margin up 650bps vs FY20**
- **Remove impact of P9 - Omicron**
  - Incremental Christmas sales impact margin significantly
- **Cost of sales (inc. site labour) negative 80bps**
- **Variable costs positive 20bps**
- **Site fixed costs (ex rates) positive 100bps**
  - Excludes positive impact of Covid rent waivers
- **Underlying EBITDA (ex P9) positive 40bps**
- **Government support adds 750bps**
  - VAT benefit adds 570bps (lower benefit 1 Oct to 31 March)
  - Rates holiday / 66% discount adds 180bps
- **Add back P9 FY22 results**
  - Removes 10bps from FY22 margin, reflects impact of lost Christmas sales
- **IAS17 FY22 Adjusted EBITDA margin of 17.8%**

Margin outlook – inflationary pressures

	FY23 Expectation	FY23 Mitigation
Selling Price	3-6%	
CGS Food	6%-9%	Menu evolution / design / product switch
CGS Drink	4%-5%	
Labour	6-8%	Continued focus on scheduling efficiency
Utilities	0%	Hedged to September 2024

- **Consolidated distribution**
  - Project ongoing – distribution switched for non-meat and produce
  - Significant step in introducing the order / delivery disciplines necessary for consolidated distribution
- **Food and drink supply contracts**
  - Contract re-negotiation scheduled for H1 2023
- **Operational leverage**
  - In respect of both central costs and site fixed costs

Cash flow IAS 17

	FY22 £m
Adjusted EBITDA IAS 17	42.3
Pre-opening costs	(2.8)
Corporation tax	(1.4)
Changes in working capital	19.3
Cash generated from operations	**57.4**
Maintenance capex	(6.2)
Interest paid	(1.1)
Employee share awards	(0.1)
Free cash flow	**50.0**
New site capex	(16.7)
Borrowings repaid	(7.0)
Cash inflow / (outflow)	**26.3**
Cash b/f	4.9
Cash c/f	**31.3**

- **Cash generated from operations of £57.4m**
- **Working capital inflow of £19.3m**
  - Rebuild of working capital position
  - Post reduction in Deferred Covid liabilities in respect of rent and HMRC, reduced from £12.9m to £1.4m
- **Free cash flow of £50.0m**
  - Post maintenance capex of £6.2m
  - Post interest charges of £1.1m
  - Before new site capex of £16.7m
  - Before repayment of £7.0m drawn under RCF
- **Closing cash of £31.3m**

Capital expenditure

	FY22 £m	FY20 £m
New site	22.6	20.2
Landlord contributions	(2.9)	(2.8)
Net new site spend	**19.6**	**17.4**
Maintenance	2.4	2.0
External areas / splash and dash	0.7	1.2
Kitchen re-set	0.6	1.1
Furniture refurb	0.6	-
Cosy Club Project	1.5	-
Freehold – St Ives	0.4	-
Central	0.4	1.2
Net spend	**26.2**	**22.8**
Capex creditor movement	(3.3)	0.3
Cash out flow	**22.9**	**23.1**

- **Net new site capex of £19.6m**
  - 27 New sites in includes three sites essentially complete in FY21 during lockdown
  - Includes £18.2m spend re 24 new sites built and opened in the year, 23 Lounge and one CC
- **Maintenance capex of £2.4m**
  - Represents 1.1% of revenue (FY20 1.0%)
  - P&L maintenance spend was 1.9% of revenue (FY20 1.8%)
- **Furniture refurb spend £0.6m**
  - Opportunity taken to refurb furniture removed from sites for social distancing
- **Cosy Club Project**
  - Cost of new furniture
  - Old furniture refurbished and back into Lounge estate
- **Freehold St Ives**
  - To provide accommodation for Tretho Lounge staff

Non property net debt

	FY22 £m	FY21 £m
Cash	31.3	4.9
RCF	-	(7.0)
Term Loan	(32.5)	(32.5)
Net debt	**(1.2)**	**(34.6)**
Deferred Covid-19 liabilities	(1.4)	(12.9)
Underlying net debt	(2.7)	(47.5)

- **Balance sheet strength significantly enhanced**
- **Headline net debt of £1.2m**
- **Adjusting for deferred Covid-19 liabilities underlying net debt of £2.7m**
- **Term loan £32.5m to April 2024**
  - £15m incremental RCF expires Oct 2022

Strategy and Operations Review

Nick Collins – CEO

Loungers is a fundamentally larger and more profitable business versus pre-Covid…

	YE Apr-20	YE Apr-22	Var
Number of Sites	165	195	+18.1%
Underlying Sales (ex VAT benefit)	£166.5m	£222.2m	+33.5%
1yr LFL / 3yr LFL	+4.5%	+14.2%	
Outperformance vs Peach	+4.2%	+18.9%	
Underlying IAS17 EBITDA (ex VAT and rates benefit)	£18.8m	£24.0m	+27.7%
Number of Employees	4,478	5,637	+25.9%
Net Debt	(£35.4m)	(£1.3m)	£34.1m

