# LOUNGERS

## ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE 52 WEEK YEAR ENDED 19 APRIL 2020

LOUNGE
CAFÉ BARS

COSY CLUB

# WHAT WE DO



## MARKET OVERVIEW

Loungers operates through its two complementary brands – Lounge and Cosy Club – in the UK hospitality sector.

At the year end the Group had 165 sites, comprising 136 Lounges and 29 Cosy Clubs. Whilst it competes with coffee shops, pubs, restaurants and local independent operators, 72 per cent of Lounge customers see it as a unique proposition, rather than categorise it solely as a restaurant, pub or coffee shop.

Independent analysis undertaken for the Group in 2018 concluded that the Group has no single competitor and that it can co-exist with all other operators. The Group competes with every element of the trade of a pub chain, coffee shop, or restaurant, whereas each of those operators only competes for a part of Loungers' sales. It is this level of differentiation that has enabled the Group to deliver significant and consistent like for like ("LFL") sales out-performance, and in turn, it is this sales out-performance allied to the new site roll-out and growing scale of the Group that have provided the scope to better withstand the cost pressures that have afflicted the broader hospitality sector in recent years.

**136**
**LOUNGES NATIONWIDE**

**29**
**COSY CLUBS NATIONWIDE**

## LOUNGE

### A Lounge is a neighbourhood café/bar combining elements of a restaurant, the British pub and coffee shop culture.

As at the FY20 year end, there were 136 Lounges nationwide. Lounges are principally located in secondary suburban high streets and small town centres. The sites are characterised by informal, unique interiors with an emphasis on a warm, comfortable atmosphere, often described as a "home from home". The Lounge estate has a consistent look and feel but each Lounge is individually named and tailored to the site and local area, and the design of each Lounge is continually evolving, meaning no two sites are the same.

The Lounge brand aims to have hospitality and familiarity at its core, driven by an independent culture and focus on the local community. Each site has its own social media presence and staff are encouraged to engage with the local community through events, charity, and community groups. 80 per cent of customers live locally, underlining each Lounge's local neighbourhood credentials.

Every Lounge offers all-day dining, with the same menu served from 9am to 10pm, every day. Sales are well diversified across all day parts and all days of the week as well as across all food types. In addition to helping to drive repeat custom and maximise the trading efficiency of the sites, the all-day offering gives the Group experience in managing operational complexity, particularly in the kitchens, which the Directors believe is a meaningful barrier to entry for other operators.

LOUNGE
CAFÉ BARS

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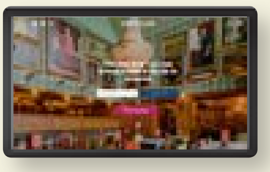
## COSY CLUB

### Cosy Clubs are more formal bars/restaurants offering reservations and table service but share many similarities with the Lounges in terms of their broad, all-day offering and their focus on hospitality and culture.

Cosy Clubs are typically located in city centres and larger market towns. Interiors tend to be larger and more theatrical than for a Lounge, and heritage buildings or first-floor spaces are often employed to create a sense of occasion. The Cosy Club brand enables the Group to operate in areas where there is a more occasion-led demographic and offers an opportunity for greater coverage within cities. Sales, EBITDA and capital expenditure are typically higher for a Cosy Club than for a Lounge. As at the FY20 year end, there were 29 Cosy Clubs nationwide.

Whilst during the daytime, customers use Cosy Clubs much like they use Lounges (for instance, for coffee or a quick lunch), in the evenings they are used more formally for drinks and dinner and frequently host larger tables celebrating a special occasion.

COSY CLUB



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# Strategic Report

# CHAIRMAN'S STATEMENT

## CHAIRMAN'S STATEMENT

### INTRODUCTION

At the turn of the calendar year I imagined that my inaugural Loungers plc Chairman's statement would be a relatively straightforward affair. Whilst we are reporting on FY20, the reality is that we are providing more detailed commentary on the final weeks of FY20 and the subsequent months of the current financial year, in regard to how the business has dealt with the monumental challenge of Covid-19 in particular. Consequently, and for good reason, my statement is a lengthy one.

Having successfully listed the business in April 2019, I think it's fair to say we always expected FY20 would be a challenging year as the business adjusted to life as a plc. Little did we know that a far greater challenge lay ahead and, that by the end of the financial year, we'd have a business that was generating no revenue and we'd have no certainty as to when we would be permitted to reopen.

There are many aspects of the events of the last few months that will live with us for many years to come. The business has faced enormous challenges and I am extremely proud of the roles the Board, the executive/senior management team and the ops team have played in dealing with these challenges head-on and making the right calls at the right time.

Putting the impact of Covid aside, it was a historic year for Loungers and, as a co-founder of the business, I am extremely proud that Loungers is a plc. I am also thrilled that we currently have 480 employees who are now shareholders in the Company and very much look forward to being able to see the success of Loungers shared with an ever-increasing number of our people in future.

### STRATEGIC

The business continued to trade very strongly right up until the week before lockdown and we remained on track to meet the objectives we had set out at the time of the IPO.

We continued to deliver sector-leading like for like sales and were expanding at a rate of 25 new sites a year. Pleasingly, we opened some particularly profitable sites over the course of the financial year with FY20 new openings looking like an especially strong vintage.

We continued to evolve our offer in both brands, making a number of improvements to our food menus and undertaking a significant and exciting overhaul of our drinks offering. We also continued to see margin improvement as we increasingly reaped the benefits of greater scale.

Ultimately FY20 saw an 8.8% increase in net turnover to £166.5m (FY19: £153.0m) and, whilst it is pleasing to register another year of year-on-year growth, Covid-19 clearly stopped us in our tracks in March, five weeks prior to our year end.

### THE TEAM

Having successfully listed the business against a challenging backdrop in April 2019 (as Brexit negotiations to-ed and fro-ed), the executive team immediately set about executing and delivering the plan.

We genuinely believe that the Loungers team is operationally one of the finest in the sector. Under Nick Collins' collaborative and steadfast leadership, everyone has responded to the monumental challenge brought about by Covid-19, clearly demonstrating the talent and tenacity we have within our ranks.

I'd like to thank our teams at every level but would like to reserve special praise for the immense effort put in by the small group of head office staff who worked tirelessly throughout lockdown, often in very difficult circumstances, to ensure the business was in the very best possible position to rise to the challenges of the last few months.

### THE BOARD

I am also delighted at how well the relationship between the executive team and Non-Executive Directors has developed and I'd like to thank the Non-Executive Directors for their guidance and contribution over the last 16 months in bringing challenge, wisdom and experience to the Loungers' table. When assembling the plc Board, the executive team were keen to ensure that Board meetings retained the same level of intensity and challenge that we'd been accustomed to under private equity partnership and I am delighted that we have achieved this as a public company.

I would also like to take this opportunity to thank the Non-Executive Directors for their dedication and commitment to the business during the period of closure resulting from Covid-19.

## COVID-19

Having temporarily closed the entire business and secure in the knowledge that the livelihoods of our workforce would be protected through the Coronavirus Job Retention Scheme, the executive team worked closely with the Board to set about ensuring the business had sufficient liquidity to survive a prolonged period of full closure, well beyond 2020 should that be required. We agreed an additional £15m revolving credit facility with our existing lenders and raised a further £8.1m through the issue of equity. We were grateful and extremely encouraged by the support from our shareholders, which not only ensured the Placing was successful but was ultimately over-subscribed.

With the liquidity of the business secured, the executive/ senior management team set about tackling a number of significant challenges. The key areas of focus were on culture and communication, rent negotiations and the reopening of 27 sites during lockdown for takeout. We also started planning the reopening of the business and considered what changes we would need to make to menu, service style and site layouts.

This was a significant piece of work and required the team to be very entrepreneurial and at times fleet of foot – our 'at-seat' ordering capability being an excellent example of something that has been an undeniable game-changer for the business and was developed and implemented in just four weeks. With regards to social distancing, we adopted a positive mindset and approached what we needed to do with a mentality that we had decided to make the changes ourselves and not because we had been forced to. I genuinely believe that the team could not have done a more sterling job and I believe that the decisions and changes we made, and subsequently implemented, ensured the business was very much on the front foot when we were permitted to reopen. I am also of the view that the unprecedented challenges of lockdown resulted in an acceleration of changes in the business that had been more mid to long term objectives. As a result, we face the future in a much stronger, and better equipped, position.

Over a seven-week period from early June, I made a conscious effort to visit 103 of our sites personally, with our logistics team who were busy removing furniture to go into storage and delivering our bespoke social distancing partitions. This gave me an opportunity to spend time with our operators, to catch up with some of our teams as they returned to work ahead of reopening and to oversee the implementation of our plan to ensure our sites felt safe and reassuring but that, critically, they still retained our unique look and feel and very much felt like a Lounge or Cosy Club. It was a gruelling but hugely rewarding few weeks that left me feeling very positively charged at how our operators and teams felt about the way we had looked after them during lockdown and about how excited they were to welcome back their customers. I was also hugely encouraged at how good, and normal, our sites looked – whilst adhering to Covid-19 social distancing requirements, which I genuinely believe has been a major reason as to why we have reopened so strongly. It was also really encouraging to see how busy the vast majority of the high streets and locations we operate from were ahead of us reopening and I felt cautiously optimistic that we would trade significantly better than we have anticipated. Consequently, I wasn't surprised that within a week of our initial phase of reopening we opted to accelerate the reopening process, which resulted in all 165 sites being reopen by 7th August.

Our approach to reopening has had a number of benefits. Most notably, we have learnt and adapted to trading in a Covid-compliant environment, which has enabled us to improve the overall customer experience. We also fully benefitted from the Eat Out to Help Out ("EOTHO") initiative which has resulted in record sales for the business during the month of August. We are also delighted to have over 95% of our team back from furlough and doing what they do best.

## THE FUTURE

We are clearly still in unprecedented times and the coming weeks and months are almost certainly going to be uncertain at best and possibly challenging. That said, I think we have every reason to be optimistic and excited for the future. Trading since we reopened has been remarkable and, whilst we have clearly benefited enormously from the Government's EOTHO scheme, to date trading outside of the EOTHO days has been - and continues to be - very encouraging. Having reopened has given us significant competitive advantage over those businesses that have been slower to do so.

With the undeniable change underway in the way people live, and more specifically work, we believe we are extremely well-placed to benefit. The suburban and small town locations of the vast majority of our Lounge estate have remained strong and our large, airy Cosy Club venues - coupled with an offer that is sufficiently differentiated from our competitors - mean that both brands are in a strong position to prosper. Our lack of exposure to central London and travel hubs has meant that the strength of performance across the business is both sustainable and consistent. This, together with a reduction in the number of food and drink operators, positions Loungers well to benefit from a significant contraction in supply.

Following reopening, we are sufficiently confident and excited to be resuming our roll-out – albeit we will do so cautiously and it will take some months for us to get back up to a run-rate of 25 sites a year. However, we have some high quality sites within our current pipeline and will be able to benefit from some exciting opportunities against a backdrop of an extremely soft property market.

Our opportunity remains exciting as we have barely reached 30% of the potential scale in the UK of both brands and, in the case of Lounge, our stated target of 400 sites feels increasingly conservative. Our team has the drive, determination, and talent to deliver our long-term objectives but, importantly, working through the challenges of lockdown has further enhanced the entrepreneurial flame inherent within the business. I genuinely believe this could be 'our time' and the burning ambition within Loungers has never been stronger.

**Alex Reilley**
Chairman

# CHIEF EXECUTIVE'S STATEMENT

## INTRODUCTION

It was impossible to imagine that a year which started with the landmark IPO of the Group would end with all our sites closed due to Covid-19.

For the large part of the year the Group continued to achieve the strategic goals it had set out at the time of the IPO:

- Market leading LFL sales growth across all site age cohorts, primarily driven by volume.
- Margin improvement as we continued to benefit from operational gearing and economies of scale.
- Progressing towards a self-financing roll-out.
- Continuation of the roll-out of Lounge and Cosy Club estates at a rate of 25 sites a year, most importantly opening better sites and benefitting from an increasingly tenant friendly property market.
- Enhancing the customer offer and our hospitality through the evolution of our menus and constantly challenging ourselves to improve our culture and community-led proposition.

Prior to the impact of Covid-19 we were delighted with the progress the business had made and that it had continued to demonstrate how our unique all-day trading model with broad appeal was winning in an evolving sector.

The enormous challenge of closing and subsequently reopening the estate is one we approached head-on and positively. Our reaction to the challenge will ensure we emerge a better business. We used the period of lockdown to evolve the offer and introduce bold changes which might otherwise have taken significantly longer. The estate was fully reopened by 7th August with our sites reconfigured to provide social distancing and our teams fully trained to reassure customers they are in safe hands. Most importantly hospitality remains at the core of everything we do.

We were confident the business would emerge strongly post-lockdown and this has been evidenced by the strength of our trading since reopening, with LFL sales of +29.9% on a net of VAT basis in the period from 4 July to 13 September. Our community focus in market towns and suburbs, with no exposure to central London, tourism or business districts has meant our customers have returned quickly to both Lounge and Cosy Club. Our belief in the potential scale of both brands has been strengthened, and we look forward to returning to rolling-out new sites in due course.

## THE YEAR PRE-COVID-19

### EVOLUTION

Evolution in both brands continued, benefitting from our broad menus and the fact that we are not wedded to any single cuisine. Our vegan, gluten free and allergen-friendly menus continued to develop and grow and remain a key differentiator. Alongside this, we continued to add more resource to our menu development team, focusing on ingredient rationalisation and quality. Over the course of the year our dishes improved and continued to become more consistent.

On the drinks side we saw considerable change in our draught line-up, switching Stella, Becks Vier and Cruiser, for Moretti, Amstel, and Punk IPA. As a result of this switch we saw higher average spend and improved growth in our evening sales, a previously stated goal.

Our Reset project in the Lounge kitchens continued, with investment in a further 26 sites. This investment is resulting in more efficient processes, improved ticket times, better information and reduced staff turnover. Whilst this project was paused due to Covid-19 we look forward to getting it back on track. The combination of additional resource on the menu development side alongside investment in the kitchens will result in quicker, more consistent service for customers, improvement in our margins and better working conditions for our teams.

Having unique, individual designs for each site ensures the look and feel of the Lounges and Cosy Clubs continues to evolve. Over the course of the year evolution in terms of our back bars and furniture has helped target evening sales. In addition, we carried out splash and dash investments at seven sites, ensuring each site within the estate is in prime condition and benefits from the continued evolution of our design.

## THE ROLL-OUT, PROPERTY AND PIPELINE

During the year and prior to the Covid-19 closure we opened 16 Lounges and five Cosy Clubs, and were on track to open 25 sites in the financial year. Over the past five years, we have become comfortable with opening sites at this rate and this is reflected in the performance of our FY20 new site openings.

Through 2019 and into 2020 we benefitted from an increasingly tenant friendly property market. As a result of this we secured excellent sites in strong locations with great pitch, and this was reflected in the performance of our new site openings. Loungers typically converts A1 retail premises to A3 use and the increase in retail CVAs has meant we are seeing more opportunities in those targeted locations where we know we will perform strongly. Examples of this are sites such as Fosso Lounge in Wells and Cobrizo Lounge in Newbury.

Our new site openings also continued to demonstrate the underlying potential scale of the Lounge and Cosy Club brands. Our openings in Wells, Carmarthen and Chorley illustrate our ability to trade successfully in towns with relatively small populations across the country, whilst the opening of Cosy Club at Mermaid Quay in Cardiff saw us operating two Cosy Clubs in the same city for the first time.

As we went into lockdown our pipeline remained very strong with contracts exchanged on eight sites which have not yet opened. These include Lounges in Sittingbourne, Wolverhampton and Welwyn Garden City and a Cosy Club in Chelmsford. We remain very confident in the strength of the pipeline. Our rent to revenue ratio in the year was 5.3% and continues to be significantly lower than the sector overall. Given the consistent discipline we have displayed in terms of property deals we believe we are extremely well-placed to take advantage of the current environment.

Since the year end, we have opened Cosy Club Brindleyplace, Birmingham, and Ponto Lounge in Hull which opens today. Both were sites where much of the capex cost had been incurred before the estate was closed due to Covid-19. We have also taken the decision to close two sites. Banco Lounge in Bristol was one of our earliest sites and a combination of its small size and the additional costs of doing business meant that it no longer met our returns criteria. Its lease expires in March 2021 and will not be renewed. We have also closed Allegro Lounge which has not performed as we had hoped since opening in 2018. Whilst we are always willing to give each site time to mature, Northfield has proven to be the wrong location for a Lounge, and we will ensure we learn from that. We are not considering any other sites for closure.

