

# Loungers plc

Results for the 52 weeks ended 21 April 2019



  
LOUNGE

 **COSY CLUB**

28<sup>TH</sup> AUGUST 2019



## Loungers is a winner in an evolving hospitality sector



- ◆ Only growing all-day operator of scale in the UK
- ◆ Consistently out-performing the wider UK hospitality sector, delivering strong returns across the estate
- ◆ Broad, nationwide demographic appeal: “Serving Everyone for Every Occasion, Everywhere”
- ◆ Two distinct but complementary brands to maximise geographic and demographic reach
- ◆ Focus on hospitality, community, atmosphere and value-for-money
- ◆ Potential for at least 400 Lounges and 100 Cosy Clubs in the UK
- ◆ 25 New sites opened in FY19 and ongoing roll-out of c25 sites per year
- ◆ Consistently strong returns and site economics across age cohorts and locations
- ◆ Experienced and highly regarded management team



**146 Sites** <sup>(1)</sup>



**£153m**  
**FY19 Sales**

**£20.6m**  
**FY19 Adjusted EBITDA** <sup>(2)</sup>

## FY19 Highlights



- ◆ Sales up 26.4% to £153.0m (2018: £121.1m)
- ◆ Like for like sales growth of 6.9% (2018: 6.0%)
- ◆ Adjusted EBITDA up 23.7% to £20.6m (2018: £16.6m)
- ◆ Adjusted EBITDA margin broadly maintained at 13.5% (2018: 13.7%)
- ◆ Cash generated from operations up 13.5% to £22.4m (2018: £19.8m)
- ◆ 25 new sites opened (2018: 22 sites)
- ◆ FY20 financial year has started well and trading is in line with our expectations
- ◆ On target to open 25 new sites in FY20