Market-leading sales performance

	YE Apr-18 1 year	YE Apr-19 1 year	YE Apr-20 1 year	YE Apr-22 3 year	12wks to 10-Jul 3 year
Underlying LFL	+6.0%	+6.9%	+4.5%	+14.2%	+17.9%
Peach Tracker	-0.2%	+1.7%	+0.9%	-4.7%	+2.7%
Out-performance	+6.2%	+5.2%	+3.6%	+18.9%	+15.2%

Loungers has used the Covid period to transform operationally…

- **Introduction of order at table App has transformed the Lounge business**
  - App ordering now accounts for over 40% of sales
  - Higher average spend
  - Faster ticket times

- **Introduction of kitchen management systems and uniform kitchens**
  - Resulting in improved critical management information
  - Increased consistency and quicker food times

- **Management team**
  - Addition of COO & CPO to further strengthen team
  - Re-worked operational structure
  - Re-structured property and build teams
- **Adapting to evolving demand**
  - Higher cocktail sales
  - Hosting in Lounges
  - Menu evolution in both Lounge and Cosy Club

Case Study: Sentado Lounge Sittingbourne

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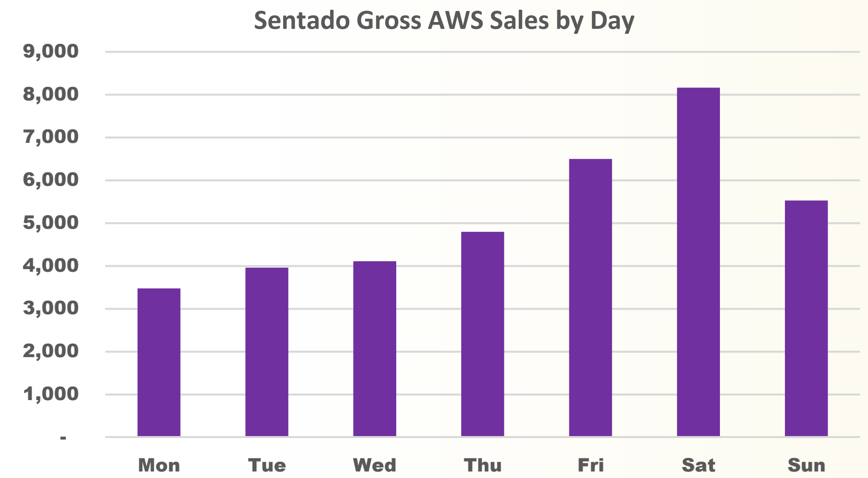
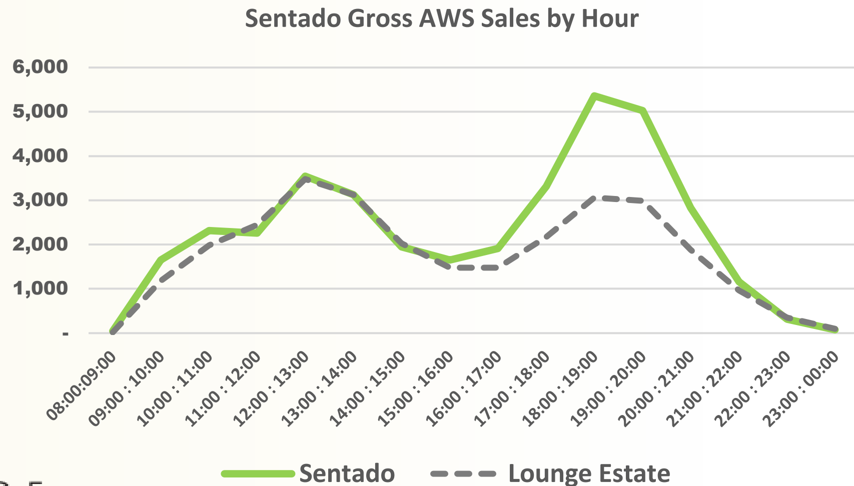
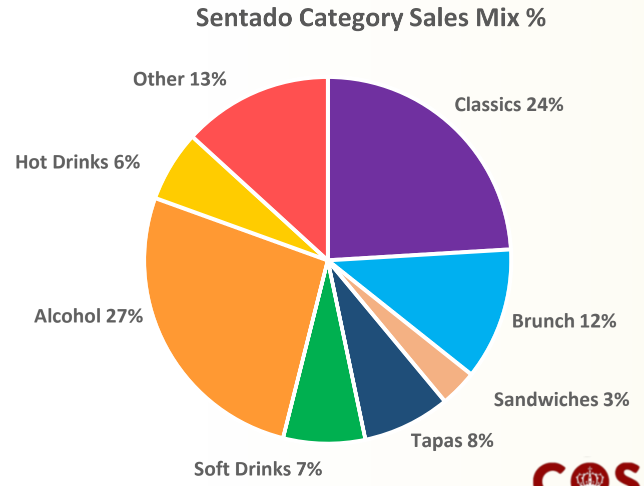
- Well positioned between train station, shopping centre and the high street
- Sittingbourne population c 60,000
- Very typical retail and leisure line-up
- Helps demonstrate potential scale of Lounges