## PEOPLE

The culture within the business continues to be at the heart of our success, and this has never been as important as during the last few months. During the year under review, the continued evolution of our team recruitment, training, development, and communication has contributed hugely to our performance. I am enormously grateful to our 4,500 employees who over the year continued to ensure our customers keep coming back.

Towards the year end we restructured our Regional Operations Structure, reducing further the Site to Operations team ratio. This was done to ensure our sites continue to be intensively managed alongside providing continued capacity across the UK to roll-out new sites. As our geographic footprint grows alongside the number in the operations team, so the impact of new openings is diluted, allowing for smoother openings and less distraction for our teams.

At a senior management level, we welcomed Tom Trenchard into the team as Property Director and have added additional resource in the food, training and development, purchasing, and systems teams. We continue to look forward to ensure we have the right structure in place, commensurate with our continued growth.

## COVID-19 AND THE CLOSURE PERIOD

Our priorities during lockdown centred around supporting and communicating with our team, minimising cash burn and ensuring our balance sheet strength was sufficient to withstand the impact of Covid-19, continuing to engage with our customers and communities during the difficult time, and preparing to reopen. We also took advantage of the unique opportunity to think about and evolve the business to ensure we were best positioned when it came to reopening.

Throughout the Covid-19 period we have focused on looking after our team of 4,500 employees. Through regular communication we have kept them informed and we are appreciative of the Government support via the Coronavirus Job Retention Scheme. Over 99% of our team were furloughed during lockdown with around 30 people working throughout. The Board is enormously appreciative, both of those who worked throughout the period, and those who were on furlough but participated in the numerous forms of engagement which allowed us to keep the culture in the business alive. In addition, we ensured we continued to engage with our customers and their communities and witnessed many fantastic charitable acts from our site teams as they sought to contribute to beat the virus.

To minimise cash burn, as soon as lockdown was imposed, we immediately stopped all non-essential capex and contracts, challenged every recurring cost line in the business and negotiated with our landlords and suppliers. The Board is appreciative of our supply chain who were highly supportive during this period. Our conversations with landlords regarding the waiver or deferral of rent during the closure period are ongoing, but our collaborative approach, engaging with each of our landlords, has proved worthwhile. During lockdown we secured an additional £15m of banking facilities and carried out an £8m equity placing. The Board recognised the importance of demonstrating we had sufficient funding to both survive through any worst case Covid-19 lockdown scenarios, and, critically, to get the roll-out back on track once we reopened. We recognised that post-lockdown the property market would be more tenant friendly and present a fantastic opportunity to further strengthen our pipeline. As a result of the increased facilities and completion of the placing, the Group had liquidity of £30m in place on 23 April and the strength to withstand a very prolonged lockdown.

The pause in day to day operations during lockdown allowed us to review various aspects of the business and ensure when we reopened, we were well-positioned in respect of operating both in a Covid-19 environment, and more generally. Key activities during this period were:

- Undertaking a maintenance audit. This ensured any critical works that would require closure once reopened, or splash and dash style improvements that were previously planned, were carried out during lockdown. This, alongside a thorough deep clean in every site, ensured when our sites reopened it was in the best condition they had ever been.
- Reconfiguring the sites to suit trading with distancing guidelines in place. Our approach here was to ensure any steps we took were consistent not only with Government guidelines but also with our uniquely obsessive focus on atmosphere and look and feel. Whilst our covers have reduced by between 10% and 15% because of this, the addition of bespoke timber partitioning and the very detailed approval process for the new layouts have ensured the sites are comfortable and recognisable to our customers.
- Challenging the menus and ingredients. Menus in both Lounge and Cosy Club were reduced for reopening which has provided us with an opportunity to understand how our customers will react to slightly less choice. Alongside this a forensic approach to menu engineering and ingredient lists has provided us with the opportunity to further gain margin and labour efficiency over time.
- Introducing an order at table app. This was something we were always cautious about, but in Lounges in particular, where the service model otherwise involves ordering at the bar, it became a requirement. App sales now represent 42% of sales in Lounges.
- Trialling takeaway at 27 Lounges. Opening these sites for takeaway allowed us an early opportunity to get the business and supply chain back up and running and to learn a great deal about operating in a socially distanced environment.
- Rewriting our processes and procedures to ensure the safety of our teams and customers. Our objective here was to ensure we could engage with our customers and continue to provide great hospitality, whilst demonstrating we were operating in a safe environment.

### REOPENING

We adopted a phased approach to reopening, gradually opening the full estate between the 4th July and 7th August. This allowed us to learn from the initial openings, and feed in any changes required to subsequent openings. It also allowed us to ensure every employee received a full day's training on the new processes in place, and to reassure them that they were working in a safe environment. Our sites look fantastic, our teams and customers feel safe and the steps we took during lockdown have ensured a slick reopening.

## CURRENT TRADING AND OUTLOOK

The Group has traded significantly ahead of our expectations. Since reopening our LFL net sales growth in the period from 4 July to 13 September has been +29.9%. Excluding the positive impacts of EOTHO and the VAT reduction, our underlying LFL sales have been -1.1%, and over the nine weeks ending 13 September 2020 have been positive. This represents a significant out-performance of the market, materially exceeding the sector out-performance we have experienced over the past five years.

Whilst the economic outlook remains uncertain, we take confidence from our performance to date and remain optimistic with regard to future trading. Our value for money, flexible offer, and its broad appeal, alongside the locations in which we operate, mean we continue to be well-placed.

As a result of this confidence we have decided to cautiously restart the roll-out of new site openings. Over the remainder of the current financial year we plan to open six sites (of which Cosy Club Brindleyplace and Ponto Lounge Hull are already open), from those sites where we are already committed. We will also start rebuilding the pipeline such that we are in a position to accelerate the roll-out towards our pre-lockdown target of opening 25 sites a year.

**Nick Collins**
Chief Executive Officer

# KEY STRENGTHS

## The Directors believe that the Group has the following key strengths and competitive advantages:

### BROAD, NATIONWIDE DEMOGRAPHIC APPEAL

We offer something for everyone regardless of age, demographic or gender and operate successfully in a diverse range of site types and locations across England and Wales.

### VALUE FOR MONEY ALL-DAY OFFER

We are the only growing all-day operator of scale in the UK with a strong reputation for value for money which offers proven resilience in a tighter and more competitive consumer spending environment. The strength of our all-day trade and repeat custom enables us to trade successfully in smaller, secondary locations which typically have lower rents and less competition.

### TWO DISTINCT BUT COMPLEMENTARY BRANDS

Our dual brand approach, with Lounges and Cosy Clubs, allows us to maximise our geographic and demographic reach. We can open Lounges in a broad range of smaller secondary locations in suburban high streets and market towns, as well as opening Cosy Clubs in larger market towns and city centres.

### RESILIENT AND CONSISTENT OUTPERFORMANCE, RETURNS AND ECONOMICS

Like-for-like sales have consistently and significantly outperformed the Coffer Peach Business Tracker which is seen as the benchmark for the UK hospitality sector. This like-for-like sales outperformance to date has been primarily driven by volume, rather than price. Our sites have delivered consistently strong returns and site economics across vintages and locations.

### CLEAR, PROVEN GROWTH POTENTIAL

Independent analysis has identified the potential for more than 400 Lounges and more than 100 Cosy Clubs in England and Wales. This is supported by a consistent track record of successful openings and a strong pipeline of sites.

### STRONG PIPELINE OF NEW SITES AND TRACK RECORD OF SUCCESSFUL OPENINGS

We opened 20, 22 and 25 sites in FY17, FY18 and FY19 respectively, with a further 21 new sites opened in FY20 pre lockdown. As at the date of this report, the Group has opened two new sites (one Lounge and one Cosy Club) in the current financial year.

### WELL INVESTED CENTRAL INFRASTRUCTURE TO SUPPORT GROWTH

We have invested significantly over the past three years to build an operational and head office structure capable of supporting our growth plans, in addition to having a well-developed roadmap for continued investment.

### EXPERIENCED MANAGEMENT TEAM

The Group's senior management team combines entrepreneurial spirit with significant sector experience and has a track record of meeting openings, sales, and profitability targets. Two of the original founders, Alex Reilley and Jake Bishop, remain active in the Group while Nick Collins and Gregor Grant each have over 16 years of experience within the hospitality industry.

The Directors consider that within the key strengths identified above the following are of particular relevance in the current Covid-19 environment:

- **Broad demographic customer base** – there is no reliance on any single demographic segment
- **Wide geographic spread** – limits exposure to any one geographic area or region
- **All day / everyday offer** – there is no reliance on peak trading periods, reducing the potential negative impact of capacity constraints resulting from social distancing
- **Focus on suburbs and market towns** – very limited exposure to city centre office communities, overseas tourism, and travel hubs

# DIRECTORS’ DUTIES – S172 STATEMENT

The Directors are aware of their duty under Section 172(1) of the Companies Act 2006, to act in the way they consider, in good faith, would be most likely to promote the success of the Group for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- The likely consequence of any decision in the long term
- The interests of the Group’s employees
- The need to foster the Group’s business relationships with suppliers, customers and others
- The impact of the Group’s operations on the community and the environment
- The desirability of the Group maintaining a reputation for high standards of business conduct
- The need to act fairly as between members of the Group.

The following disclosure describes how the Directors have had regard to the matters set out in Section 172(1)(a) to (f) and forms the Directors’ statement under section 414CZA of the Companies Act 2006.

## OUR KEY STAKEHOLDERS AND HOW WE ENGAGE WITH THEM

The Directors consider the Group’s key stakeholders to be its employees, its customers, its suppliers, the community in which it operates and its shareholders.

| | STAKEHOLDER KEY INTERESTS | HOW WE ENGAGE |
|---|---|---|
| **Employees** | | |
| Having high quality team members, both at site and at head office, is critical.<br>At site level the ability to be truly engaging in delivering genuine hospitality, at the same time as preparing and delivering high quality food and drink is fundamental to delivering our strategy and the long-term success of the Group. | • Training and development<br>• Career progression<br>• Reward<br>• Engagement<br>• Health and safety<br>• Respect | • Training and feedback<br>• Identifying and progressing talented individuals<br>• Competitive rates of pay and recognition schemes<br>• Employee engagement surveys, briefings, and events |
| **Customers** | | |
| Our customers cover a broad demographic and show considerable loyalty, typically visiting for a wide range of occasions across all day parts.<br>The ability to attract a broad customer base across all day parts and across all days of the week is key to generating our sales and profitability levels. | • Hospitality and “home from home” familiarity<br>• Safe food and environment<br>• Broad menu range, with specific vegetarian, vegan, gluten free menus<br>• Consistency and quality<br>• Value for money pricing<br>• Responsiveness to feedback | • Offering an informal, quirky, “home from home”<br>• Strong emphasis on hospitality and familiarity, really getting to know our customers<br>• Random acts of kindness to lift those who are low and to rejoice with those celebrating<br>• Formal feedback and customer surveys<br>• Social media |

# DIRECTORS' DUTIES – S172 STATEMENT CONTINUED

| | STAKEHOLDER KEY INTERESTS | HOW WE ENGAGE |
|---|---|---|
| **Local Community** | | |
| Lounges, in particular, are at the heart of their community, the "third space" of choice for the local community.<br>We look to have a positive impact on the communities in which we operate through job creation, re-invigoration of the high street and support for local charities. | • Community resource<br>• Investment and re-invigoration of the local economy<br>• Community events and charity fundraising | • Staff out-reach<br>• Events<br>• Charity<br>• Provision of space and a welcome for community groups and activities |
| **Suppliers & partners** | | |
| The Group has developed long term relationships with many of its suppliers, across both its hospitality operations and its capital projects. Many of these suppliers have grown alongside the Group to become significant businesses.<br>We need to maintain trusting relationships with suppliers and partners for mutual benefit and to ensure they are meeting our standards and conducting business ethically. | • Long-term relationships<br>• Growth<br>• Trade profitably and efficiently<br>• Logistics efficiency<br>• Responsible procurement, trust and ethics | • Additional internal Loungers resource added in the year to ensure close and timely communication<br>• Collaborative work on product innovation<br>• Participation and attendance at Loungers events<br>• Contract negotiation and contract renewals |
| **Shareholders** | | |
| Further to the Group's IPO in April 2019 gaining the confidence of existing and potential investors is critical.<br>The confidence of our shareholders is key to delivering our strategy as access to capital may be critical to the long-term performance of our business.<br>We ensure that we provide fair, balanced and understandable information to shareholders and investment analysts and work to ensure that they have a strong understanding of our strategy and performance. | • Financial performance<br>• Governance and transparency<br>• Operating and financial information<br>• Confidence and trust in the Group's leadership team | • Regular market updates<br>• Investor days/presentations<br>• One-to-one meetings<br>• Investor roadshows<br>• Dedicated investor section on corporate website<br>• Shareholder consultations<br>• Annual reports<br>• Annual General Meetings |

# FINANCIAL REVIEW

## FINANCIAL PERFORMANCE

The financial results for FY20 reflect another year of significant growth, albeit severely impacted in the latter weeks by the impact of Covid-19. Revenue growth of 8.8% combines the impact of 21 new site openings and a strong underlying LFL sales performance (+4.5% in the 44 weeks to 23 February 2020). Adjusted EBITDA grew by 0.8% to £28.8m (2019: £28.5m) under IFRS 16, whilst under IAS 17 it fell by 8.6% reflecting the impact of IAS 17 rent costs during lockdown.

The impact of the Covid-19 lockdown which commenced on 20 March 2020 and the introduction of IFRS 16 present two challenges to interpreting our financial performance over the year under review, the highlights of which are:

| | IFRS 16 | | | IAS 17 | | |
|---|---|---|---|---|---|---|
| | Year ended 19 April 2020 £000 | Year ended 21 April 2019 £000 | Change | Year ended 19 April 2020 £000 | Year ended 21 April 2019 £000 | Change |
| Revenue | 166,502 | 152,999 | +8.8% | 166,502 | 152,999 | +8.8% |
| Adjusted EBITDA | 28,767 | 28,541 | +0.8% | 18,813 | 20,582 | -8.6% |
| Adjusted EBITDA margin (%) | 17.3% | 18.7% | -1.4 ppts | 11.3% | 13.5% | -2.2 ppts |
| Loss before tax | (14,781) | (6,700) | | (13,020) | (4,989) | |
| Adjusted profit / (loss) before tax | 2,002 | (6,238) | | 3,763 | (4,527) | |
| Adjusted diluted earnings / (losses) per share (p) | 2.4 | (35.4) | | 3.2 | (28.0) | |
| Net debt | 139,895 | 254,750 | | 34,956 | 165,612 | |

Throughout the Annual Report we use a range of financial and non-financial measures to assess our performance. A number of the financial measures, for example Adjusted EBITDA, Adjusted profit / (loss) before tax and Adjusted diluted earnings/ (losses) per share are not defined under IFRS and accordingly they are termed Alternative Performance Measures ("APMs"). The Group believes that these APMs provide stakeholders with additional useful information on the underlying trends, performance and position of the Group and are consistent with how business performance is measured internally. Adjusted EBITDA is also the measure used by the Group's banks for the purposes of assessing covenant compliance.

Reconciliations of statutory numbers to the adjusted numbers reported above are included on pages 88 to 89.

### IFRS 16

IFRS 16 Accounting for Leases has been adopted for the first time in FY20 using the fully retrospective method. Accordingly the FY19 comparatives have been re-stated. The impact of IFRS 16 is essentially twofold:

- firstly, to create a lease liability for rental costs and corresponding right of use asset in the balance sheet; and
- secondly, to remove the rental charge from the income statement and replace it with a depreciation charge in respect of the right of use asset and a finance charge in respect of the unwinding of the lease liability.

Accordingly, and relative to the previous lease accounting standard IAS 17, IFRS 16 sees the Group report:

- a higher level of Adjusted EBITDA. EBITDA no longer includes the IAS 17 rent cost;
- a higher level of adjusted operating profit. The depreciation on the right of use asset is lower than the IAS 17 rent charge;
- a higher level of loss before tax. The combined IFRS 16 charges for depreciation of the right of use asset and interest on the lease liability exceed the IAS 17 rent charge. This reflects the relative immaturity of the Group's lease portfolio as, whilst over the life of a lease these costs will equal out, in the early years the combination of a straight line depreciation charge and a higher interest charge leads to a total IFRS 16 charge exceeding the rent payable charge under IAS 17; and
- a higher level of net debt. Reflecting the inclusion of the capitalised lease liabilities within net debt.

Whilst the shape of the income statement may have changed with the introduction of IFRS 16 the decision to adopt on a fully retrospective basis does mean that the reported numbers for FY20 and FY19 are directly comparable. Further details on the adoption of IFRS 16 are provided in notes 2.23, 17 and 31.