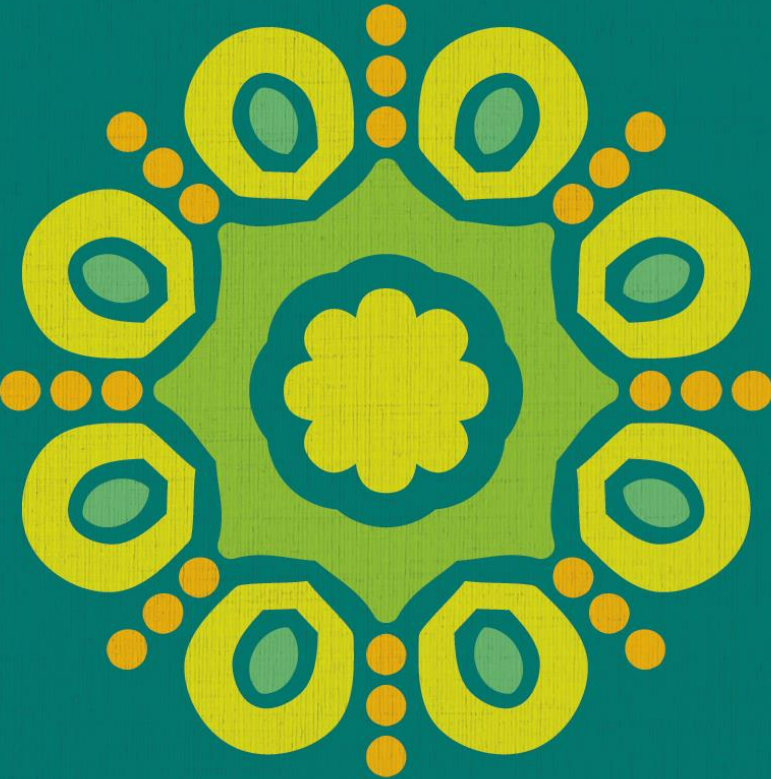


**COSY CLUB**



# Financial Review

Gregor Grant - CFO



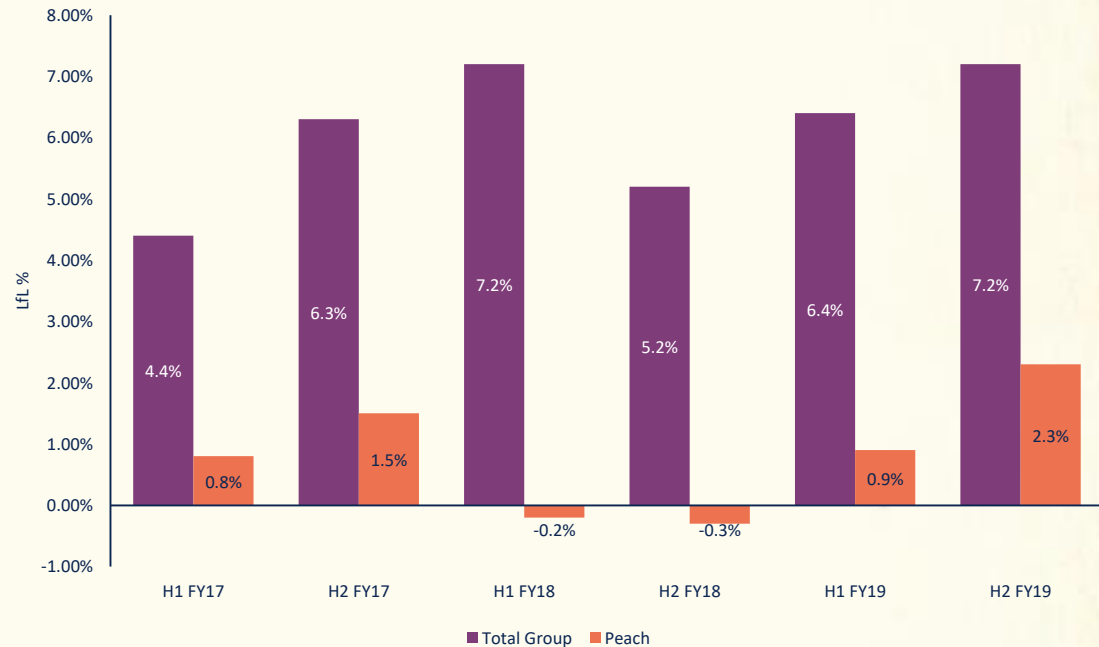


## L4L Sales

- ◆ Consistent out-performance maintained
- ◆ Food and pre-4pm sales are key drivers
- ◆ Volume not price driven
- ◆ L4L sales growth spread broadly across the age cohorts
- ◆ Not driven by new sites / investment



## Group LFL %



# Gross Margin and Adjusted EBITDA Margin

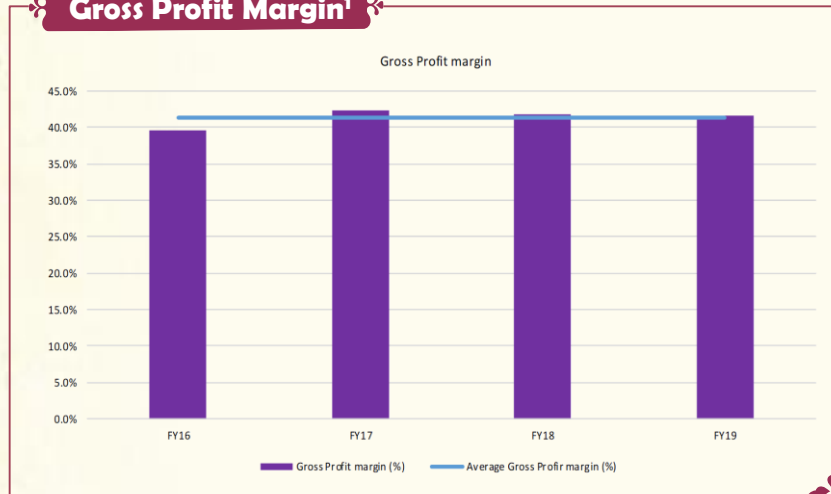
## Gross Margin

- ◆ 41.5% vs 41.8% in FY18
  - Cost of goods sold maintained at 25.5% of revenue
  - Labour 0.3% higher at 32.9% of revenue

