# Loungers plc

## Results for the 52 weeks ended 18 April 2021

LOUNGE

COSY CLUB

JULY 2021

# Strategy and Operations Review

**Nick Collins – CEO**

# Highlights

- Strong sales performance – we have consistently seen throughout the pandemic, when we are allowed to open, sales are excellent, regardless of restrictions
  - FY21 like for like sales of +13.3%
  - YTD FY22 like for like sales of +23.7%
- Covid interrupted the roll-out, but now back on track:
  - 3 new site openings in FY21
  - 7 new site openings YTD in FY22
  - Expect to open 23 new sites in FY22
- Strong financial position
- Once again we used lockdown well to
  - Evolve
  - Build the pipeline
- Current trading environment is challenging due to Covid and the impact it is having on staffing the sites

| | FY21 £000 | FY20 £000 | Var % |
|---|---|---|---|
| Sales | 78,346 | 166,502 | (52.9%) |
| LFL Sales (%) (when open) | +13.3% | +4.4% | |
| Adjusted EBITDA IFRS 16 | 13,913 | 28,767 | (51.6%) |
| Net debt (non-property) | 34,245 | 34,956 | 2.0% |
| No. of sites | 168 | 165 | 1.8% |

# Current trading environment

- Demand has been consistently strong across the estate since re-opening, particularly pronounced in 'staycation' locations
- Interruptions to trade due to Covid are increasing
    - Lost 30 days of closure across 11 sites last week, compares to 43 days across 13 sites in the previous 4 weeks
    - Positive Covid cases and associated close contacts depleting our teams as are NHS Test and Trace App pings
- Supply chain has performed very well, limited interruptions
- 19th July 'Freedom Day' saw the following changes:
    - Gradual easing – most of the Covid related precautions we have introduced will remain in place for the time being
    - Return to bar service in the Lounges – customers can now order via app or at the bar (no more table service)
    - No bar service yet in the Cosy Clubs
    - Masks are voluntary, but strongly recommended for our team
- Short-term outlook points towards more interruption


LOUNGE

COSY CLUB

# People

- Recruitment & retention as difficult as it has ever been
    - Knock-on impact of Brexit on market for chefs
    - Competition from Amazon etc. – hours, rate of pay, weekends
    - Slight shift in attitude towards hospitality post-lockdown
- Impact varying across UK – more difficult in coastal/ staycation locations
- Challenging how can we be better:
    - Highlighting unique progression opportunities and growth
    - Individual, non-corporate ethos of the business and culture
    - Employee share ownership schemes
- Reviewing pay & reward structures


# Continued evolution during Lockdown 3

- Continued development & improvement of the web-based order at table app
- Real focus on menu development and kitchens
  - Substantial development on the Cosy Club menu currently being trialled
  - New Lounge salad and pudding sections recently launched
  - Projects around stock labelling, ingredient rationalisation and initial work on calorie counting
- Trial of interactive online learning and development courses
- Major project on external areas
  - Over lockdown we invested £0.5m across 81 sites
  - Individual designs for each site in terms of planters, barriers, furniture & lighting
  - Aim to capitalise on the loosening of restrictions around external trading due to Covid
  - Investment for the long-term

# Examples of recent openings

Rushden Lakes
Sales £45.6k
Rent 6.1%

Sittingbourne
Sales £34.0k
Rent 4.1%


Welwyn Garden
Sales £30.4k
Rent 6.5%


Blackpool
Sales £40.7k
Rent 4.3%


LOUNGE

COSY CLUB

# Roll-out and pipeline

- Since the start of the financial year we have gradually returned to four build teams fitting out sites:
  - We have opened 7 sites so far this financial year
  - We anticipate opening 23 sites this year
  - We have returned to our pre-Covid run-rate of 25 sites per year
- Reviewing build & property structures and processes to maximise future opportunities in terms of:
  - Achieving capex efficiencies
  - Internal development and progression on the build side as we grow
  - Providing capacity to accelerate roll-out in excess of 25 sites per annum should we choose to do so
- Pipeline is in exceptionally good shape
  - We continue to see excellent opportunities
  - FY22 pipeline largely complete, now placing sites in both H1 and H2 of FY23