# FINANCIAL REVIEW CONTINUED

## COVID-19 IMPACT

The Group reports internally on the basis of 13 four week periods and in order to explain the impact of Covid-19 on the Group's FY20 financial performance the table below presents Adjusted EBITDA (under IFRS 16) for the first 11 periods (the 44 weeks to 23 February 2020) and the final two periods (the 8 weeks to 19 April 2020).

| | 44 Weeks ended 23 February 2020 £000 | 8 Weeks ended 19 April 2020 £000 | 52 Weeks ended 19 April 2020 £000 |
|---|---|---|---|
| Turnover | 154,876 | 11,626 | 166,502 |
| LFL Sales | +4.5% | (61.4%) | (6.4%) |
| Cost of sales | (89,404) | (7,503) | (96,907) |
| Gross profit | 65,472 | 4,123 | 69,595 |
| Gross profit % | 42.3% | 35.5% | 41.8% |
| Administrative expenses | (36,334) | (4,494) | (40,828) |
| **Adjusted EBITDA** | **29,138** | **(371)** | **28,767** |
| **Adjusted EBITDA margin** | **18.8%** | **(3.2%)** | **17.3%** |

The impact of the lockdown from 20 March 2020 is stark. Whilst the Group traded relatively normally in the three weeks ending 15 March 2020 (LFL sales were +2.0%) unsurprisingly sales tailed off as we moved through the days immediately prior to 20 March 2020. LFL sales that were running at +4.5% for the first 44 weeks of the year declined to -6.4% for the full year on the back of a severely impacted week 48 and complete closure for weeks 49 to 52.

The impact on margins was equally pronounced, with the gross profit margin declining from 42.3% after 44 weeks to 41.8% for the full year and the Adjusted EBITDA margin declining from 18.8% after 44 weeks to 17.3% for the full year. The Group moved very quickly to adapt to a world of zero sales, with site teams being furloughed from 22 March 2020 and head office staff from 31 March 2020, and all non-essential spend halted. However, the final five weeks of the year continued to be impacted by the costs of shutting down the estate, fixed property costs and incremental staff costs, notably holiday pay.

Over the first 44 weeks of the year the Group had performed very well. The table below sets out the financial performance on an IFRS 16 Adjusted EBITDA basis for the 44 weeks to 23 February 2020 versus the same 44 week period in the prior year.

Like for like sales growth of 4.5% supplemented the impact of new site openings to deliver total revenue growth of 21.9%. Continued focus on managing the cost base was reflected in an improvement in the Adjusted EBITDA margin from 18.7% to 18.8%, with Adjusted EBITDA increasing by 22.7% over the 44 week period.

| | 44 Weeks ended 23 February 2020 £000 | 44 Weeks ended 24 February 2019 £000 | Year on Year Change |
|---|---|---|---|
| Turnover | 154,876 | 127,101 | +21.9% |
| Cost of sales | (89,404) | (74,071) | |
| Gross profit | 65,472 | 53,030 | |
| Gross profit % | 42.3% | 41.7% | +0.6% |
| Administrative expenses | (36,334) | (29,280) | |
| **Adjusted EBITDA** | **29,138** | **23,750** | **+22.7%** |
| **Adjusted EBITDA margin** | **18.8%** | **18.7%** | **+0.1%** |

The major drivers behind the improvement in the IFRS 16 Adjusted EBITDA margin were as follows:

- Improvement in gross margin of 0.6%; and
- Operational leverage across central costs of 0.4%; offset by:
- Increased utility and pension costs of 0.3%;
- Increased business rates costs of 0.2%; and
- Incremental costs associated with being a publicly traded company of 0.3%.

The improvement in gross margin reflected both the success of the re-tendering of food and drink suppliers that was conducted through the first half of 2019, with the implementation completed in November 2019, and the continued focus on menu and range development and control of site labour costs.

## EXCEPTIONAL COSTS

The statutory operating loss of £6.7m is after charging exceptional costs totalling £15.3m (2019: £0.5m). Exceptional costs include:

- £0.9m relating to the write off of stock on the forced closure of the estate due to Covid-19;
- £1.5m in respect of costs incurred in the Group's IPO. Further IPO related costs of £3.7m have been charged directly to reserves as they relate to the raising of equity share capital;
- £2.9m of IPO related share based payment awards; and
- £9.8m relating to the impairment of property, plant, and equipment (see below).

The Covid-19 pandemic and associated lockdown was a clear indicator of potential impairment and accordingly a detailed impairment review of each individual site was undertaken. The result of this review was an impairment charge of £9.8m (2019: £nil), split £7.2m against the right of use asset and £2.6m against leasehold improvements and fixtures.

The impairment methodology included the calculation of a value in use for all sites. This valuation was based upon three year site cash flow forecasts covering FY21 through FY23 which incorporated the impact of lockdown closure and assumptions regarding post reopening recovery, and a full allocation of central costs and maintenance capex spend.

## FINANCE COSTS AND NET DEBT

Finance costs of £8.1m (2019: £19.5m) include IFRS 16 lease liability finance costs of £5.5m (2019: £4.7m) and a non-cash exceptional charge of £1.4m in respect of the write off of unamortised loan arrangement fees relating to the Group's pre IPO banking facilities. Bank interest payable in the year was £1.2m (2019: £4.3m).

The significant reduction in year on year finance costs is a function of the Group's IPO and the resulting change in capital structure. Excluding IFRS 16 lease liabilities net debt has reduced from £165.6m at 21 April 2019 to £35.0m at 19 April 2020.

## CASH FLOW

Net cash generated from operating activities declined by 13.8% to £24.4m (2019: £28.3m). The reduction in cash generation was wholly a function of the introduction of lockdown and the initial impact of the resulting working capital unwind. The most significant element of the working capital unwind pre year end related to payroll liabilities, with all our employees being paid at the end of March and no subsequent rebuild of the net liability as the site teams and the majority of head office employees transferred to the Coronavirus Job Retention Scheme.

Cash outflows in the year in respect of capital expenditure totalled £23.1m (2019: £21.1m). Prior to the lockdown the Group was on course to be self-funding in terms of capital expenditure, with cash generated from operating activities exceeding the cash out flow on capital expenditure. Capital expenditure in the year included a spend of £17.4m (2019: £18.5m) in respect of new site openings. FY20 new site spend of £17.4m included £2.1m in respect of five sites where work was halted due to lockdown.

## KEY PERFORMANCE INDICATORS ("KPI'S")

The KPI's, both financial and non-financial, that the Board reviews on a regular basis in order to measure the progress of the Group are as follows:

| | FY20 | FY20 to 23 February 2020 | FY19 |
|---|---|---|---|
| New site openings | 21 | 19 | 25 |
| Capital expenditure (IAS 17) | £22.8m | £22.4m | £21.8m |
| Like for like sales growth | (6.4%) | 4.5% | 6.9% |
| Total sales growth | 8.8% | 21.9% | 26.4% |
| Adjusted EBITDA margin (IFRS 16) | 17.3% | 18.8% | 18.7% |

## GOING CONCERN

In concluding that it is appropriate to prepare the FY20 financial statements on the going concern basis attention has been paid to the impact of Covid-19 on the Group, both experienced to date and potentially foreseeable in the future.

### COVID-19 ACTIONS TAKEN TO MITIGATE THE IMPACT OF LOCKDOWN

It is important to note that the strong financial performance of the business prior to lockdown on 20 March 2020 meant that it was as well placed as possible to respond to a significant period of lockdown. The actual period of lockdown ranged between 15 and 19 weeks across our sites.

As the likelihood of lockdown increased during early March 2020 an immediate halt was put on the new site opening programme, all discretionary expenditure was stopped, and discussions commenced with our lenders Santander and Bank of Ireland to agree additional borrowing facilities. Additional immediate actions to preserve liquidity within the Group included:

- Transferring all site employees and the majority of head office employees (in total 99% of employees) into the Coronavirus Job Retention Scheme;
- Reaching agreement with our suppliers to extend credit terms and restrict the level of working capital unwind. Our supportive supply partners were typically paid an amount on account during lockdown, with the deferred balance settled in full post reopening;
- Seeking to agree rent waivers and deferrals with our landlords, and taking advantage of the moratorium on enforcement by landlords;
- Taking advantage of HMRC's VAT deferral scheme and agreeing to defer payment of PAYE/NI liabilities due for payment in March and April; and
- Agreeing temporary salary reductions with those employees who had not been furloughed.

Significant work was undertaken throughout March and April 2020 to model a range of potential scenarios. The key variables within these scenarios included:

- The length of lock-down. The management case scenario included a lockdown period of 16 weeks, with the estate re-opening 13 July 2020;
- The level of sales decline on the reopening of the estate and the period over which sales recovered. The management case assumed that sites would reopen with LFL sales running at negative 50% and would finish the FY21 financial year at negative 10%;
- The labour cost of operating at depressed sales levels and the required additional investment in labour to support post reopening Covid-19 protocols; and
- Working capital impacts of potentially amended credit terms post reopening.

The management base case underpinned the decision to agree an additional £15m revolving credit facility ("RCF") with our lenders and to proceed with an equity placing of 9.25m new shares raising net proceeds of £8.1m. At 19 April 2020, the Group had cash of £4.1m and net debt of £35.4m, having drawn down £7m under the Group's existing £10m RCF. On completion of the equity placing on 23 April, and with the additional RCF in place, the Group had total liquidity of £30.0m. Based on an assumed further working capital unwind of £9m and with an average weekly cash outflow of £0.48m (assuming all rents paid as they fell due) this provided the Group with approximately 44 of weeks liquidity in the event of a prolonged total lockdown.

## PERFORMANCE POST LOCKDOWN

Commencing with the full reopening of 24 Lounges on 4 July 2020 the Group adopted a phased reopening programme with 165 sites opened and fully trading by 7 August. Trading in the 10 weeks post reopening has been significantly ahead of that modelled in the management case referred to above, with LFL sales growth (including the impact of the VAT reduction on food and non-alcoholic drinks) of 29.9%. Underlying trading has been stronger than that modelled in the management case scenario and there has been significant additional benefit coming from:

- The support measures announced by the Chancellor on 8 July 2020, including the reduction in the VAT rate on food and non-alcoholic drinks from 20% to 5% for the period 15 July 2020 to 12 January 2021, and the Eat Out to Help Out scheme in August 2020; and
- The support of the Group's supply partners in maintaining their pre Covid-19 credit terms.

The strength of initial trading post lock down, allied to the various initiatives detailed above and the additional capital raised in the equity placing have significantly offset the negative impact of the lockdown period. As at 6 September 2020 net debt, adjusted to reflect deferred liabilities to landlords and HMRC as if they had been paid, was £24.5m. This compares favourably to net debt of £26.5m on the corresponding date last year and to net debt of £28.8m on 22 March 2020, immediately post the start of lockdown.

## CASH FLOW AND COVENANT MODELS

The management case scenario has been updated to reflect the impact of the events noted above. Under this scenario borrowing under the Group's total RCF facility of £25m would not exceed £5.0m and the Group would be in compliance with its bank covenants. The Group is subject to leverage and interest cover covenant tests. The amendment to the Group's banking facilities agreed in April 2020 included the waiver of the covenant tests scheduled for 12 July 2020 and 4 October 2020, and amendments to the tests running through to 3 October 2021. The Group was in compliance with its covenants throughout the FY20 financial year.

Additional downside scenarios have been modelled against the management case. These downsides have included:

- The closure of 20 sites from early September 2020 through the remainder of FY21 to reflect the potential impact of a series of regional lockdowns;
- The closure of an additional 20 sites through a 12 week period covering November 2020 to January 2021 to reflect the potential for more rigorous localized lockdowns over the Christmas trading period;
- Increases in the level of LFL sales decline for the remainder of FY21 from the negative 10% in the management case to a range from negative 10% to negative 25%; and
- Continued LFL sales decline throughout FY22 of between 10% and 25%.

The impact of reflecting all these downside scenarios is to reduce expectations of Adjusted EBITDA by approximately 64% for FY21 and 61% for FY22 relative to Board expectations pre Covid-19. Under this downside scenario the Group is forecast to remain within its borrowing facilities and to be in compliance with its covenant obligations, and accordingly the Directors have concluded that it is appropriate to prepare the FY20 financial statements on the going concern basis.

**Gregor Grant**
Chief Financial Officer

# PRINCIPAL RISKS AND UNCERTAINTIES

The Group has continued to develop and adhere to its risk management disciplines and managed risks in line with good practice. The Group continually assesses risks and takes appropriate action to mitigate risks that could impact the achievement of the Group's objectives.

The Directors consider the following to be the principal risks faced by the Group:

| KEY RISKS | RISK DESCRIPTION | MITIGATING ACTIONS |
|---|---|---|
| **Covid-19** | The Group derives all its sales and profits from its 165 sites. The complete closure of sites as required during the Covid-19 lockdown had a very severe negative impact on sales and profits. Whilst the estate is now re-opened, it trades under restricted capacity due to social distancing requirements and incurs additional costs to ensure compliance with hygiene guidelines and the safety of our guests. It remains unknown as to how long these Covid-19 measures will remain in place and there exists the real possibility that further lockdowns, at least on a local or regional basis, may be required. | The preceding pages have set out in detail the specific mitigating actions taken in response to Covid-19, particularly those relating to preserving liquidity within the business, the secure lockdown of our sites,and the safe resumption of trading.<br>The planning and implementation of these mitigating actions was managed through the Directors and the executive management team. Throughout the period from early March 2020 to the ending of lockdown the Directors and executive team met remotely on an increased basis, with weekly meetings throughout much of this period. |
| **Consumer confidence** | The Group derives all its profits from the United Kingdom and is therefore sensitive to fluctuations in the UK economy. The Group's performance depends to a certain extent on several factors outside of the control of the Group which impact on consumer sentiment. | The Group's existing offer has value for money as a core principle and the Directors believe this will provide a level of resilience in the event of a consumer slow down. |
| **Brexit** | Brexit has the potential to adversely impact the business in several ways, notably:<br>• weaker economic performance in the UK that may impact consumer demand,<br>• further depreciation of sterling that may drive cost inflation,<br>• cross border supply issues that may impact availability of imported goods, and<br>• the recruitment and retention of team members in our sites. | Mitigating actions have focused upon the security of our supply chain and ensuring availability of product. Higher risk products have been identified and plans put in place to both secure supply or identify and source alternative products as appropriate. |
| **Cost inflation** | The Group operates in a sector that has been subject to significant cost pressures in recent years, notably staff costs driven by annual increases in the National Living Wage ("NLW"), utilities, business rates and food and drink cost inflation. The value for money principles of the Group's offer require the Group to manage cost inflation tightly. | The increasing scale of the Group and its attractiveness to suppliers has assisted in mitigating cost inflation in respect of food and drink products. In addition, the Group has recruited additional internal resource to manage relationships with suppliers. |

| KEY RISKS | RISK DESCRIPTION | MITIGATING ACTIONS |
|---|---|---|
| **Health and safety and food safety** | The health and safety of the Group's employees and guests is of key concern and the Group is required to comply with health and safety legislation that includes fire safety, food hygiene, and allergens. | The Group invests significantly in the training of its employees and in third party specialists to ensure adherence to legislation and the safety of our employees and guests. The past 12 months has seen particular focus and attention on allergen awareness training.<br>The Group has established a Health and Safety Committee to oversee the operation and development of health and safety policies and Health and Safety matters are formally reported to the plc Board. |
| **Recruitment and retention** | The success of the business to date and our ability to maintain our roll-out programme is in large part down to our ability to recruit and retain the best teams in our sites. Recruitment of the best staff remains competitive and the potential for restrictions on the free movement of EU nationals has the potential to increase this level of competition, and with it bring additional pressure on wage inflation. | Employee engagement and satisfaction is a key focus of management and the Group's IPO has provided another mechanism by which the Group can incentivise and reward team members.<br>The Group has strengthened its recruitment and training and development teams during the year to assist in recruiting and retaining the best talent. |
| **Availability of new sites** | The Group's growth strategy includes an expectation that we can continue to open approximately 25 new sites per annum. The Board only approves new site investment where strict economic criteria are met. The availability of sites, with the correct rent levels, cost of investment, and demographics, are critical to the delivery of the roll-out programme. | The Group strengthened its property team in the year with the recruitment of a new property director with significant property acquisition experience.<br>It is anticipated that post Covid-19 there will be considerable new site acquisition opportunity in a more tenant friendly environment. |
| **Information technology and data security** | The Group is increasingly reliant on information technology and the risk of failure leading to disruption of trading, loss of data and reputational damage. | The Group continues to invest in its IT platforms to ensure that upgrades are implemented on a timely basis and that appropriate data protection measures are in place.<br>Initiatives during the year have included:<br>• migration of application and data servers to a managed data centre; and<br>• commencement of a project to upgrade firewall security.<br>The Covid-19 pandemic provided a successful test of the ability of Head Office teams to operate remotely. |

The Strategic Report, from pages 3 to 20, was approved by the Board of Directors and signed on its behalf by:

**Nick Collins**
Chief Executive Officer
16 September 2020

# Governance

# BOARD OF DIRECTORS

## ALEX REILLEY
### EXECUTIVE CHAIRMAN

Alex co-founded the Group in 2002, acting as Managing Director until 2015 when he assumed the role of Executive Vice Chairman. In 2016, following the investment from Lion Capital, Alex assumed the role of Executive Chairman and remains heavily involved in the branding and look and feel of the Loungers estate. Prior to founding Loungers, Alex had several roles within the leisure sector including as Operations Manager at Glass Boat Co., where he spent seven years.