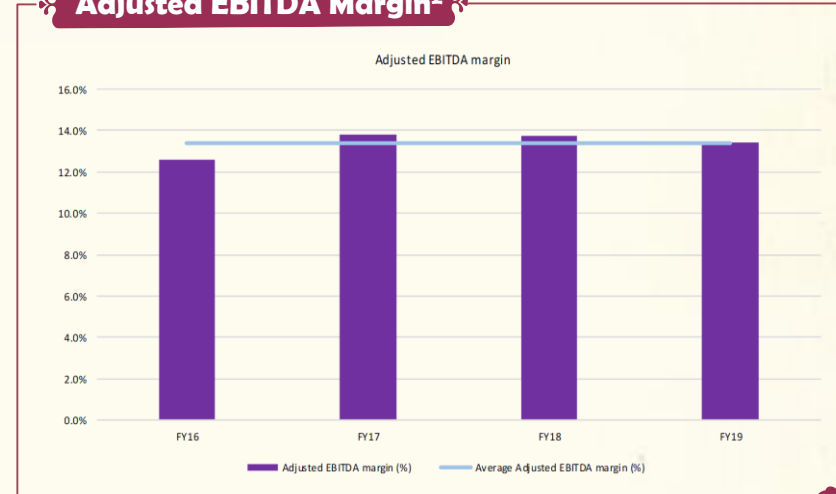
## Adjusted EBITDA Margin

- ◆ 13.5% vs 13.7% in FY18
  - Gross margin cost 0.3%
  - Pension / business rates cost 0.3%
  - Offset by central costs leverage

### Gross Profit Margin<sup>1</sup>



### Adjusted EBITDA Margin<sup>2</sup>



## Cost Outlook

- ◆ Continue to seek to balance value for money sales proposition and menu evolution with in-bound cost efficiency
  - Expect gross margin benefit in H2 FY20 from food and drink tender process currently underway
  - Labour cost inflation currently running at 3.5% - 4.0%, offsetting with efficiencies
  - Site cost inflation predominantly driven by utilities and pension costs

(1) Site gross margin is sales less cost of goods sold less site labour, (2) Adjusted EBITDA is operating profit before depreciation, pre-opening costs, exceptional costs and share-based payment charges

## Cash Flow



Cash Flow	FY19	FY18
	£'000s	£'000s
<b>EBITDA</b>	<b>17,954</b>	<b>13,563</b>
Movement in working capital	4,483	6,213
<b>Cash generated from operations</b>	<b>22,437</b>	<b>19,776</b>
EBITDA conversion	125%	146%
Capital expenditure	(22,585)	(18,595)
Taxation	(1,018)	(571)
Interest paid	(4,066)	(4,786)
Funding	4,063	4,678
<b>Cash outflow</b>	<b>(1,169)</b>	<b>498</b>



- ◆ EBITDA conversion to cash of 125%
- ◆ Cash generated from operations covers 99% of capital expenditure
- ◆ Working capital movement impacted by timing of April 2019 payroll tax payment
- ◆ Capex cash outflow of £22.6m is £0.6m less than gross capex additions due to timing of payments
- ◆ Interest paid reflects bank interest paid under pre-IPO banking facility
- ◆ Funding inflow reflects drawdown under the pre-IPO banking facility



## Capital Expenditure

Capital expenditure	FY19	FY18
	£'000s	£'000s
New site	19,900	15,900
Splash and dash	900	800
Re-set investment	500	200
Maintenance	1,700	1,500
Central capex	200	200
<b>Gross spend</b>	<b>23,200</b>	<b>18,600</b>



- ◆ New site capex is gross of landlord contributions
- ◆ Splash and dash investment relates to investment at eight sites (2018: eight sites)
- ◆ Estate is well-maintained with no need for wholesale rebranding or refurbishment
- ◆ Maintenance capex 1.1% of revenue (2018: 1.2%)





## Pro-forma Balance Sheet



Balance Sheet	Topco FY19 £'000s	Loungers plc FY19 £'000s
Goodwill	113,227	113,227
Tangible fixed assets	74,073	74,073
Current assets	7,789	7,792
Cash	6,500	5,833
Current liabilities	(33,105)	(33,105)
Borrowings	(172,112)	(31,912)
Other long-term liabilities	(11,778)	(11,778)
<b>Net (liabilities) / assets</b>	<b>(15,406)</b>	<b>124,130</b>



- ◆ PE style capital structure pre IPO
- ◆ Post IPO pro-forma net debt of £26.7m
- ◆ Net debt reconciliation in Appendix
- ◆ £32.5m term loan
- ◆ 5 year term, non-amortising
- ◆ 2% margin and 0.7% LIBOR fix
- ◆ £10m RCF
- ◆ Long-term liabilities comprise:
  - Rent free creditor (£5.2m)
  - Landlord contribution creditor (£4.1m)
  - Deferred tax (£2.3m)
  - Provisions (£0.1m)