Case Study: Sentado Lounge Sittingbourne

- Opened October 2020
- 15-year lease (tenant break at 10)
- Rent £60,000
- Landlord package 18m
- Gross AWS £36,500
- LTM EBITDA £468,000
- Net capex £679,000
- CROCCI (post pre-opening costs) 61%







Case Study: Sentado Lounge Sittingbourne

Amazing hospitality and atmosphere + Varied, freshly cooked menu + Value for money	Broad appeal + Ageless and classless + Multiple occasions	Generating revenue across both the day and evening	Low rent + Low Capex	Consistent 30%+ return on capital

FY22 Openings performing very well

- **Opened 27 sites during the financial year**
  - 26 Lounges, 1 Cosy Club
  - 3 openings ready to go from FY21 lockdown

- **Strong financial performance**
  - Average weekly gross sales £30.6k
  - Mature Lounge average £27.6k
  - Average net capex Lounge £735k
  - Average landlord package 29 months
  - Rent as % turnover 5.5%

- **Openings type**
  - 1 Cosy Club
  - 11 Market town Lounges
  - 8 Large town Lounges
  - 5 Coastal Lounges
  - 1 Retail park Lounge
  - 1 Greater London Lounge

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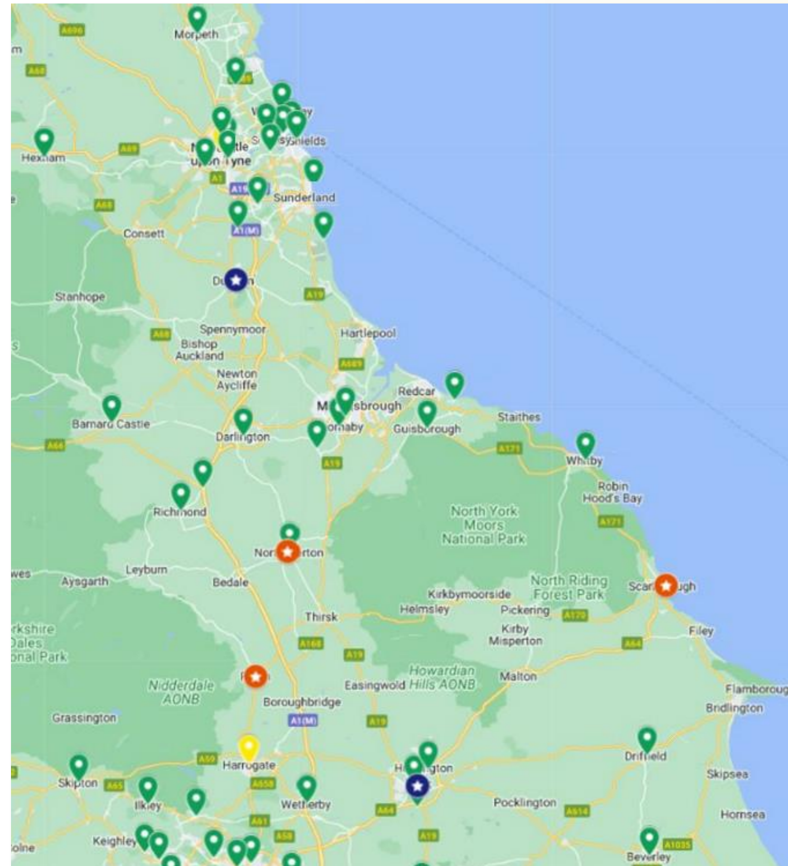
Size of the prize?

Greater London:

North East:



Existing Lounge | Potential Lounge | Existing CC | Potential CC

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The Roll-out in FY23

- **We are adding a fifth build team**
  - Anticipate 30 new site openings in FY23
  - Overall capacity will increase to between 32 to 34 per annum
- **Site availability remains excellent**
  - Pipeline well-advanced
  - Quality of opportunities remains first rate
  - FY23 will see us open at least four Cosy Clubs
- **Construction costs and inflation**
  - Not seeing material inflationary impact
  - Ability to mitigate through owning the build process and bulk purchasing
- **Property Team restructured**
  - Property Director now responsible for acquisitions and build
  - Investment in acquisitions and construction resource

People – continuing to invest and improve

- **People fundamental to our continued success**
- **Recruitment remains a real area of focus**
- **Reworked our operational structure**
- **Launch of the Commitments across the business**
  - Sector and Loungers need to react to changing dynamic of workforce and need to focus on work life balance and flexibility
- **Opportunity for incoming CPO to make our employer brand more visible and clearly defined**

THE COMMITMENTS

OUR GOAL IS THAT EVERY CUSTOMER LEAVES HAPPY.