## NICK COLLINS
### CHIEF EXECUTIVE OFFICER

Nick joined the Group in January 2012 as Finance Director, becoming Chief Operating Officer in January 2014 and Chief Executive Officer in January 2015. He has overseen the expansion of the Group from 56 sites as at January 2015 to 165 sites at 19 April 2020. Prior to joining the Group, Nick spent three years as Finance Director at AIM quoted Capital Pub Company plc, leaving when that company was sold to Greene King plc in 2011. Prior to that Nick founded Fuzzy's Grub, a sandwich business in London, which he grew to eight outlets and a central production facility over five years. Nick also spent five years in corporate finance at Arthur Andersen where he qualified as a chartered accountant in 2001.

## GREGOR GRANT
### CHIEF FINANCIAL OFFICER

Gregor joined the Group in August 2018 as Chief Financial Officer. Gregor qualified as a chartered accountant with Deloitte and Touche in 1992 and, after leaving Deloitte in 1998, has spent the last 20 years in a variety of CFO roles, primarily in the hospitality sector. Prior to joining the Group, Gregor spent two years as interim CFO at Colosseum Dental UK Ltd (2016 – 2018), the third largest provider of NHS dental services in the UK, three years as Finance Director at Novus Leisure Ltd (2013 – 2016), and acted as interim CFO at ETrawler Unlimited (trading as CarTrawler) (2011 – 2012) and CFO at Fuddruckers Inc., a US hamburger chain based in Austin, Texas (2007 – 2010). Gregor was also part of the management buy in team that acquired regional brewers Morrells of Oxford Ltd in 1998, which was subsequently sold to Greene King plc in 2002, and Eldridge, Pope & Co. Ltd in 2004 which was subsequently sold to Marston's plc in 2007.

## NICK BACKHOUSE
### SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

Nick joined the Board in March 2019 as an Independent Non-Executive Director and is the Senior Independent Director of the Board and chair of the Nomination Committee. Nick has extensive public company, finance, and leisure sector experience. He currently also serves as Senior Independent Director of Hollywood Bowl Group plc (2016 – Present), as a Non-Executive Director of Hyve Group plc (2019 – Present) and as Non-Executive Chairman of Giggling Restaurants Limited (2019 – Present). Nick has also held positions as Non-Executive Director at Marston's Plc (2012 – 2018) and at All3Media Ltd (2011 – 2014) and Senior Independent Director at Guardian Media Group Plc (2007 – 2017). Nick started his career at Baring Brothers and Co. where he became a Board Director (1989-99) following which he held CFO positions at Freeserve Plc (1999 – 2001), The Laurel Pub Company Ltd (2002 – 2005) and National Car Parks Ltd (2006 – 2007), and was Managing Director and Deputy CEO of David Lloyd Leisure Ltd (2008 – 2011).

## ADAM BELLAMY
### INDEPENDENT NON-EXECUTIVE DIRECTOR

Adam joined the Board in March 2019 as an Independent Non-Executive Director and chair of the Audit Committee. Adam is also the Senior Non-Executive Director at Ten Entertainment Group plc (2018 – Present) and is a Non-Executive Director at Gymfinity Kids Limited (2020 – Present). Adam was previously CFO (2012-2018) and then a Non-Executive Director (2018-2020) at PureGym Ltd, prior to which he was Finance Director at Atmosphere Bars & Clubs Ltd (2009 – 2012) and Finance Director at D&D London Ltd (2006 – 2009). He has also held various finance positions at House of Fraser Ltd, Granada Group plc and Whitbread Plc.

## JILL LITTLE
### INDEPENDENT NON-EXECUTIVE DIRECTOR

Jill joined the Board in March 2019 as an Independent Non-Executive Director and chair of the Remuneration Committee. Jill is also a Non-Executive Director of Joules Group plc (2016 – Present) and Chairman of the National Trust Commercial Group (2014 – Present). Jill has also held positions as Non-Executive Director at Nobia AB (2017 – 2020) and Shaftesbury plc (2010 – 2020) and as an adviser to El Corte Ingles S.A. (2012 – 2020), Europe's largest department store group. Jill spent the majority of her executive working life at John Lewis Partnership (1975 – 2012) where she held positions including Merchandise Director, Strategy & International Director and Business Development Director.

## ROBERT DARWENT
### NON-EXECUTIVE DIRECTOR

Robert Darwent is a Founding Partner and member of the Investment Committee of Lion Capital. Prior to founding Lion Capital, Robert served with Hicks, Muse, Tate & Furst for six years. Prior to joining Hicks Muse, he was employed in the private equity group of Morgan Stanley in London. Robert received his BA and MA from Cambridge University.

# CHAIRMAN'S CORPORATE GOVERNANCE STATEMENT

## CHAIRMAN'S STATEMENT

As Loungers' Chairman, I am responsible for leading the Board and for ensuring the overall effectiveness of the Company's governance arrangements, particularly at Board level.

The Board supports high standards of corporate governance and considers that the Company's continuing success on AIM is enhanced by a strong corporate governance framework.

### COMPLIANCE WITH THE QCA CODE

The Company has chosen to adopt and report against the Quoted Companies Alliance Corporate Governance Code 2018 (the "QCA Code"). This Corporate Governance Statement for the year to 19 April 2020 provides an account of how Loungers has applied and complied with the principles of the QCA Code and summarises how the Board and its Committees operate, highlighting key activities during the year. The Board expects to provide at least annual updates on the Company's compliance in the manner recommended by the QCA Code and required by the AIM Rules.

Whilst as a Board we believe the ten principles of the QCA Code have been applied during the year, we recognise that there are areas where we can continue to evolve our governance practices and disclosures in order to ensure they support the growth and strategic progress of the Group and the effective application of the principles going forwards.

### APPLICATION OF THE QCA CODE PRINCIPLES

**Delivering Growth**

The Board has collective responsibility for setting the strategic aims and objectives of the Group. These aims are articulated in the Strategic Report on pages 3 to 20. The Board held a strategy day in January 2020, part of which was attended by senior members of the management team. The Board intends to hold at least one such session each year dedicated to strategy, with input from senior members of the management team and, where appropriate, senior advisers. While implementing the agreed strategic aims, the Board takes into account the expectations of the Company's shareholder base and also its wider stakeholder and social responsibilities.

The Board is committed to an open and ongoing engagement with the Company's shareholders. It takes collective responsibility for ensuring a satisfactory dialogue with shareholders takes place and reviews and discusses the make-up of the Company's shareholder base at Board meetings.

The Company takes its corporate social responsibilities very seriously. The Board recognises that for the Company to achieve long-term success effective working relationships must be maintained across a wide range of stakeholders, as well as shareholders, including employees, existing and new customers, suppliers and others that it collaborates with as part of its business strategy.

Effective risk management is also critical to meeting the Company's strategic objectives. The Company operates a risk framework. The Board has overall responsibility for determining the Company's risk management objectives and policies. The principal risks can be found on page pages 19 to 20. The Board regularly monitors the risks the Company faces and takes appropriate action where necessary. This has been an area of great focus for the Board as the Covid-19 pandemic has progressed and a central consideration for the Board when reviewing strategy and preparing for and implementing plans to reopen sites following lockdown.

**Maintaining a Dynamic Management framework**

As Chairman, I consider both the operation of the Board as a whole and the performance of individual Directors regularly. We have commenced an internal Board performance evaluation this year in compliance with principle 7 of the QCA Code, which requires the Company to carry out a full Board performance evaluation.

Taken as a whole, the Board represents a suitable balance of independence and detailed knowledge of the Company and is well positioned to fulfil its roles and responsibilities as effectively as possible. Future Board appointments will continue to consider diversity, including gender, alongside commercial and experience-based suitability criteria, to complement the current balance of skills on the Board.

The Company promotes a culture of integrity, honesty, trust and respect and all employees are expected to operate in an ethical manner in all their internal and external dealings. The Company's staff handbook and policies promote this culture and include such matters as whistleblowing, social media, anti-bribery, communication, and general conduct of employees.

The Board places significant importance on the promotion of ethical values and good behaviour within the Company and takes ultimate responsibility for ensuring that these are promoted and maintained throughout the organisation and that they guide the Company's business objectives and strategy.

**Build Trust**

The Board recognises the importance of understanding the expectations of our shareholders, and a description of our activity in this area is set out on page 12. The Chief Executive Officer is the primary contact for the Company's shareholders and is responsible for ensuring that the links between the Board and the shareholders, are strong and efficient. The Board as a whole is responsible for the good management of the Company and its principal aim is to enhance the Company's long-term value for the benefit of shareholders.

The Board has adopted terms of reference which have a clear and specific schedule of matters that are reserved for the Board and which include corporate governance, strategy, major investments, financial reporting, and internal controls.

The Board has also established an Audit Committee, a Remuneration Committee, and a Nomination Committee each with written terms of reference. The responsibilities and current membership of these committees are set out in their respective reports. From time to time, separate committees may be set up by the Board to consider and address specific issues, as and when they arise.

## BOARD STRUCTURE AND OPERATION

The Board comprises seven Directors: the Founder Chairman, four Non-Executive Directors and two Executive Directors. Three of the Non-Executive Directors, Nick Backhouse, Adam Bellamy, and Jill Little are considered by the Board to be independent, the fourth, Robert Darwent is not considered to be independent because of his relationship with Lion, a substantial shareholder of the Company.

The Chairman leads the Board and is responsible for its governance structures, performance, and effectiveness. The Independent Non-Executive Directors are responsible for bringing independent and objective judgement to Board decisions. The Chief Executive Officer and the Chief Financial Officer are responsible for the day-to-day management of the Company and for implementing the strategic goals agreed by the Board. The non-independent Non-Executive Director represents Lion, a substantial shareholder, on the Board. A relationship agreement is in place between the Company and Lion to ensure their ongoing relationship is at arm's length and on a normal commercial basis. The skills and experience of the Board are set out in their biographies on page 22.

The Board as a whole is responsible for the good management of the Company and its principal aim is to enhance the Company's long-term value for the benefit of shareholders. The Board has adopted terms of reference which have a clear and specific schedule of matters that are reserved for the Board and which include corporate governance, strategy, major investments, financial reporting, and internal controls. The Board has also established an Audit Committee, a Remuneration Committee, and a Nomination Committee each with written terms of reference. The responsibilities and current membership of these committees are set out below. From time to time, separate committees may be set up by the Board to consider and address specific issues, as and when they arise.

The Board meets regularly (at least eight times a year) and is responsible for strategy, performance, approval of any major capital expenditure and the framework of internal controls.

Briefing papers are distributed to all Directors in advance of Board meetings and all Directors have access to the advice and services of the Chief Financial Officer and Company Secretary, who are responsible for ensuring that Board procedures are followed, that each Director is at all times provided with such information as is necessary for him or her to discharge their duties and that applicable rules and regulations are complied with, in accordance with the QCA Code. In addition, all Directors can obtain independent professional advice in the furtherance of their duties, if necessary, at the Company's expense.

The rules governing the appointment and replacement of Directors are set out in the Company's Articles of Association. In accordance with the Company's Articles of Association, one-third of Directors are subject to re-election by shareholders at the Annual General Meeting and any new Directors appointed during a financial year must be formally elected at the Annual General Meeting following their appointment.

The Articles of Association may be amended by special resolution of the Company's shareholders.

### BOARD MEETINGS

During the year, the Board has met formally eight times. Board meetings are also convened on an ad-hoc basis from time to time to consider specific corporate activity, and since the outbreak of the Covid-19 pandemic the Board has also held regular calls outside of scheduled Board meetings.

When possible, the location of Board meetings is varied so that the Directors visit different sites and have the opportunity to meet with local management teams.

Directors are expected to attend all meetings of the Board and the Committees on which they sit, and the Non-Executive Directors are expected to devote sufficient time to the Company to enable them to fulfil their duties as Directors. The Board is satisfied that the Chairman and each of the Non-Executive Directors is able to devote sufficient time to the business, and they each maintain open communication with the Executive Directors and senior management between the formal Board meetings.

| Director | Scheduled Board Meetings | Audit Committee Meetings | Remuneration Committee Meetings | Nomination Committee Meetings |
|---|---|---|---|---|
| **Chairman** | | | | |
| Alex Reilley | 8/8 | N/A | N/A | N/A |
| **Executive Directors** | | | | |
| Nick Collins | 8/8 | N/A | N/A | N/A |
| Gregor Grant | 8/8 | N/A | N/A | N/A |
| **Non-Executive Directors** | | | | |
| Nick Backhouse | 8/8 | 2/2 | 1/1 | 1/1 |
| Adam Bellamy | 8/8 | 2/2 | 1/1 | 1/1 |
| Robert Darwent | 7/7 | N/A | N/A | N/A |
| Jill Little | 8/8 | 2/2 | 1/1 | 1/1 |
| **Former Non-Executive Director** | | | | |
| James Cocker | 1/1 | N/A | N/A | N/A |

Only the independent Non-Executive Directors are Committee Members.

Other Directors regularly attend Committee meetings.

Further ad hoc meetings were held during the year to deal with ad hoc approvals and issues arising from the Covid-19 crisis.

## BOARD COMMITTEES

The Board has delegated specific responsibilities to the Audit Committee, the Remuneration Committee and the Nomination Committee, details of which are set out below and/or in the respective Committee reports.

Each Committee has written terms of reference setting out its duties, authority and reporting responsibilities. The terms of reference of each Committee will be reviewed on an annual basis going forward to ensure they remain appropriate and reflect any changes in legislation, regulation or best practice.

## EXTERNAL ADVISERS

The Board seeks advice and guidance on various matters from its Financial and Nominated Advisor, GCA Altium, its Joint Brokers, Liberum and Peel Hunt and its Financial Public Relations Adviser, Instinctif Partners. The Board also uses the services of an external company secretarial provider, Prism Cosec.

## CONFLICTS OF INTEREST

At each meeting of the Board or its Committees, the Directors are required to declare any interests in the matters to be discussed and are regularly reminded of their duty to notify any actual or potential conflicts of interest. The Company's Articles of Association provide for the Board to authorise any actual or potential conflicts of interest if deemed appropriate to do so. The Board has effective procedures in place to monitor and manage conflicts of interests.

## INTERNAL CONTROLS

The Board has ultimate responsibility for the Group's system of internal controls and for the ongoing review of their effectiveness. Systems of internal control can only identify and manage risks and not eliminate them entirely. As a result, such controls cannot provide an absolute assurance against misstatement or loss. The Board considers that the internal controls which have been established and implemented are appropriate for the size, complexity, and risk profile of the Group. The Board continues to review the system of internal controls to ensure it is fit for purpose and appropriate for the size and nature of the Company's operations and resources.

## BOARD EVALUATION

During the year, the Company commenced its first evaluation of the performance of the Board as a whole and of its Committees. The process will be further enhanced in future years to encompass formal evaluation of individual Directors, including the Chairman, to ensure that all are committed, independent (where relevant) and provide a relevant and effective contribution. The Senior Independent Director will be responsible for establishing a formal process for appraising the Chairman's performance and will undertake such evaluation annually and otherwise as deemed appropriate from time to time.

## RELATIONS WITH SHAREHOLDERS AND STAKEHOLDERS

The Board places a strong emphasis on the standards of good corporate governance and maintaining effective engagement with its shareholders and key stakeholders, which it considers to be integral to longer term growth and success.

The principal methods of communication with shareholders are the Annual Report, the half year and full-year results announcements, trading updates (where required or appropriate), Annual General Meetings and the investor relations section of the Company's website (in particular the 'AIM Rule 26' page).

The Company's website is updated with information regarding the Company's activities and performance. The Company's reports and presentations and notices of Annual General Meetings are made available on the website when available, as are the results of voting at shareholder meetings. The Company will publish an explanation around any actions it proposes to take on votes where a significant proportion of independent votes have been cast against any resolution.