# Examples of pipeline sites

Cosy Club, Chester

Lounge, Pontypridd

Lounge, Colchester

Lounge, Ealing

# Financial Review

## Gregor Grant - CFO

# Results summary

| | FY21 £000 | FY20 £000 | Var |
|---|---|---|---|
| Trading weeks | 34% | 90% | |
| Revenue | 78,346 | 166,502 | (52.9%) |
| Gross profit | 32,168 | 67,979 | |
| | 41.1% | 40.8% | 30bps |
| Adjusted EBITDA IFRS 16 | 13,913 | 28,767 | |
| | 17.8% | 17.3% | 50bps |
| Adjusted EBITDA IAS 17 | 3,530 | 18,813 | |
| | 4.5% | 11.3% | (680bps) |
| Loss before tax | (14,722) | (14,781) | |

- Revenue of £78.3m down 52.9%
  - Trading weeks down to 34% vs 90%
- IFRS 16 Adjusted EBITDA of £13.9m
  - EBITDA margin ahead by 50bps
  - Impact of Government initiatives
- IAS 17 Adjusted EBITDA of £3.5m
  - Positive EBITDA an achievement given a 100% leasehold estate
  - Impact of fixed rent costs reflected in margin erosion
- Loss before tax
  - In line with FY20
  - FY21 reflects more severe Covid-19 lockdowns
  - FY20 impacted by impairment / IPO costs

# FY21 – Year of two halves

| | FY21 H1 £000 | FY21 H2 £000 | FY21 £000 |
|---|---|---|---|
| Trading weeks | 48% | 22% | 34% |
| Revenue | 53,493 | 24,853 | 78,346 |
| Gross profit | 24,716 | 8,003 | 32,719 |
| | 46.2% | 32.2% | |
| Admin expenses | (12,111) | (10,749) | (22,860) |
| Other income | 600 | 3,454 | 4,054 |
| **Adjusted EBITDA IFRS16** | **13,205** | **708** | **13,913** |

- Impact of lockdown more marked in H2
  - Able to trade in only 22% of weeks
  - Tighter restrictions / no EOTHO equivalent
- Weaker gross margin reflects
  - Lower labour efficiency driven by lower sales levels
  - Inclusion of £3.6m of non exceptional Covid-19 related labour costs in site labour – furlough contributions, company funded furlough, opening / closing costs
- Admin expenses
  - Average weekly spend falls to £384k from £505k in H1, significantly less efficient in H2 with lower sales whilst open and open/close pattern
- Other income
  - Recognition of LRSG income in H2 offsets the incremental Covid-19 labour costs

# Trading post re-opening

- Net LFL sales growth between 17 May and 18 July of 23.7%
  - Includes all LFL sites from resumption of internal trading
  - Excludes closure periods resulting from Covid positive cases / self-isolation
  - Reflects positive impact of VAT reduction
- Underlying LFL sales for the nine weeks of +11.6%
  - Compares to -1.1% post Lockdown 1
- Reflects more confident consumer
  - No repeat of the 2-3 week trade build up post Lockdown 1
- Significant contributors to growth:
  - Early day parts and shoulder periods
  - Staycation sites
  - External area investment
  - Cosy Club city centre locations

| LFL Sales | Lockdown 3 (9 weeks) | Lockdown 1 (13 weeks) |
|---|---|---|
| Underlying LFL Sales | 11.6% | (1.1%) |
| EOTHO Impact | - | 13.6% |
| VAT Reduction Impact | 12.1% | 12.6% |
| Reported net LFL Sales | 23.7% | 25.1% |