## Indicative IFRS16 Impact



Balance Sheet	FY19	FY18
	£'000s	£'000s
Right of use asset	79,640	65,574
Lease liability	(89,138)	(73,164)
Fixed assets	(4,452)	(3,324)
Finance lease receivable	906	974
Deferred tax asset	754	464
Accruals and deferred income	10,085	8,321
Prepayments	(1,481)	(1,110)
P&L Impact	FY19	FY18
	£'000s	£'000s
Reversal of rent charge	8,365	6,606
Depreciation of right of use asset	(5,459)	(4,369)
Operating Profit Impact	2,906	2,237
Interest expense	(4,617)	(3,760)
Profit before Tax Impact	(1,711)	(1,523)



- ◆ Fully retrospective method to be adopted in FY20
- ◆ Discount rate of 5.9% applied to all leases
- ◆ Fixed asset adjustment relates to landlord contributions credit
- ◆ Accruals and deferred income adjustment relates to write back of rent free and landlord contribution creditors
- ◆ Negative impact on PBT a function of relative youth of the leases, roll-out will continue to drive high interest expense
- ◆ Average lease length 16.1 years with 12.3 years remaining at FY19 year end
- ◆ Pro-forma post IFRS 16 net debt at FY19 year end of £115.8m



## Brexit Preparations

### ◆ Focus upon

- Food and drink supplies
- Capital equipment required in the roll-out
- Labour less of an issue, 14% of employees are from the EU27



### ◆ Food supplies

- High risk lines identified, categorized on basis of volume consumed and country of origin
- Negotiations with suppliers on-going
- Produce is the most challenging area given short shelf-life and end of UK growing season



### ◆ Drink supplies

- Addressing in current tender negotiations with brand owners and route to market options
- Suppliers focused on ensuring that Christmas demand is met



### ◆ Capital equipment

- Italian manufactured kitchen equipment – bulk purchasing
- Furniture, artwork, mirrors, lighting – Loungers holds significant stock and alternative sources being examined

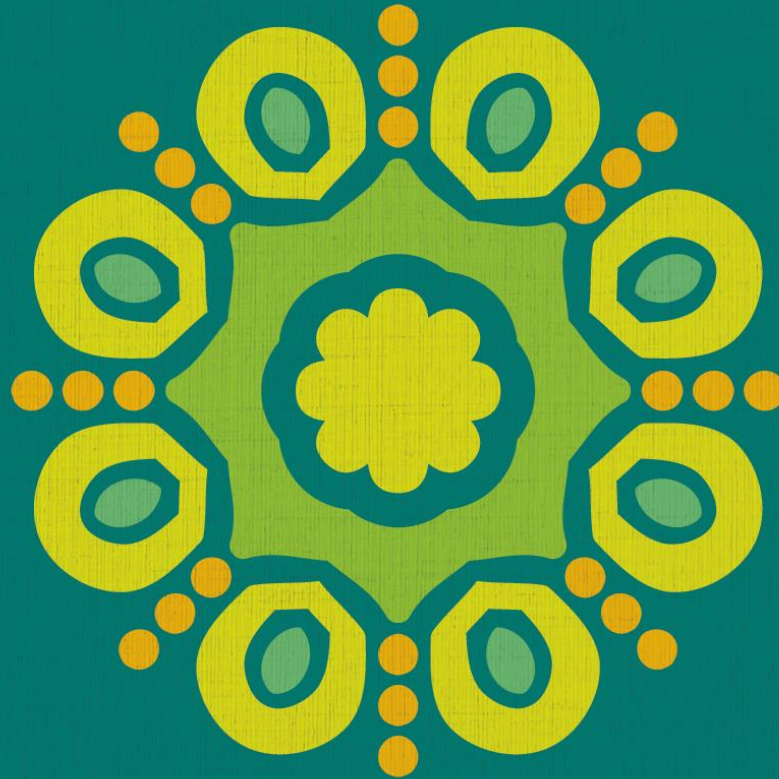




# Strategy and Operations Review

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Nick Collins - CEO



## Operations Highlights



- ◆ Drivers of sales growth unchanged since IPO
- ◆ Evolution and innovation continue to be at the forefront of our strategy
- ◆ New sites are performing in line with expectations and the pipeline remains strong
- ◆ On track to open 25 sites in FY20
- ◆ Our focus on the people and cultural side of the business has never been better
- ◆ We continue to improve and evolve the management structure and our systems