## ANNUAL GENERAL MEETING

Shareholders will have an opportunity to raise questions with the Board at the Group's Annual General Meeting, which will be held at Cosy Club, 14 Tunsgate Quarter, Guildford GU1 3QY on 16 October 2020. Details of the business to be transacted at the AGM are set out in the Notice of AGM, which is available on the Company's website.

**Alex Reilley**
Chairman
16 September 2020

# AUDIT COMMITTEE REPORT

## On behalf of the Board, I am pleased to present the Audit Committee Report for the 52 weeks ended 19 April 2020.

The Committee consists of the three independent Non-Executive Directors and is chaired by myself. The Board is satisfied that I, as Chairman of the Committee, have recent and relevant financial experience. I am a chartered certified accountant with experience as a Finance Director in multi-site leisure and hospitality operations. The Committee met twice during the year, and all members of the committee attended both meetings. Although not members of the Audit Committee, our Executive Chairman, CEO and CFO are also invited to attend meetings unless they have a conflict of interest.

### DUTIES

The Audit Committee is responsible for ensuring that the financial performance of the Group is properly reported on and reviewed. Its role includes monitoring the integrity of the Group's financial statements and results announcements, reviewing significant financial reporting issues, reviewing the effectiveness of the Group's internal control and risk management systems and overseeing the relationship with the external auditors (including advising on their appointment, agreeing the scope of the audit and reviewing the audit findings). It is also responsible for establishing, monitoring and reviewing procedures and controls for ensuring compliance with the AIM Rules. The detailed duties of the Audit Committee are set out in its Terms of Reference which will be reviewed by the Committee on an annual basis. The principal areas of focus for the Committee since the Company listed have been as follows:

- Approving the external auditor's plan for the audit of the Group's annual financial statements, including key audit matters, key risks, confirmation of auditor independence and terms of engagement;
- Reviewing the Group's draft financial statements and interim results statements and reviewing the external auditor's detailed reports including their analysis of key audit matters and risks;
- Meeting the external auditor and their team during the year, to review the audit plan, timetables, specific matters relating to the audit work and any issues arising;
- Reviewing the performance of the external auditor;
- Considering new accounting standards and their implications for the Group; and
- Reviewing the Group's risk management processes, key risk register and risk mitigations.

### SIGNIFICANT ISSUES

The significant issues considered by the Audit Committee in respect of the FY20 Annual Report are as follows:

- Going concern – The Committee has considered the impact of Covid-19 on the profitability, cash flows and liquidity of the Group. Financial modelling has been undertaken to examine the impact of a range of scenarios and the Committee has also benefitted from understanding the Group's financial performance post re-opening in order to support the assessment that it is appropriate to prepare the FY20 financial statements on the going concern basis.
- Impairment of tangible fixed assets – Management have undertaken an impairment review at individual site level. The key assumptions underpinning cash flow forecasts, future growth rates and discount rates were reviewed by the Committee and the Committee was satisfied with the methodology and assumptions that underpin the impairment charge taken in the year.
- Share based payments – The Committee has reviewed the accounting for share based payments, and in particular the assumptions used in the fair value estimate of the Value Creation Plan.
- Exceptional costs – Exceptional items identified by management have been reviewed and considered by the Committee and the Committee is satisfied that they have been appropriately classified.
- IFRS 16 – The Committee has reviewed management's approach to the adoption of IFRS 16, including the decision to adopt the fully retrospective approach, the adoption of a discount rate of 5.9% in respect of leases entered into whilst the Group was under private equity ownership and the revised discount rate of 3.5% for leases entered into in FY20 to reflect the Group's post IPO capital structure.

## ROLE OF THE EXTERNAL AUDITORS

The Audit Committee monitors the relationship with the external auditors, PricewaterhouseCoopers LLP, to ensure that the auditors' independence and objectivity are maintained. The Committee will assess the independence of the external auditors and the effectiveness of the external audit process before making recommendations to the Board in respect of their appointment or reappointment. In assessing independence and objectivity, the Committee will consider the level and nature of services provided by the external auditors as well as the confirmation from the external auditors that they have remained independent within the meaning of the APB Ethical Standards of Auditors.

## RISK MANAGEMENT AND INTERNAL CONTROLS

The Group has established a system of risk management and internal controls. The Audit Committee is responsible for reviewing the internal financial control systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems and will do so during the year.

## SHARE DEALING, ANTI-BRIBERY AND WHISTLEBLOWING

Loungers plc has adopted, with effect from Admission, a share dealing code for the Directors and all employees, which is appropriate for a company whose shares are admitted to trading on AIM and which is in accordance with Rule 21 of the AIM Rules. The Group takes all reasonable steps to ensure compliance by the Directors and any other applicable employees with the terms of this code. The Group promotes a culture of integrity, honesty, trust and respect and all employees are expected to operate in an ethical manner in all their internal and external dealings. The Group's staff handbook and policies promote this culture and include such matters as whistleblowing, social media, anti-bribery, communication, and general conduct of employees. The Group's whistleblowing and anti-bribery policies are overseen by the Audit Committee. The Audit Committee believes, based on experience to date, that these policies are effective and staff members are aware of them.

**Adam Bellamy**
Audit Committee Chairman
16 September 2020

# REMUNERATION COMMITTEE REPORT

On behalf of the Board, I am pleased to present the Remuneration Committee Report for the 52 weeks ended 19 April 2020.

The Committee consists of the three independent Non-Executive Directors and is chaired by myself. The Committee met once during the year, and all members of the Committee attended the meeting.

## DUTIES

The Committee has responsibility for:

- Determining the policy for the remuneration of the Chairman, Executive Directors, and any employees that the Board delegates to it;
- Within the terms of the agreed policy, determining individual remuneration packages including bonuses, incentive payments, share options, pension arrangements and any other benefits;
- Giving due regard to the comments and recommendations of the QCA Corporate Governance Code and the AIM Rules for Companies;
- Being informed of and where appropriate advising on any major changes in employee benefit structures; and
- Monitoring the level and structure of remuneration for senior managers below Board level as determined.

The principle objective in setting the Group's remuneration policy is to ensure the recruitment and retention of executives with the appropriate skills and qualities to drive the company's strategy and deliver value for shareholders. To achieve this, our policy on executive remuneration is designed to:

- Include a competitive mix of base salary and short and long-term incentives, with an appropriate proportion of the package determined by stretching targets linked to the Group's performance;
- Promote the long-term success of the Group, in line with our strategy and focus on profitability and growth; and
- Provide appropriate alignment between the interests of shareholders and executives, which is further enhanced through shareholding guidelines and the deferral of a proportion of the annual bonus as shares.

The Executive Chairman, Chief Executive Officer and Chief Financial Officer occasionally attend meetings and provide information and support as requested. Executive Directors are not present when their remuneration package is considered.

At the time of the Company's IPO the Remuneration Committee sought the advice of external remuneration advisors to ensure that remuneration packages and incentive programmes were set at appropriate levels. The Committee continues to have access to those advisors for ongoing support and advice as required.

## REMUNERATION – EXECUTIVE DIRECTORS

Remuneration levels for Executive Directors were set at the time of the IPO with the assistance of a benchmarking exercise undertaken by external advisors. Base salaries were re-set to bring them into line with lower quartile salaries paid by a comparator group of similarly sized listed companies.

The Executive Directors and the two divisional Managing Directors are incentivised through a combination of an annual bonus plan and a long-term value creation plan ("VCP"). The annual bonus provides an opportunity to earn a cash bonus of a maximum of 100% of salary. Awards under the annual bonus scheme are subject to achieving financial targets, with the Remuneration Committee setting the targets by reference to Group budgets and analysts' forecasts. Payments under the annual bonus plan are subject to typical malus and clawback provisions.

The VCP was introduced at the time of the IPO and provides the Executive Directors and two divisional Managing Directors with an incentive scheme that sees them wholly aligned with the Group's shareholders. At the time of the IPO the five participants in the VCP were granted awards giving them a future right to be issued Ordinary Shares based on the excess cumulative total shareholder return generated over the VCP performance period.

It is intended that the awards made at IPO are one-off awards, with no further awards under this plan being made. The Remuneration Committee will, however, review this approach on an annual basis taking into consideration performance, retention challenges and affordability.

The VCP Awards shall have a three-year performance period commencing on the date of Admission. Participants in the VCP each have a right to share in a pool of Ordinary Shares that has a value equal to:

- 10 per cent. of any excess cumulative shareholder value created over a 12 per cent. per annum hurdle and up to 15 per cent. per annum growth over the VCP performance period;
- 11 per cent. of any excess cumulative shareholder value created over a 15 per cent. per annum hurdle and up to 20 per cent. per annum growth over the VCP performance period; and
- 12 per cent. of any excess cumulative shareholder value created over a 20 per cent. per annum hurdle over the VCP performance period.

Any performance conditions applying to the VCP Awards may be varied, substituted or waived by the Remuneration Committee if events occur (e.g. major acquisition or disposal) that cause it to determine that the conditions are unable to fulfil their original intended purposes and the change would not be materially less difficult to satisfy. New equity issues will be excluded from the calculation unless decided otherwise by the Remuneration Committee. The value created will be measured in terms of Total Shareholder Return (being the growth in the Company's market capitalisation including dividends reinvested). There will be an overall cap on the number of Ordinary Shares that can be issued under the VCP equal to six per cent. of the Group's share capital from time to time.

VCP Awards will vest as to one third on the 3rd anniversary of Admission, one third on the 4th anniversary of Admission and one third on the 5th anniversary of Admission, to the extent permitted following any operation of malus or clawback.

## REMUNERATION – NON-EXECUTIVE DIRECTORS

The remuneration policy for the Non-Executive Directors is to pay fees necessary to attract the individual of the calibre required, taking into consideration the size and complexity of the business and the time commitment of the role, without paying more than is necessary. The fees of the Non-Executive Directors are determined by the Executive Directors.

Non-Executive Directors may be eligible to receive benefits such as travel, the use of secretarial support and other expenses relevant to the performance of their roles. None of the Non-Executive Directors are eligible to participate in any of the Group's incentive arrangements.

## EMPLOYEE SHARE SCHEMES

The Directors recognise the importance of ensuring that all employees are well motivated and aligned with the broader success of the Group. Accordingly, the Directors consider equity participation to be an important element of attracting, retaining, and incentivising key staff. To this end the Group operates two shares schemes: the senior management restricted share plan ("RSP") and the employee share plan ("ESP").

The RSP is a discretionary executive share plan. Awards shall be made on an annual basis, and as proposed by the Executive Directors, at the discretion of the Remuneration Committee. There will be an overall cap on the number of shares that can be issued under the RSP equal to the dilution limit of 10 per cent. in 10 years (such amount to be reduced by any dilution arising from the VCP and/or the Employee Share Plan). The Group has also established a subplan to the RSP which permits the grant of RSP Awards designed to meet the requirements of a company share option plan ("CSOP") for the purposes of Schedule 4 to the Income Tax (Earnings and Pensions) Act 2003 ("CSOP Options")

Awards made under the RSP plan carry no performance conditions but are subject to a three-year vesting period from the date of grant subject to continued employment with the Group.

The ESP is a discretionary all-employee share plan under which senior management may, within certain limits, grant to any employee a conditional award (i.e. a conditional right to acquire Ordinary Shares), at their discretion. At the time of the IPO grants of 500 shares were made to 616 employees. The ESP has no performance conditions, other than continued employment over the vesting period.

# REMUNERATION COMMITTEE REPORT CONTINUED

## SINGLE TOTAL FIGURE OF REMUNERATION TABLE (AUDITED)

| | Salary / Fees | | Annual Bonus | | IPO Cash Bonus[(2)] | | IPO Share Award[(2)] | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 £000 | 2019 £000 | 2020 £000 | 2019 £000 | 2020 £000 | 2019 £000 | 2020 £000 | 2019 £000 | 2020 £000 | 2019 £000 |
| Alex Reilley | 96 | 95 | - | - | 20 | - | - | - | 116 | 95 |
| Nick Collins | 273 | 151 | - | - | 200 | - | 1,259 | - | 1,732 | 151 |
| Gregor Grant [(1)] | 158 | 110 | - | - | 50 | - | 100 | - | 308 | 110 |
| Nick Backhouse | 58 | - | - | - | - | - | | - | 58 | - |
| Adam Bellamy | 52 | - | - | - | - | - | | - | 52 | - |
| Jill Little | 52 | - | - | - | - | - | | - | 52 | - |
| Robert Darwent | - | - | - | - | - | - | | - | - | - |
| James Cocker | - | - | - | - | - | - | - | - | - | - |
| **Total** | **689** | **356** | **-** | **-** | **270** | **-** | **1,359** | **-** | **2,318** | **356** |

(1) Gregor Grant's 2019 remuneration reflects his remuneration from the 1 August 2018, the date on which he joined the Group.

(2) The IPO cash and share awards were made in recognition of the Group's successful IPO on 29 April 2019.

## DIRECTORS' INTERESTS (AUDITED)

As at 19 April 2020 the Directors of the Company held the following number of 1p ordinary shares.

| | Beneficially owned at 16 September 2020 | Beneficially owned at 19 April 2020 | Vested, unexercised share awards at 19 April 2020 |
|---|---|---|---|
| Alex Reilley | 7,201,432 | 6,546,757 | - |
| Nick Collins | 1,436,276 | 1,305,706 | 450,000 |
| Gregor Grant | 180,148 | 146,815 | 50,000 |
| Nick Backhouse | 13,903 | 12,500 | - |
| Adam Bellamy | 13,903 | 12,500 | - |
| Jill Little | 13,903 | 12,500 | - |

The table includes details of shares beneficially owned as at the date of this report to reflect the shares taken up by Directors in the equity placing completed on 23 April 2020.

(1) Robert Darwent is a Director of Lion Capital. At 19 April 2020 funds managed by Lion Capital were interested in 26,728,524 shares and at 16 September 2020 in 29,728,638 shares.

## OUTSTANDING DIRECTORS' SHARE AWARDS (AUDITED)

| | Scheme | At 21 April 2019 | Granted | At 19 April 2020 | Share price at grant | Exercise price | Date of Grant | Exercisable from[(1)] | Expiry Date |
|---|---|---|---|---|---|---|---|---|---|
| Nick Collins | RSP | – | 450,000 | 450,000 | £2.00 | Nil | April 2019 | April 2020 | April 2029 |
| Gregor Grant | RSP | – | 50,000 | 50,000 | £2.00 | Nil | April 2019 | April 2020 | April 2029 |

(1) The RSP awards disclosed above in respect of a total of 500,000 shares are exercisable in three equal tranches on 29 April 2020, 29 April 2021 and 29 April 2022.

**Jill Little**
Remuneration Committee Chairman
16 September 2020

# NOMINATION COMMITTEE REPORT

## On behalf of the Board, I am pleased to present the Nomination Committee Report for the 52 weeks ended 19 April 2020.

The Committee consists of the three independent Non-Executive Directors and is chaired by myself. In this year of the Company's IPO the Committee met once, and all members of the committee attended. In future years it is intended that the Committee will meet at least twice per year.

### DUTIES

The Committee is responsible for, *inter alia*:

- Ensuring that the Board and its Committees have the right balance of skills, knowledge, and experience;
- Considering and planning for the orderly succession of Directors and other senior managers; and
- Identifying and nominating suitable candidates to fill Board vacancies.

For this year the Committee has focused upon:

- Succession planning. The Committee discussed long term succession planning and emergency cover and identified the necessary actions to identify and develop talent both within the Group and from the wider market. In its discussions the Committee recognised the importance of looking at a diverse range of candidates when considering future appointments;
- Board and Committee membership. Review of Board and Committee membership to ensure that the Board and Committees can discharge their responsibilities effectively;
- A review of the required time commitment of the Non-Executive Directors to fulfil their duties appropriately and a review of the Terms of Reference of the Committee; and
- Board evaluation. The Committee has considered the appropriate methodology for undertaking Board evaluation and an evaluation process is currently underway.

**Nick Backhouse**
Nomination Committee Chairman
16 September 2020

# DIRECTORS' REPORT

## The Directors present their report and the consolidated financial statements of Loungers plc for the 52 weeks ended 19 April 2020.

The Corporate Governance Statement on pages 23 to 27 also forms part of this Directors' Report.

### PRINCIPAL ACTIVITY

The principal activity of the Group is the operation of café bars and café restaurants.

### INCORPORATION

The Company was incorporated on 28 March 2019 and was admitted to trading on the AIM market on 29 April 2019. Further details, including the basis of preparation of these financial statements, are provided in note 2.1.