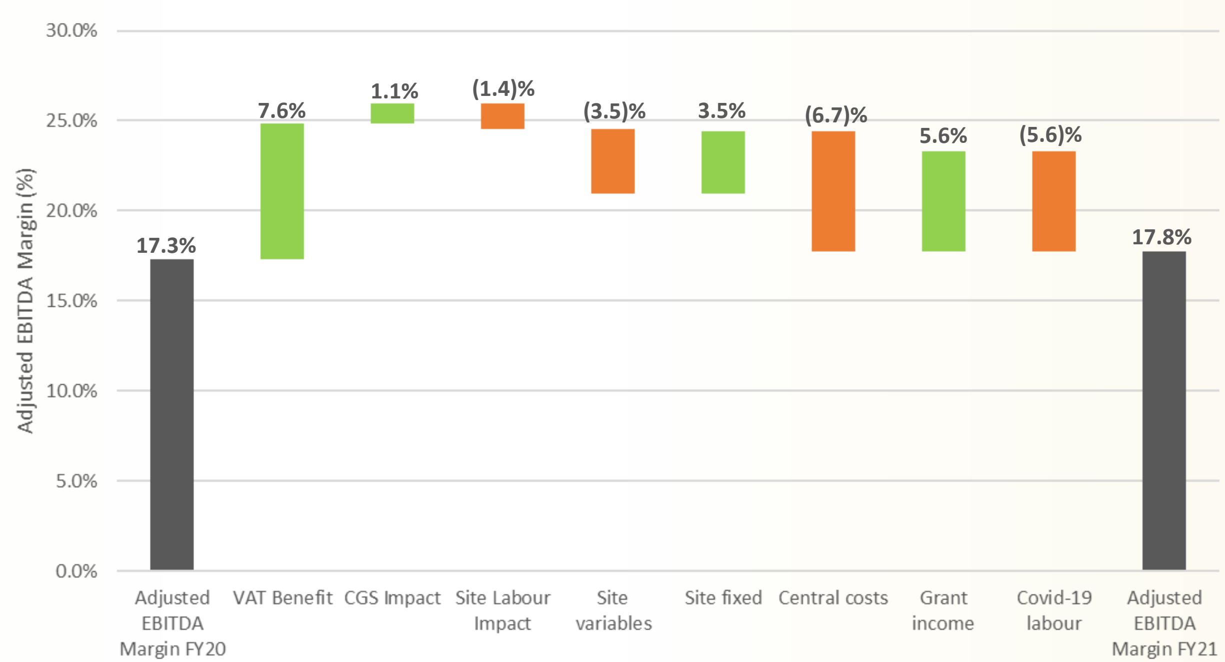
LFL Comparative periods

- Lockdown 1 comparative period was 6 July 2019 to 6 October 2019
- Lockdown 3 comparative period was 20 May 2019 to 21 July 2019

# IFRS16 Adjusted EBITDA Margin

- Year on year Adjusted EBITDA margin ahead 50bps
  - Retained VAT benefit contributes 760bps
  - CGS improvement of 110bps
  - Negative site labour impact restricted to 140bps, benefits from exceptional EOTHO efficiency
  - Site variables significantly reduced but continue to incur elements during lockdown – utilities / maintenance
  - Site fixed cost 350bps benefit driven by business rates holiday
  - Central costs adverse 670bps – reflects elements of fixed costs and higher level of retained headcount in Lockdowns 2 and 3
  - Grant income 560bps benefit offsets £4.0m of Covid related labour costs

IFRS16 Adjusted EBITDA Margin % FY20 to FY21



# Margin Outlook

- Ongoing benefit from Government initiatives:
  - VAT reduction on food and non-alcoholic drinks to 5% until 30 September and then to 12.5% from 1 October to 31 March
  - Business rates holiday continued to 30 June, followed by 66% reduction to 31 March 2022, with the latter capped at £2m
- Cost of goods sold
  - 110bps improvement in FY21, current pricing environment relatively quiet
  - Risk driven by staffing / skillset shortages for producers and higher distribution costs
  - Supply contracts typically run through to Q4 2021 / Q1 2022, volumes significantly disrupted by Covid
- Labour
  - April 2021 lower NLW increase but higher age band reduced from 25 to 23
  - Site salaried team members' salary increases put through in June 2021 – focus on fairness
- Utilities
  - Current contracts end September 2021
  - In July 2020 purchased forward for the three years to September 2024, saving £1.0m in commodity prices vs today's price
- Cost pressure mitigation
  - Price banding being introduced – covers both food and drink
  - Cautious approach – preserve value for money
  - Protects against labour cost pressures and provides scope to re-invest in further menu development and enhancement