## Food



Constant investment and innovation in our menus

Vegetarian / vegan / gluten free importance and the need to stay ahead

Allergen processes re-worked and re-trained



## Drinks



Autumn 2019 will see our draught line-up refreshed

The opportunity to grow evening sales



## Kitchens



Substantial shift in our kitchen operations

'Reset' Project status – 47 sites completed, pleased with results

Remaining sites to be completed in FY20 and FY21



## Look & Feel



External areas – opportunity to improve

Introduction of new bar furniture

This year will see a further 8 sites receive splash and dash investment





# Roll-Out & Pipeline

## ◆ 25 new site openings in FY19

- 22 Lounges and 3 Cosy Clubs
- Performing in line with expectations

## ◆ On track to open 25 sites in FY20

- 19 Lounges and 6 Cosy Clubs
- Expect 10 openings in H1 (8 to date) and 15 openings in H2

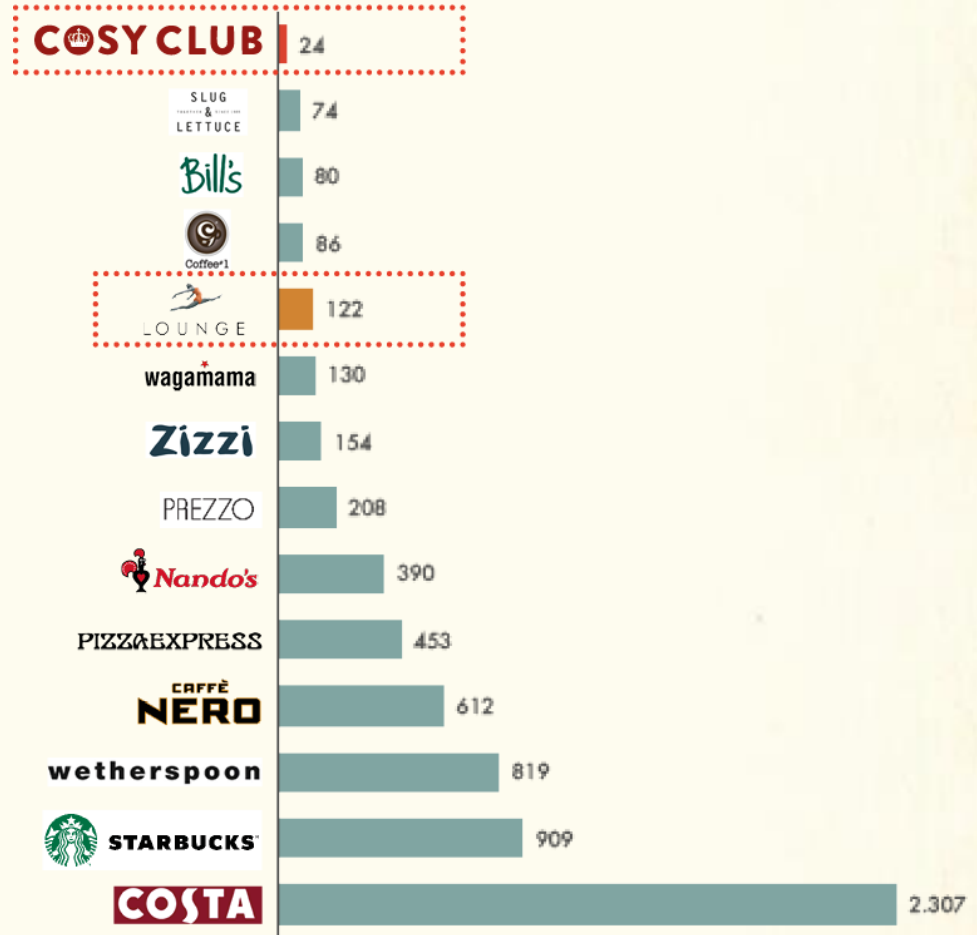
## ◆ Pipeline

- Consistent with update at time of IPO

## ◆ Potential scale

- 400 Lounges
- 100 Cosy Clubs

Estate sizes of major UK hospitality operators



# Lounge FY20 Openings



**FY19: 22 Openings**

**FY20: 6 Openings to date,  
13 to come**



- ◆ Strategy of infill and gradual expansion into new territories continues
- ◆ Continued success in Wales underlines opportunity
- ◆ Watford and Sutton will boost our Greater London presence



 Forthcoming Lounges

# Cosy Club FY20 Openings



**FY19: 3 Openings**

**FY20: 2 Openings to date, 4 to come**



- ◆ Momentum in new opening sales has been maintained
- ◆ Cardiff Bay marks the first time two Cosy Clubs have opened in one city
- ◆ The right schemes offer attractive economics