### RESULTS AND DIVIDENDS

The consolidated statement of comprehensive income is set out on page 45 and shows the comprehensive loss for the year.

There were no dividends paid or proposed in the year under review.

### STRATEGIC REPORT

Information in respect of the Business Review, Future Outlook of the Business and Principal Risks and Uncertainties are not shown in the Directors' Report because they are presented in the Strategic Report.

### DIRECTORS

The Directors who served during the year and up to the date of this report, unless otherwise stated, were as follows:

- Alex Reilley (appointed 28 March 2019)
- Nick Collins (appointed 28 March 2019)
- Gregor Grant (appointed 28 March 2019)
- Nick Backhouse (appointed 29 March 2019)
- Adam Bellamy (appointed 29 March 2019)
- Robert Darwent (appointed 1 July 2019)
- Jill Little (appointed 29 March 2019)
- James Cocker (appointed 28 March 2019, resigned 1 July 2019)

Brief biographical details for each of the Directors are given on page 22.

### DIRECTORS' INTERESTS

A table showing the Directors' interests in the share capital of Loungers plc is set out in the Directors' Remuneration Report on page 32.

### GOING CONCERN

In adopting the going concern basis for preparing the financial statements, the directors have considered the business activities as set out on pages 6 to 10 as well as the Group's principal risks and uncertainties as set out on pages 19 to 20, including the downside sensitivities outlined on pages 16 to 17 and in note 2.2. Based on the Group's cash flow forecasts and projections, the Board is satisfied that the Group will be able to operate within the level of its facilities for the foreseeable future. For this reason, the Board considers it appropriate for the Group to adopt the going concern basis in preparing its financial statements.

### SHARE CAPITAL

Details of the issued share capital, together with details of movements during the year are shown in Note 22 to the Consolidated Financial Statements.

The Company has one class of Ordinary share and each Ordinary share carries the right to one vote at general meetings. The Company also has one class of non-voting Preference shares.

There are no restrictions on the transfer of Ordinary shares in the capital of the Company other than those restrictions which may from time to time be imposed by law, for example, insider trading law.

### AUTHORITY FOR THE COMPANY TO PURCHASE ITS OWN SHARES

Subject to authorisation by shareholder resolution, the Company may purchase its own shares in accordance with the Companies Act 2006. Any shares which have been bought back may be held as treasury shares or cancelled immediately upon completion of the purchase.

At the AGM on 16 October 2019 the Company was generally and unconditionally authorised by its shareholders to make market purchases (within the meaning of section 693 of the Companies Act 2006) of up to a maximum of 9,250,000 of its Ordinary shares. The Company has not purchased any of its Ordinary shares under this authority, which is due to expire at the date of this year's AGM.

## SUBSTANTIAL SHAREHOLDINGS

The Company is aware that the following had an interest of 3% or more of the issued Ordinary share capital of the Company at 15 September 2020, the last practicable date before the publication of this report:

| | No of ordinary shares | % of share capital |
|---|---|---|
| Funds managed by Lion Capital | 29,728,638 | 29.0% |
| AXA Framlington Investment Managers | 7,252,677 | 7.1% |
| Alex Reilley | 7,201,432 | 7.0% |
| Jacob Bishop | 7,157,432 | 7.0% |
| M&G Investment Management | 6,140,004 | 6.0% |
| Highclere International Investors | 5,852,772 | 5.7% |
| Canaccord Genuity Wealth Management | 5,800,000 | 5.7% |
| BlackRock | 5,265,696 | 5.1% |
| Merian Global Investors | 5,244,431 | 5.1% |
| Gresham House Asset Management | 4,710,051 | 4.6% |
| Invesco | 3,509,673 | 3.4% |

## EMPLOYMENT POLICY

Our policy is to promote equal opportunity in employment regardless of gender, race, colour or disability, subject only to capability and suitability for the task and legal requirements. Where existing employees become disabled, it is our policy to provide continuing employment under equivalent terms and conditions, and to provide equal opportunity for promotion to disabled employees wherever appropriate.

We keep our team members regularly updated with issues affecting the running of the business and obtain their views on any key matters, all of which is in accordance with our obligations under the Information and Consultation Regulations 2004. The dissemination of information is achieved in many ways including weekly newsletters, regular regional and area meetings, our company intranet and Directors and Managers briefings. These are opportunities for team members to express their views and ask questions. Outside of these specific events, we welcome any questions that team members may have about the business.

The Board recognises that Loungers' performance and success are directly related to our ability to attract, retain and motivate high-calibre employees. We are committed to linking reward to business and individual performance, giving employees the chance to share in the Company's financial success. Eligible employees are typically provided with financial incentives related to the Group's performance in the form of annual bonuses. The Group also operates incentive plans and share plans.

## FINANCIAL RISK MANAGEMENT

The Group finances its operations through a combination of intra-Group funding and bank debt. The Group uses various financial instruments in the form of cash, third-party bank debt and other items, such as trade payables, that arise directly from its operations. The main purpose of these financial instruments is to fund the Group's operations. These financial instruments expose the Group to several financial risks, principally liquidity and interest rate risks.

The Group seeks to meet liquidity risk through assessment of short-, medium- and long-term cash flow forecasts to ensure the adequacy of committed debt facilities. The banking facilities referred to above include a £10m revolving credit facility. To provide additional liquidity following the Covid-19 outbreak the Group entered into an additional £15m revolving credit facility with its bankers on 22 April 2020, further details are provided in note 30.

Interest rate risk is managed by the use of interest rate swaps to fix the Group's interest rate on its term loan debt. The Group has entered into a three-year interest rate SWAP to fix LIBOR at 0.7% on the £32.5m term loan facility.

## STREAMLINED ENERGY AND CARBON REPORTING

The data below relates wholly to the United Kingdom and covers the 52 weeks to 19 April 2020.

| | Energy Usage (kWh) | GHG Emissions ($CO_2$e tonnes) |
|---|---|---|
| Grid electricity | 21,160,051 | 5,358 |
| Natural gas | 28,342,175 | 5,211 |
| Transport fuel (purchased and reimbursed) | 1,451,521 | 400 |
| **Total** | **50,953,747** | **10,969** |
| Scope 1 | 28,342,175 | 5,373 |
| Scope 2 | 21,160,051 | 4,933 |
| Scope 3 | 1,451,521 | 663 |
| **Total** | **50,953,747** | **10,969** |
| **Intensity ratio** | | |
| Annual revenue (£000) | | 166,502 |
| Total $CO_2$e tonnes per £m revenue | | 65.9 |

The methodology adopted involved capturing energy consumption data through utility billing, this accounted for 97.2% of consumption. Defra 2020 conversion figures were used to calculate $CO_2e$.

During the year under review the Group has undertaken the following energy efficiency measures:

- Installation of more efficient kitchen equipment (including induction hobs and more accessible refrigerated storage) during the kitchen reset programme; and
- During the Covid-19 lockdown the Group worked closely with their energy consultants to minimise energy waste, achieving a 75% reduction in electricity consumption and 90% reduction in gas consumption during the period.

## DIRECTORS' LIABILITY INSURANCE AND INDEMNITY

The Group has arranged insurance cover in respect of legal action against its Directors. To the extent permitted by UK law, the Group also indemnifies the Directors. These provisions were in force throughout the year and in force at the date of this report.

## POLITICAL DONATIONS

During the year ended 19 April 2020 the Group made no political donations (2019 £nil).

## S172 STATEMENT

The Directors behave and carry out their activities to promote the long-term success of the Group. More detail is shown in the Strategic Report.

## POST BALANCE SHEET EVENTS

On 22 April, in response to the Covid 19 lockdown and to ensure that Group had sufficient liquidity to withstand a very prolonged lockdown, the Group announced the following initiatives to strengthen its financial position:

- The issue of 9,250,000 ordinary shares of 1 pence each to existing shareholders at a price of 90 pence per ordinary share to raise gross proceeds of £8,325,000;
- An incremental £15m revolving credit facility with its bankers Santander Corporate Banking and Bank of Ireland; and
- The waiver of the covenant tests scheduled for 12 July 2020 and 4 October 2020, and amendments to the tests running through to 3 October 2021.

On 4 May 2020 the Company allotted and issued 650,000 ordinary shares of 1 pence each in the Company following the vesting of awards made to 480 Company employees pursuant to the Company's Employee Share Plan.

On 4 July, the Group commenced a phased re-opening of its sites, with all of its sites re-opened and fully operational by 7 August 2020.

## DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the parent Company financial statements in accordance with FRS 102. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent Company and the profit and loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## DISCLOSURE OF INFORMATION TO AUDITOR

So far as each of the Directors is aware, there is no relevant audit information that has not been disclosed to the Group's auditors and each of the Directors believes that all steps have been taken that ought to have been taken to make them aware of any relevant audit information and to establish that the Group's auditors have been made aware of that information.

## INDEPENDENT AUDITORS

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office.

This report was approved by the Board of Directors and signed on its behalf.

**G Grant**
Chief Financial Officer

16 September 2020

# INDEPENDENT AUDITORS' REPORT
## TO THE MEMBERS OF LOUNGERS PLC

## REPORT ON THE AUDIT OF THE GROUP FINANCIAL STATEMENTS

### OPINION

In our opinion, Loungers plc's group financial statements (the "financial statements"):

- give a true and fair view of the state of the group's affairs as at 19 April 2020 and of its loss and cash flows for the 52 week period (the "period") then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the consolidated statement of financial position as at 19 April 2020; the consolidated statement of comprehensive income, the consolidated statement of cash flows, and the consolidated statement of changes in equity for the 52 week period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### BASIS FOR OPINION

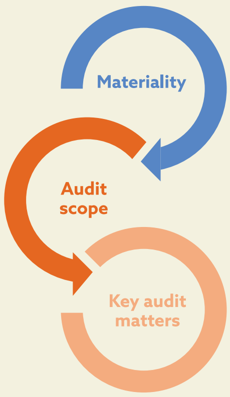
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### OUR AUDIT APPROACH

### OVERVIEW




- Overall group materiality: £1,665,000, based on 1% of revenue.
- Following our assessment of the risk of material misstatement we selected the parent company, Loungers plc, and the trading company, Loungers UK Limited, for full scope audits and performed specified audit procedures over certain balances and transactions in the four intermediate holding companies.

  Our assessment of the risk of material misstatement also informed our views of the areas of particular focus of our work which are listed below:
- The impact of COVID-19.
- Impairment of property, plant and equipment.

### THE SCOPE OF OUR AUDIT

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

**Key audit matter**

The impact of COVID-19

As set of on pages 3 to 20, COVID-19 has had a number of significant financial, as well as operational, impacts, both during lockdown and since. Management have also considered the impacts of COVID-19 on the financial statements including in respect of their assessment on the going concern basis of preparation of the financial statements and in respect of any potential for the impairment of assets.

As part of our risk assessment, we considered the potential impact for the group to be the following:

- The effects of lockdown and social distancing restrictions on consumer behaviour has resulted in reduced footfall and therefore reduced revenue, profitability and cash generation. This creates a risk of impairment of the carrying value of property, plant and equipment as well as the carrying value of goodwill.
- The lower level of revenue, profit and cash generation also creates a going concern risk related to the adequacy and availability of bank facilities going forward in the context of the overall liquidity requirements of the Group.
- Disclosure of the impact of COVID-19 on the group's business in the financial statements.

**How our audit addressed the key audit matter**

We have considered the impact of COVID-19 on various areas of the financial statements and performed procedures to address the risk around the impact of COVID-19. We have set out our responses to the risk in respective areas of the financial statements as below:

Regarding the impact on the potential impairment of property, plant and equipment, refer to the 'Impairment of property, plant and equipment' Key audit matter below.

In respect of the impact of potential impairment of the carrying value of goodwill, we assessed the group's annual impairment review value in use calculations, which included assumptions that were consistent with the impairment review of property, plant and equipment. There was no indication of impairment identified.

In respect of the impact of going concern, we have understood how management have factored in the impact of COVID-19 on their assessment of future cash flows and bank facility covenant compliance. This included a downside scenario which included lower levels of revenue across sites, the potential for regional lockdowns resulting in the closure of sites, and more severe affects of COVID-19 over the winter months. In doing this we have validated management's assumptions by looking at the actual impact on revenue and operating expense cash flows since the outbreak of COVID-19. We also validated the terms of the revised bank facility and the proceeds from the placing which took place after the year end. Further we have assessed the availability of financial resources and the ability of the Group to absorb potential severe but plausible adverse circumstances over the going concern period.

We have read management's disclosures in the financial statements and the related narrative disclosures within the 'other information' to confirm they are consistent with the financial statements and our knowledge based on our audit.

Overall, we consider management's assessment of the impact of COVID-19 on the financial statements to be reasonable. Our conclusion in respect of going concern is stated below.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| Impairment of property, plant and equipment<br><br>As noted above the effects of COVID-19 are unfolding across the UK economy and business. The effects of lockdown and social distancing restrictions on consumer behaviour has resulted in reduced footfall and therefore reduced revenue and profitability. This creates a risk of impairment of the carrying value of property, plant and equipment across the sites.<br><br>We focussed on this area due to the carrying value of property, plant and equipment and the impairment risk noted above. At 19 April 2020, the group reported property, plant and equipment, with a carrying value of £166 million.<br><br>In addition, following an impairment review performed by management, an impairment of property, plant and equipment of £9.8 million was recognised. Management's impairment review involved the preparation of a discounted cash flow model, which include assumptions in relation to future trading results which required management judgement. | We have obtained management's impairment review of property, plant and equipment, which has been performed at an individual site level, which indicated an impairment totalling £9.8 million in respect of a number of sites. This impairment has been recognised in the financial statements and included in the income statement as part of exceptional items. Given the nature and magnitude of the impairment, we considered the classification of the charge within exceptional items to be acceptable, alongside other exceptional items such as costs related to the IPO.<br><br>As part of our audit work, we validated the carrying amounts that were attributed to each site cash generating unit.<br><br>We assessed the assumptions used in determining the value in use of each site. This included engaging our valuation experts to confirm that the discount rate used in the calculations was reasonable.<br><br>We also assessed the revenue, profit and cash flow forecasts included in the value in use calculations, taking into account the improvement in actual results since the outbreak of COVID-19 and after the balance sheet date. We also considered the results of a number of sensitivity scenarios in respect of forecast revenue, discount rate and long-term growth rate.<br><br>We tested the calculation in the value in use model to ensure that it appropriately determined the net present value of the future cashflows, and the resultant impairment amount.<br><br>We also considered the disclosures made in respect of the impairment review performed and the impairment charge recognised.<br><br>We concluded that whilst management's impairment assessment is inherently judgemental, the accounting for the impairment of property, plant and equipment and related disclosures was acceptable and consistent with the audit evidence obtained. |

## HOW WE TAILORED THE AUDIT SCOPE

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, and the industry in which it operates.

The group consists of five holding companies and one trading company, with the accounting function of all entities based in the head office in Bristol. All entities are audited by PricewaterhouseCoopers LLP, Bristol.

Following our assessment of the risk of material misstatement we selected the parent company, Loungers plc, and the trading company, Loungers UK Limited, for full scope audits and performed specified audit procedures over certain balances and transactions in the four intermediate holding companies. Taken together, these reporting entities where we performed audit work accounted for approximately 100% of group revenue and in excess of 95% of group loss before tax.

## MATERIALITY

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|---|---|
| **Overall group materiality** | £1,665,000. |
| **How we determined it** | 1% of revenue. |
| **Rationale for benchmark applied** | As the group has performed close to break-even at the loss before tax level before exceptional items, using 1% of revenue is considered to be the most appropriate benchmark. |

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £576,000 and £1,581,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £83,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## CONCLUSIONS RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

## REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

### STRATEGIC REPORT AND DIRECTORS' REPORT

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 19 April 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

### RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

### RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

### AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

### USE OF THIS REPORT

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## OTHER REQUIRED REPORTING

### COMPANIES ACT 2006 EXCEPTION REPORTING

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit;
- certain disclosures of directors' remuneration specified by law are not made.

We have no exceptions to report arising from this responsibility.

## OTHER MATTER

We have reported separately on the company financial statements of Loungers plc for the 55 week period ended 19 April 2020.