That is dependent on many things, most importantly that you are happy doing your job. That means being part of a team, supporting each other and enjoying hard work. We know we expect a lot from you, and The Commitments set out what you can expect from us. We won't get it right every day in every Lounge, but this is what we're aiming to achieve together.

1 We will prioritise your work life balance
- 40 hour salaried contract option
- 48 hours max
- Two days off
- Weekend off every six weeks
- Respect for your time off
- Making sure you take your holiday

2 We will build fair rotas
- Right pars, every shift
- Rotas posted Monday for the following week
- Honesty about the hours you can expect
- Changes kept to a minimum and hours spread fairly
- Minimise close/opens and shifts of 12 hours plus
- One paid break for all shifts over 6 hours
- Two paid breaks for all shifts over 9 hours
- Staff food on every shift

3 We will pay you fairly
- Fair pay for all, based on your role and performance
- Reference to local competitor rates
- Every hour paid, with overtime for salaried team
- Tips shared equally across team based on hours worked

4 We will focus on your development and progression
- Regular informal feedback
- One-to-One with your manager every six months
- Progression based on your ability to do a great job – nothing else
- If you want to progress you will be given clear understanding of...
  - what opportunities are available
  - how you would be rewarded
  - how you get there (ie what skills/behaviours we are looking for)
  - how you access relevant training

5 We will ensure you are made to feel welcome at Loungers
- Be yourself!
- Whatever your background or identity we value who you are
- Zero tolerance of bullying or harassment

AND FINALLY...

If you don't think we are making every effort to achieve the goals we set out in The Commitments then we want you to let us know, whether that's through your GM, your ops or by emailing The Voice.

Loungefest!

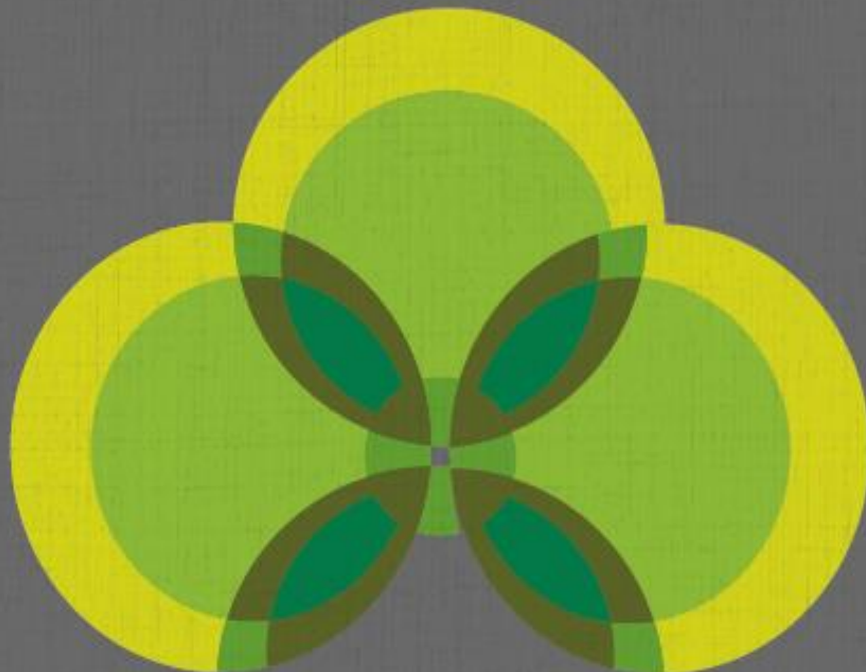
- Investment of £0.5m (including closure cost of entire business for one day)
- Unique driver of culture within the business

ESG strategy

Our ESG strategy is driven by our teams and is based around the following four pillars:

1. Looking after our teams well and being an inclusive employer
2. Bringing joy to local places across the country
3. Delivering our hospitality sustainably
4. Being proud of what we put on the plate

Closing Remarks…..



We are well placed if there is an economic downturn

- **Lessons learnt from the last recession (2008/10)**
  - Value for money is critical
  - Lounge benefits from people both trading down and staying local
  - People will seek quality, consistency and familiarity

- **We can react quickly from a menu development perspective**

- **We are entering a challenging period in a position of strength**
  - Strong balance sheet
  - Excellent management team
  - Momentum

Looking ahead with confidence

- The business is really well positioned
- A recession could present us with a real opportunity
- We have one of the strongest Management Teams in the sector

Thank you