● Forthcoming Cosy Clubs





We continue to listen to our teams and strive to build on the unique, independent culture within the business



- ◆ Share incentive schemes introduced on IPO
  - All employee share scheme launched May 2019, 600 site-based employees participating
  - Management share plan launched July 2019 – 3 year vesting, 71 employees participating
- ◆ HQ Induction programme introduced for salaried employees
- ◆ Staff discount increased for all
- ◆ Loungefest continues to receive fantastic feedback
- ◆ Continued evolution of First Five & Management training
- ◆ Kitchen Reset programme incorporates evolution of our kitchen training





# Community



## ◆ Community team enhanced

- Providing workshops and one to one training
- Emphasis on forging relationships at the local community level
- Social media sharing of community interaction a focus



## ◆ £0.3m in Random Acts of Kindness delivered in FY19



## ◆ Loungeaid goes from strength to strength, the sites deciding upon their local charities



## ◆ Feedback monitoring introduced

- Allows us to track social media reviews and direct feedback and our own responses





## Management & Structure

### ◆ PLC board introduction

- Benefitting from challenge and experience of NEDs
- Senior management team even more engaged and bought-in since IPO



### ◆ Brand specific structure continues to evolve

- Recruitment of training and development managers ongoing
- Food development resource in place
- Lounge regional operating structure future-proof



### ◆ Appointments

- Recruitment of Commercial Manager/  
Quantity Surveyor to improve capex control
- Employee Relations Manager appointed





## Outlook



## LOUNGERS



Both brands continue to outperform the sector and we have seen no shift in how our customers are using the Lounges and Cosy Clubs



Vegan, gluten-free, allergen-free dining alongside trends of premiumisation and regionality are all key elements of our offer.



Loungers broad, value for money appeal across multiple occasions means we are well placed



Whilst we have no direct competitors we continue to strive to improve how we look after our customers and our teams in all respects



Current trading is in line with expectations and management are confident with regard to the outlook and ongoing roll-out



# Appendix

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# Net Debt Reconciliation

## 21 April 2019



	Topco	Share for share pre IPO	Primary raise net of costs	New term loan	Repay old bank facility	Repay loan stock	Loungers plc
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Cash	6,500	-	56,353	31,912	(71,000)	(17,932)	5,833
Bank loans	(71,000)	-	-	(32,500)	71,000		(32,500)
Arrangement fees	1,447	-	-	588	(1,447)		588
Loan stock	(17,932)	-	-			17,932	-
Preference shares	(84,627)	84,627	-				-
<b>Borrowings</b>	<b>(172,112)</b>	<b>84,627</b>	<b>-</b>	<b>(31,912)</b>	<b>69,553</b>	<b>17,932</b>	<b>(31,912)</b>
<b>Net debt</b>	<b>(165,612)</b>	<b>84,627</b>	<b>-</b>	<b>(31,912)</b>	<b>69,553</b>	<b>17,932</b>	<b>(26,079)</b>

### Commentary

- ◆ Preference share capital and accrued dividends exchanged for plc ordinary shares pre IPO
- ◆ Primary raise and new term loan utilised to repay Topco loan notes and bank debt
- ◆ Net debt (gross of arrangement fee asset) £26.7m



# What is a Lounge \*



# LOUNGE



- ◆ Neighbourhood café / bar combining eating out, the British pub and coffee shop culture
- ◆ 72% of Lounge customers see it as a unique proposition, rather than categorise it as a restaurant, pub or coffee shop
- ◆ Principally located in secondary suburban high streets and small town centres
- ◆ All-day offer at every site: same menu served from 9am to 10pm
- ◆ Informal, quirky interiors: a “home from home”
- ◆ Hospitality and familiarity at the core, driven by an “independent” culture and focus on the local community
- ◆ 128 Lounges nationwide





## What is a Cosy Club



**COSY CLUB**



- ◆ More formal bar / restaurants offering reservations and table service
  - Similar all-day offer and focus on hospitality and culture
- ◆ Typically located in city centres and large market towns
  - Maximises geographic and demographic reach
- ◆ Tend to be larger and more theatrical, frequently in heritage buildings, to create a sense of occasion and discovery
- ◆ Sales and EBITDA typically higher than for a Lounge
- ◆ Offers an opportunity for greater coverage within individual cities (e.g. Birmingham with nine Lounges and one Cosy Club)
- ◆ 26 Cosy Clubs nationwide





*Thank you*