**Colin Bates**
for and on behalf of PricewaterhouseCoopers LLP, Chartered Accountants, Bristol
16 September 2020

# Financial Statements

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## FOR THE 52 WEEK YEAR ENDED 19 APRIL 2020

| | Note | Year ended 19 April 2020 £000 | Year ended 21 April 2019 Restated* £000 |
|---|---|---|---|
| Revenue | 4 | 166,502 | 152,999 |
| Cost of sales | | (98,523) | (89,485) |
| **Gross profit** | | 67,979 | 63,514 |
| Gross profit before exceptional items | | 68,882 | 63,514 |
| Exceptional items included in cost of sales | 9 | (903) | - |
| Administrative expenses | | (74,695) | (50,811) |
| **Operating (loss) / profit** | 5 | (6,716) | 12,703 |
| Operating profit before exceptional items | | 8,620 | 13,165 |
| Exceptional items included in cost of sales | 9 | (903) | - |
| Exceptional items included in administrative expenses | 9 | (14,433) | (462) |
| Finance income | | 50 | 54 |
| Finance costs | 7 | (8,115) | (19,457) |
| Finance costs before exceptional items | | (6,668) | (19,457) |
| Exceptional finance cost | 7 | (1,447) | - |
| **Loss before taxation** | | (14,781) | (6,700) |
| Tax credit / (charge) on loss | 8 | 1,960 | (460) |
| **Loss for the year** | | (12,821) | (7,160) |
| **Other comprehensive expense:** | | | |
| **Items that may be reclassified to profit or loss** | | | |
| Cash flow hedge – change in value of hedging instrument | | (332) | (333) |
| **Other comprehensive expense for the year** | | (332) | (333) |
| **Total comprehensive expense for the year** | | (13,153) | (7,493) |

| | Note | Year ended 19 April 2020 Pence | Year ended 21 April 2019 Pence |
|---|---|---|---|
| **Earnings per share** | | | |
| Basic earnings / (losses) per share | 10 | (14.0) | (37.5) |
| Diluted earnings / (losses) per share | 10 | (14.0) | (37.5) |

*See note 31 for details regarding the restatement as a result of the adoption of IFRS 16.

The accompanying notes form an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## AS AT 19 APRIL 2020

| | Note | At 19 April 2020 £000 | At 21 April 2019 Restated* £000 | At 22 April 2018 Restated* £000 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current** | | | | |
| Intangible assets | 11 | 113,227 | 113,227 | 113,227 |
| Property, plant and equipment | 12 | 166,447 | 149,261 | 121,256 |
| Deferred tax assets | 20 | 236 | - | - |
| Finance lease receivable | 14 | 752 | 831 | 907 |
| **Total non-current assets** | | 280,662 | 263,319 | 235,390 |
| **Current** | | | | |
| Inventories | 13 | 815 | 1,500 | 1,065 |
| Trade and other receivables | 14 | 6,850 | 4,883 | 4,139 |
| Derivative financial instruments | | - | - | 323 |
| Cash and cash equivalents | 15 | 4,083 | 6,500 | 7,669 |
| **Total current assets** | | 11,748 | 12,883 | 13,196 |
| **Total assets** | | 292,410 | 276,202 | 248,586 |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Trade and other payables | 16 | (34,118) | (32,440) | (27,715) |
| Lease liabilities | 17 | (6,160) | (4,946) | (3,759) |
| Derivative financial instruments | 19 | (332) | (10) | - |
| **Total current liabilities** | | (40,610) | (37,396) | (31,474) |
| **Non-current liabilities** | | | | |
| Borrowings | 18 | (39,039) | (172,112) | (157,368) |
| Lease liabilities | 17 | (98,779) | (84,192) | (69,405) |
| Deferred tax liabilities | 20 | - | (1,594) | (2,001) |
| **Total liabilities** | | (178,428) | (295,294) | (260,248) |
| **Net assets / (liabilities)** | | 113,982 | (19,092) | (11,662) |
| Called up share capital | 22 | 1,025 | 53 | 53 |
| Share premium | 23 | - | 4,184 | 4,172 |
| Hedge reserve | 23 | (332) | (10) | 323 |
| Other reserve | 23 | 14,278 | 51 | - |
| Retained earnings / (accumulated losses) | 23 | 99,011 | (23,370) | (16,210) |
| **Total equity** | | 113,982 | (19,092) | (11,662) |

*See note 31 for details regarding the restatement as a result of the adoption of IFRS 16.

The financial statements on pages 45 to 76 were approved and authorised for issue by the Board and were signed on its behalf by:

**Nick Collins**
Chief Executive Officer
16 September 2020

**Gregor Grant**
Chief Financial Officer
16 September 2020

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE 52 WEEK YEAR ENDED 19 APRIL 2020

| | Called up share capital £000 | Share premium £000 | Hedge reserve £000 | Other reserve £000 | (Accumulated losses)/ retained earnings £000 | Total equity £000 |
|---|---|---|---|---|---|---|
| **At 22 April 2018 (as previously reported)** | 53 | 4,172 | 323 | - | (13,945) | (9,397) |
| IFRS 16 Transition | - | - | - | - | (2,265) | (2,265) |
| **At 22 April 2018 restated** | 53 | 4,172 | 323 | - | (16,210) | (11,662) |
| Share transactions during the 52 week year | - | 12 | - | 51 | - | 63 |
| **Total transactions with owners** | - | 12 | - | 51 | - | 63 |
| Loss for the year | - | - | - | - | (7,160) | (7,160) |
| Other comprehensive expense | - | - | (333) | - | - | (333) |
| **Total comprehensive expense for the 52 week year** | - | - | (333) | - | (7,160) | (7,493) |
| **At 21 April 2019** | 53 | 4,184 | (10) | 51 | (23,370) | (19,092) |
| Redeemable preference shares issued | 100 | - | - | - | - | 100 |
| Share for share exchange – ordinary shares | 8,408 | (4,184) | - | (4,224) | - | - |
| Preference debt for equity swap | 66,193 | - | - | 18,451 | - | 84,644 |
| Ordinary shares issued | 3 | - | - | - | - | 3 |
| Ordinary shares issued on IPO | 308 | 61,288 | - | - | (3,655) | 57,941 |
| Capital reduction | (74,040) | (61,288) | - | - | 135,328 | - |
| Share based payment charge | - | - | - | - | 3,539 | 3,539 |
| **Total transactions with owners** | 972 | (4,184) | - | 14,227 | 135,212 | 146,227 |
| Loss for the year | - | - | - | - | (12,821) | (12,821) |
| Other comprehensive expense | - | - | (322) | - | (10) | (332) |
| **Total comprehensive expense for the 52 week year** | - | - | (322) | - | (12,831) | (13,153) |
| **At 19 April 2020** | 1,025 | - | (332) | 14,278 | 99,011 | 113,982 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

## FOR THE 52 WEEK YEAR ENDED 19 APRIL 2020

| | Note | Year ended 19 April 2020 £000 | Year ended 21 April 2019 Restated* £000 |
|---|---|---|---|
| **Net cash generated from operating activities** | 24 | 24,397 | 28,287 |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (23,058) | (21,162) |
| Disposal of property, plant and equipment | | 10 | - |
| **Net cash used in investing activities** | | (23,048) | (21,162) |
| | | | |
| **Cash flows from financing activities** | | | |
| Issue of ordinary shares | | 57,941 | 12 |
| Capital contribution | | - | 51 |
| Bank loans advanced | | 38,924 | 6,000 |
| Bank loans repaid | | (71,000) | (2,000) |
| Repayment of other loans | | (17,950) | - |
| Interest paid | | (1,099) | (4,066) |
| Principal element of lease payments | | (5,228) | (3,744) |
| Interest paid on lease liabilities | | (5,478) | (4,668) |
| Principal element of lease receivables | | 124 | 121 |
| **Net cash used in financing activities** | | (3,766) | (8,294) |
| | | | |
| **Net decrease in cash and cash equivalents** | | (2,417) | (1,169) |
| Cash and cash equivalents at beginning of the year | | 6,500 | 7,669 |
| **Cash and cash equivalents at end of the year** | 25 | 4,083 | 6,500 |

*See note 31 for details regarding the restatement as a result of the adoption of IFRS 16.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE 52 WEEK YEAR ENDED 19 APRIL 2020

## 1. GENERAL INFORMATION

Loungers plc ("the company") and its subsidiaries ("the Group") operate café bars and café restaurants through two complementary brands, Lounge and Cosy Club.

The Company is a public company limited by shares whose shares are publicly traded on the Alternative Investment Market ("AIM") of the London Stock Exchange and is incorporated in the United Kingdom and registered in England and Wales.

The registered address of the Company is 26 Baldwin Street, Bristol, United Kingdom, BS1 1SE.

## 2. ACCOUNTING POLICIES

### 2.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The consolidated financial statements of the Loungers plc Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations as adopted by the European Union applicable to companies reporting under IFRS.

The Company was incorporated on 28 March 2019 as the vehicle for the purposes of achieving admission to trading on the AIM market of the London Stock Exchange ("Admission") and the Company had no significant transactions prior to Admission on 29 April 2019. The Company acquired the entire share capital of Lion/Jenga Topco Limited on 24 April 2019 in a share for share exchange. The introduction of the Company into the Group has been accounted for as a capital reorganisation. In doing so the comparatives for the 52 weeks ended 21 April 2019 have been presented as if the Group had always existed in its current form.

The accounting policies adopted in the preparation of the Financial Statements are consistent with those applied in the preparation of the Lion/Jenga Topco consolidated financial statements for the year ended 21 April 2019, except for the adoption of IFRS 16 effective as of 1 January 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial liabilities (including derivatives) at fair value through profit and loss. The financial statements are presented in thousands of pounds sterling ('£000') except where otherwise indicated.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. The policies have been consistently applied to all years presented, unless otherwise stated.

Judgements made by the Directors in the application of the accounting policies that have a significant effect on the consolidated financial statements and estimates with significant risk of material adjustment in the next year are discussed in note 3.

### 2.2 GOING CONCERN

In concluding that it is appropriate to prepare the FY20 financial statements on the going concern basis the Directors have considered the Group's cash flows, liquidity and business activities. Particular attention has been paid to the impact of Covid-19 on the business, both experienced to date and potentially foreseeable in the future.

As at 19 April the Group had cash balances of £4.1m and undrawn facilities of £3.0m. On 22 April 2019 the Group raised gross proceeds of £8.3m through the issue of 9,250,000 ordinary shares and agreed an additional £15m revolving credit facility with its bankers, providing total liquidity of £30.2m.

Based on the Group's forecasts, the Directors have adopted the going concern basis in preparing the Financial Statements. The Directors have made this assessment after consideration of the Group's cash flows and related assumptions and in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting 2014 published by the UK Financial Reporting Council.

In making this assessment the Directors have made a current consideration of the potential impact of the Covid-19 pandemic on the cash flows and liquidity of the Group over the next 12 month period. This assessment has considered:

- Measures put in place during lockdown to preserve and to increase liquidity
- The impact of Government measure to support industry, and in particular the hospitality industry. These measures include the Coronavirus Job Retention Scheme, the business rates holiday, the temporary VAT reduction to 5% on food and non-alcoholic drinks and the EOTHO Scheme
- Initial trading during the period post the resumption of trading on 4 July 2020

The Group's forecasts assume a level of like for like sales decline, resulting from the impact of Covid-19 on consumer behaviour, that exceeds that experienced in the period post re-opening (adjusted to exclude the positive impact of EOTHO).

The Directors have also considered a more severe downside set of assumptions. These include:

- The closure of 20 sites from early September through the remainder of FY21 to reflect the potential impact of a series of regional lockdowns
- The closure of an additional 20 sites through a 12 week period, covering November to January, to reflect the potential for more rigorous localized lockdowns over the Christmas trading period
- Further increases in the level of LFL sales decline for the remainder of FY21
- Continued LFL sales decline throughout FY22

The impact of these downside scenarios is to reduce expectations of Adjusted EBITDA by approximately 64% for FY21 and 61% for FY22 relative to Board expectations pre Covid-19. Under this downside scenario the Group is forecast to remain within its borrowing facilities and to be in compliance with its covenant obligations, and accordingly the Directors have concluded that it is appropriate to prepare the FY20 financial statements on the going concern basis.

## 2.3 BASIS OF CONSOLIDATION

A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of an entity to obtain benefits from its activities. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

## 2.4 ALTERNATIVE PERFORMANCE MEASURES ("APM'S")

The Group has identified certain measures that it believes will assist the understanding of the performance of the business. These APMs are not defined or specified under the requirements of IFRS.

The Group believes that these APMs, which are not considered to be a substitute for, or superior to, IFRS measures, provide stakeholders with additional useful information on the underlying trends, performance and position of the Group and are consistent with how business performance is measured internally. Adjusted EBITDA is also the measure used by the Group's banks for the purposes of assessing covenant compliance. The APMs are not defined by IFRS and therefore may not be directly comparable with other companies' alternative performance measures.

The key APMs that the Group uses include: Adjusted EBITDA, Adjusted operating profit, Adjusted profit before tax, and Adjusted profit after tax. These APMs are set out on pages 88 to 89 including explanations of how they are calculated and how they are reconciled to a statutory measure where relevant.

These measures exclude exceptional items and site pre-opening costs, as defined below, and non-cash share-based payment charges.

### Exceptional items

The Group classifies certain one-off charges or credits that have a material impact on the Group's financial results as 'exceptional items'. These are disclosed separately to provide further understanding of the financial performance of the Group. Management splits out these costs for internal purposes when reviewing the business.

### Site pre-opening costs

Site pre-opening costs refer to costs incurred in getting new sites fully operational, and primarily include costs incurred before opening and in preparing for launch. These costs are disclosed separately to provide a more accurate indication of the Group's underlying financial position.

## 2.5 REVENUE

The Group has recognised revenue in accordance with IFRS 15. The standard requires revenue to be recognised when goods or services are transferred to customers and the entity has satisfied its performance obligations under the contract, and at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The Group has one revenue stream which comprises food and beverage sales at restaurants and therefore represents one performance obligation that is satisfied when control is transferred to the customer at the point of sale when payment is received and therefore no contract assets or contract liabilities are created.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and provision of services in the ordinary course of the Group's activities. Revenue is shown net of sales/value added tax, returns and discounts.

## 2.6 FINANCE COSTS

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

## 2.7 INTANGIBLE ASSETS GOODWILL

Goodwill represents the difference between amounts paid on the cost of a business combination and the acquirer's interest in the fair value of the identifiable assets and liabilities of the acquiree at the date of acquisition.

Goodwill is not subject to amortisation and is tested annually for impairment, or more frequently if events or changes in circumstances indicated that they may be impaired.

## 2.8 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

| | |
|---|---|
| Leasehold building improvements | - straight-line over the life of the lease |
| Motor vehicles | - 25% straight-line |
| Fixtures and fittings | - 6.67% - 33% straight-line or over the life of the lease |

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Consolidated Statement of Comprehensive Income.

## 2.9 RIGHT OF USE ASSETS

The Group recognises right-of-use assets at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities, for example resulting from rent reviews. The cost of right-of-use assets includes the amount of lease liabilities recognised, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are related to the property leases and are depreciated on a straight-line basis over the lease term.

## 2.10 INVENTORIES

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis.

At each reporting date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price. The impairment loss is recognised immediately in profit or loss.

## 2.11 TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade and other receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables.

To measure the expected credit losses, trade receivables and other assets are grouped based on shared credit risk characteristics and the days past due.

## 2.12 IMPAIRMENT

Goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicated that it might be impaired. Goodwill is not allocated to individual CGUs but to a group of CGUs. As the business has a single operating segment as disclosed in note 4, and goodwill is not disaggregated for internal management purposes, goodwill impairment testing is performed for the business as a whole, in accordance with IAS 36.

The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

## 2.13 CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. Payments taken from customers on debit and credit cards are recognised as cash.

## 2.14 FINANCIAL INSTRUMENTS

The Group enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, and loans from banks and other third parties.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at the present value of the future cash flows and subsequently at amortised cost using the effective interest rate method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received.

Fees paid on the establishment of loan facilities are recognised as transactional costs of the loan and the fee is capitalised as a pre-payment for liquidity services and amortised straight line over the period of the facility to which it relates.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting year for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income.

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

## 2.15 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

The Group uses interest rate swaps to hedge its exposure to interest rate fluctuations on its variable rate bank loans. Interest rate swaps are initially measured at fair value, if any, and carried on the balance sheet as an asset or liability. The Group has adopted cash flow hedge accounting and subsequent measurement is at fair value, with the effective portion of the gain or loss on an interest rate swap recognised in other comprehensive income, whilst any ineffective portion is recognised immediately in finance costs. When a hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting, amounts previously recognised in other comprehensive income are held there until the previously hedged transaction affects the Statement of Comprehensive Income. If the hedged transaction is no longer expected to occur, the cumulative gain or loss recognised in other comprehensive income is immediately transferred to finance costs.

## 2.16 TRADE AND OTHER PAYABLES

Short-term creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest rate method.

## 2.17 LEASED ASSETS: THE GROUP AS LESSEE

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include lease payments less any lease incentives receivable. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, for example a rent review or a change in the lease term.