# Cash flow IAS 17

| | FY21 £000 | FY20 £000 |
|---|---|---|
| Adjusted EBITDA IAS 17 | 3,530 | 18,813 |
| | | |
| Pre-opening costs | (927) | (2,646) |
| Corporation tax | 1,131 | (1,290) |
| Changes in working capital | (589) | 1,544 |
| | | |
| **Cash generated from operations** | **3,145** | **16,421** |
| Exceptional cash costs | (1,327) | (2,606) |
| Cash generated post exceptionals | 1,818 | 13,815 |
| | | |
| Capital expenditure | (7,808) | (23,058) |
| Disposal of fixed assets | - | 10 |
| Interest paid | (1,260) | (1,099) |
| Issue of shares | 8,079 | 57,941 |
| Borrowings repaid | - | (50,026) |
| | | |
| **Cash inflow / (outflow)** | **829** | **(2,417)** |
| Cash b/f | 4,083 | 6,500 |
| **Cash c/f** | **4,912** | **4,083** |

- Cash generated from operations of £3.1m
- Working capital outflow restricted to £0.6m, reduction in amounts due to trade suppliers offset by:
  - £2.3m reduction in CJRS debtor
  - £4.1m increase in rent liabilities
- Covid related exceptionals of £1.3m
- Capex reduced to £7.8m, includes:
  - £5.1m of capex additions
    - New site capex £2.8m
  - £2.7m reduction in capex creditors
- Equity placing raised £8.1m
- Closing cash of £4.9m
  - Gross of £7.0m drawn under the RCF

# Net debt and liquidity

| | FY20 £000 | H1 FY21 £000 | FY21 £'000 | 11 Jul 21 £'000 |
|---|---|---|---|---|
| Cash | 4,083 | 25,946 | 4,912 | 14,291 |
| RCF | (7,000) | (7,000) | (7,000) | - |
| Term Loan | (32,500) | (32,500) | (32,500) | (32,500) |
| Equity Raise (FY20 proforma) | 8,100 | - | - | - |
| Net debt | (27,317) | (13,554) | (34,588) | (18,209) |
| Deferred Covid-19 liabilities | (7,219) | (11,600) | (12,927) | (7,481) |
| **Underlying net debt** | (34,356) | (25,154) | (47,515) | (25,690) |
| Cash | 12,183 | 25,946 | 4,912 | 14,291 |
| Available RCF | 18,000 | 18,000 | 18,000 | 25,000 |
| Liquidity | 30,183 | 43,946 | 22,912 | 39,291 |
| Working capital unwind | (9,000) | (14,400) | (5,142) | (19,194) |
| **Weeks' liquidity** | 44 | 61 | 37 | 42 |

- Balance sheet strength maintained and enhanced
- Underlying net debt peaked at £47.5m at FY21 year end
  - Utilised Loungers liquidity during Lockdown 3 to support trade partners
- Consistent with experience post Lockdown 1 rapid reduction in net debt post reopening
- Headline net debt at 11 July 2021 of £18.2m
  - Underlying net debt of £25.7m
  - Inclusion of deferred liabilities to landlords and HMRC
- Undrawn RCF of £25m at 11 July
  - Total liquidity of £39.3m
  - 42 Week's liquidity at £480k per week
  - Incremental £15m RCF runs to Oct 2022

# Looking ahead with confidence

| | | | |
|---|---|---|---|
| Our market-leading sales performance continues to reinforce the relevance of our brands | The trading environment is challenging and the short-term outlook is uncertain | We continue to innovate and evolve - post Covid the estate will be well-invested and our menus will have materially improved | Our new site openings have performed well and we have real confidence in the strength of the pipeline and the continued availability of sites. |

Thank you