## 2.18 PENSIONS

The Group operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payment obligations.

The contributions are recognised as an expense in the Consolidated Statement of Comprehensive Income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position. The assets of the plan are held separately from the Group in independently administered funds.

## 2.19 PROVISIONS

Provisions are made where an event has taken place that gives the Group a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Consolidated Statement of Comprehensive Income in the year that the Group becomes aware of the obligation, and are measured at the best estimate at the Statement of Financial Position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Statement of Financial Position.

Onerous contracts are contracts in which the unavoidable costs of meeting obligations under the contract exceed the economic benefits expected to be received under it, where the unavoidable costs are defined as the lower of the cost of fulfilling the contract and any compensation or penalties arising from failure to fulfil it. As soon as a contract is assessed to be onerous, a provision is recognised in the Balance Sheet and charged as an expense to the Statement of Comprehensive Income.

## 2.20 SHARE BASED PAYMENTS

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 21.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting year, based on the Group's estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserve.

## 2.21 CURRENT AND DEFERRED TAXATION

The tax expense for each reporting year comprises current and deferred tax. Tax is recognised in the Consolidated Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where they relate to timing differences in respect of interests in subsidiaries, associates, branches and joint ventures and the Group can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same tax authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### 2.22 RELATED PARTY TRANSACTIONS

The Group discloses transactions with related parties which are not wholly owned within the Group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors, separate disclosure is necessary to understand the effect of the transactions on the Group Financial Statements.

### 2.23 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ADOPTED

The Group has applied the same accounting policies and methods of computation in its Financial Statements as in the Lion/Jenga Topco 2019 annual financial statements, with the following exception of the adoption of IFRS 16 Leases.

IFRS 16 supersedes IAS 17 and sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model. The Group has adopted IFRS 16 using the fully retrospective method with the date of initial application being 23 April 2018.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessment of whether a lease is onerous
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Before the adoption of IFRS 16, the Group was required to assess and classify each of its leases at the inception date as either a finance lease or an operating lease. All leases have previously been classified as operating leases. In an operating lease, the leased asset was not capitalised, and the lease payments were recognised as rent expense in the income statement on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Prepayments and Trade and other payables, respectively.

Under IFRS 16, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. Unless the Group is reasonably certain to obtain ownership of the leased assets at the end of the lease term, the recognised right-of-use assets are depreciated over the shorter of its estimated useful life and lease term. Right-of-use assets are subject to impairment testing.

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification or a change in the lease term.

The Group applies the short-term lease recognition exemption to its short-term leases of equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

In accordance with the fully retrospective method of adoption, the Group applied IFRS 16 at the date of initial application as if it had already been effective at the commencement date of existing lease contracts. Accordingly, the comparative information in these consolidated financial statements has been restated, as summarised and set out in Note 31.

At the reporting date the Group has applied the practical relief available during the Covid-19 pandemic, which provides lessees with relief from applying lease modification accounting to Covid-19 related rent concessions.

There are no other new standards, amendments or interpretations not yet adopted by the Group that are expected to have a material impact on these consolidated financial statements.

## 3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

### KEY JUDGEMENTS

**Operating Segments**
The directors have taken a judgement that individual sites meet the aggregation criteria in IFRS 8 and hence have concluded that the Group only has a single reporting segment, as discussed in note 4.

**Determining the rate used to discount lease payments**
At the commencement date of property leases the lease liability is calculated by discounting the lease payments. The discount rate used should be the interest rate implicit in the lease. However, if that rate cannot be readily determined, which is generally the case for property leases, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. The weighted average discount rate applied to those leases that pre-dated the Group's IPO was 5.9%. Leases entered into post IPO have been discounted with a weighted average discount rate of 3.5%. For the lease liabilities at 19 April 2020 a 0.1 per cent change in the discount rate used would have adjusted the total liabilities by £0.6 million.

### KEY ESTIMATES

**Impairment of property plant and equipment**
Annually, the Group considers whether tangible assets are impaired. Where an indication of impairment is identified the estimation of recoverable value requires estimation of the recoverable value of the cash generating units (CGUs). This requires estimation of the future cash flows from the CGUs and also selection of appropriate discount rates in order to calculate the net present value of those cash flows. Individual sites are viewed as separate CGUs in respect of the impairment of property, plant and equipment. Details of the sensitivity of the estimates used in the impairment exercise are provided in note 12.

**Useful economic lives of property, plant and equipment**
The depreciation charge in each year is sensitive to the assumptions used regarding the economic lives of assets. A 10% increase in the average useful economic lives results in approximately a 9% decrease in depreciation.

**Share-based payments**
The charge for share based payments in respect of the Value Creation Plan is calculated in accordance with the methodology described in note 21. The model requires subjective assumptions to be made including the future volatility of the Company's share price, expected dividend yield, and risk-free interest rates. Changes in such estimates may have a significant impact on the original fair value calculation at the date of grant and therefore the share based payments charge. A 5% change in the estimate regarding share price volatility results in a £600,000 change in the fair value of the Value Creation Plan.

## 4. SEGMENTAL REPORTING

IFRS 8 "Operating Segments" requires operating segments to be based on the Group's internal reporting to its Chief Operating Decision Maker ("CODM"). The CODM is regarded as the Chief Executive together with other Board Members who receive financial information at a site-by-site level. The Group trades in one business segment (operating café bars and café restaurants) and these sites meet the aggregation criteria set out in paragraph 12 of IFRS 8. Economic indicators assessed in determining that the aggregated operating segments share similar economic characteristics include expected future financial performance, operating and competitive risks and return on investment.

The CODM uses Adjusted EBITDA as the primary measure for assessing the Group's results on an aggregated basis.

**Revenue**
Revenue arises from the sale of food and drink to customers in the Group's sites for which payment in cash or cash equivalents is received immediately. The Group operates in a single geographical region (the UK) and hence all revenues are impacted by the same economic factors. Accordingly, revenue is presented as a single category and further disaggregation is not appropriate or necessary to gain an understanding of the risks facing the business.

## 5. OPERATING PROFIT

The operating profit is stated after charging / (crediting):

| | Note | Year ended 19 April 2020 £000 | Year ended 21 April 2019 Restated £000 |
|---|---|---|---|
| Depreciation of tangible fixed assets | 12 | 9,630 | 7,852 |
| Depreciation of right of use assets | 12 | 7,177 | 5,694 |
| Inventories - amounts charged as an expense | | 40,876 | 38,968 |
| Auditors' remuneration | | | |
| - for statutory audit services | | 94 | 80 |
| - for other assurance services | | - | 75 |
| - for tax compliance services | | 48 | 24 |
| - for tax advisory services | | 351 | 28 |
| Staff costs (excluding share based payments) | | 65,143 | 57,377 |
| Pre- opening costs | | 2,220 | 1,904 |
| Exceptional costs | 9 | 15,336 | 462 |

The Group incurred further costs of £502,000 (2019: £nil) with the auditors in connection with the IPO, these costs have been charged directly to reserves as they related to the raising of equity.

## 6. EMPLOYEES AND DIRECTORS

The average monthly number of employees, including the directors, during the year was as follows:

| | Year ended 19 April 2020 Number | Year ended 21 April 2019 Number |
|---|---|---|
| Management, administration and maintenance | 142 | 132 |
| Site | 4,336 | 3,524 |
| | 4,478 | 3,656 |

Staff costs were as follows:

| | Year ended 19 April 2020 £000 | Year ended 21 April 2019 £000 |
|---|---|---|
| Wages and salaries | 60,966 | 53,443 |
| Social security costs | 4,285 | 3,397 |
| Share based payments | 4,026 | (87) |
| Other pension costs | 802 | 537 |
| | 70,079 | 57,290 |

Additional payroll costs of £1,551,000 (2019: £1,517,000) relating to the build team have been capitalised.

Wages and salaries include IPO related employee bonus payments of £910,000 (2019: £nil) which have been treated as exceptional costs.

Share based payment costs include an IPO related share based payment charge of £2,901,000 (2019: £nil) which has been treated as an exceptional cost.

**The key management personnel are considered to be the Directors of the Company and details of their remuneration are disclosed below.**

The following table shows a breakdown of the remuneration of individual Directors who served in all or part of the year.

| | Salary / Fees | | Annual Bonus | | IPO Cash Bonus[2] | | IPO Share Award[2] | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 £000 | 2019 £000 | 2020 £000 | 2019 £000 | 2020 £000 | 2019 £000 | 2020 £000 | 2019 £000 | 2020 £000 | 2019 £000 |
| Alex Reilley | 96 | 95 | - | - | 20 | - | - | - | 116 | 95 |
| Nick Collins | 273 | 151 | - | - | 200 | - | 1,259 | - | 1,732 | 151 |
| Gregor Grant [1] | 158 | 110 | - | - | 50 | - | 100 | - | 308 | 110 |
| Nick Backhouse | 58 | - | - | - | - | - | | - | 58 | - |
| Adam Bellamy | 52 | - | - | - | - | - | | - | 52 | - |
| Jill Little | 52 | - | - | - | - | - | | - | 52 | - |
| Robert Darwent | - | - | - | - | - | - | | - | - | - |
| James Cocker | - | - | - | - | - | - | - | - | - | - |
| **Total** | 689 | 356 | - | - | 270 | - | 1,359 | - | 2,318 | 356 |

(1) Gregor Grant's 2019 remuneration reflects his remuneration from the 1 August 2018, the date on which he joined the Group.

(2) The IPO cash and share awards were made in recognition of the Group's successful IPO on 29 April 2019.

Further information in respect of Directors' remuneration is provided in the Remuneration Committee Report on pages 30 to 32.

## 7. FINANCE COSTS

| | Year ended 19 April 2020 £000 | Year ended 21 April 2019 Restated £000 |
|---|---|---|
| Bank interest payable | 1,155 | 4,327 |
| Finance cost on lease liabilities | 5,478 | 4,671 |
| Other loan interest payable | 18 | 2,058 |
| Preference share interest | 17 | 8,401 |
| Exceptional write off of loan arrangement fees | 1,447 | - |
| | 8,115 | 19,457 |

The Group's IPO included a re-financing of the Group's bank debt.  This re-financing necessitated the write off of loan arrangement fees incurred in the Group's May 2017 financing. This was a non-cash charge.

## 8. TAX (CREDIT) / CHARGE ON LOSS

The income tax (credit) / charge is applicable on the Group's operations in the UK.

| | Year ended 19 April 2020 £000 | Year ended 21 April 2019 Restated £000 |
|---|---|---|
| **Taxation (credited) / charged to the income statement** | | |
| Current income taxation | - | 918 |
| Adjustments for current tax of prior periods | (130) | (51) |
| **Total current income taxation** | (130) | 867 |
| **Deferred Taxation** | | |
| Origination and reversal of temporary timing differences | | |
| Current year | (1,940) | (420) |
| Prior year | - | 8 |
| Adjustment in respect of change of rate of corporation tax | 110 | 5 |
| **Total deferred tax** | (1,830) | (407) |
| **Total taxation (credit) / expense in the consolidated income statement** | (1,960) | 460 |
| The above is disclosed as: | | |
| Income tax (credit) / expense - current year | (1,940) | 498 |
| Income tax credit – prior year | (20) | (38) |
| | (1,960) | 460 |

Further information on the movement on deferred taxation is given in note 20.

**Factors affecting the tax charge for the year**

| | Year ended 19 April 2020 £000 | Year ended 21 April 2019 Restated £000 |
|---|---|---|
| Loss before tax | (14,781) | (6,700) |
| At UK standard rate of corporation taxation of 19% (2019: 19%). | (2,808) | (1,273) |
| Expenses not deductible for tax purposes | | |
| - Preference share interest | 3 | 1,596 |
| - Share based payments | 545 | - |
| - Other | 661 | 404 |
| Fixed asset differences | 183 | (229) |
| Movement in unrecognised deferred tax | (524) | - |
| Adjustments to tax charge in respect of prior years | (130) | (43) |
| Adjustment in respect of change of rate of corporation tax | 110 | 5 |
| **Total tax (credit) / charge for the year** | (1,960) | 460 |

## 9. EXCEPTIONAL ITEMS

| | Year ended 19 April 2020 £000 | Year ended 21 April 2019 Restated £000 |
|---|---|---|
| Included in cost of sales | | |
| Covid-19 related | 903 | - |
| Included in administrative expenses | | |
| Change of ownership | 1,528 | 462 |
| IPO Related share-based awards | 2,901 | - |
| Impairment of property, plant and equipment | 9,829 | - |
| Head office relocation | 175 | - |
| | 15,336 | 462 |

The Covid-19 related costs are in respect of the write-off of food and drink inventories resulting from the forced closure of all sites on 20 March 2020.

The change of ownership costs in the year ended 19 April 2020 relate to costs incurred in the IPO of the business which completed on 29 April 2019. These costs include employee bonuses and professional fees. The costs incurred in the year to 21 April 2019 relate to costs incurred in the preparation for the IPO of the business.

The IPO Related share-based award charge relates to awards made to 485 employees where the shares vested either at IPO or on first the anniversary of the IPO.

The impairment charge in respect of property, plant and equipment, and the calculation methodology is set out in note 12. The impairment charge is deemed to be exceptional due both to its link to the Covid-19 impacted trading environment and to its magnitude.

## 10. EARNINGS PER SHARE

Basic (losses) / earnings per share is calculated by dividing the profit attributable to equity shareholders by the weighted average number of shares outstanding during the year, excluding unvested shares held pursuant to the following long-term incentive plans:

- Loungers plc Employee Share Plan
- Loungers plc Senior Management Restricted Share Plan
- Loungers plc Value Creation Plan

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. During the year ended 19 April 2020 the Group had potentially dilutive shares in the form of unvested shares pursuant to the above long-term incentive plans.

| | Year ended 19 April 2020 £000 | Year ended 21 April 2019 Restated £000 |
|---|---|---|
| Loss for the year after tax | (12,821) | (7,160) |
| Basic weighted average number of shares | 91,786,283 | 19,110,695 |
| Adjusted for share awards | 1,734,508 | - |
| Diluted weighted average number of shares | 93,520,791 | 19,110,695 |
| Basic losses per share (p) | (14.0) | (37.5) |
| Diluted losses per share (p) | (14.0) | (37.5) |

The share awards are not considered to be dilutive as they would have the impact of reducing the losses per share.

Adjusted earnings/(losses) per share is based on profit for the year before exceptional items and the associated tax effect.

| | Year ended 19 April 2020 £000 | Year ended 21 April 2019 Restated £000 |
|---|---|---|
| Loss for the year before tax | (14,781) | (6,700) |
| Exceptional items | 15,336 | 462 |
| Exceptional write off of loan arrangement fees | 1,447 | - |
| Adjusted profit / (loss) for the year before tax | 2,002 | (6,238) |
| Tax credit / (charge) | 1,960 | (460) |
| Tax effect of exceptional items | (1,719) | (69) |
| Adjusted profit / (loss) for the year after tax | 2,243 | (6,767) |
| Basic adjusted earnings / (losses) per share (p) | 2.4 | (35.4) |
| Diluted adjusted earnings / (losses) per share (p) | 2.4 | (35.4) |

## 11. INTANGIBLE ASSETS

| | Year ended 19 April 2020 £000 | Year ended 21 April 2019 £000 |
|---|---|---|
| Goodwill | 113,227 | 113,227 |
| | 113,227 | 113,227 |

Goodwill of £113,227,000 arose on the acquisition of a majority stake in the Group by Lion Capital LLP on 19 December 2016.

Goodwill is not amortised, but an impairment test is performed annually by comparing the carrying amount of the goodwill to its recoverable amount. The recoverable amount is represented by the greater of the business's fair value less costs of disposal and its value in use.

Goodwill is monitored at the operating segment level identified in note 4. For assessing impairment at 21 April 2019 and 19 April 2020 a value in use calculation has been performed using a discounted cash flow method based on the forecast cash flows, a CGU specific discount rate and a terminal growth rate. The cash flows used in this assessment are based on a three year business plan to April 2023, the cash flows include ongoing capital expenditure required to maintain the sites but exclude any growth capital. The discount rate used to determine the present value of projected future cash flows is based on the Group's Weighted Average Cost of Capital ("WACC") and the Group's current view of achievable long-term growth. The pre-tax discount rate and terminal growth rate used in the discounted cash flow model were 8.0% and 2.0% respectively.

The estimation of value in use involves significant judgement in the determination of inputs to the discounted cash flow model and is most sensitive to changes in future cash flows, discount rates and terminal growth rates applied to cash flows beyond the forecast year. The sensitivity of key inputs and assumptions used was tested by recalculating the recoverable amount using reasonably possible variances to those assumptions. The discount rate was increased by 1%, the terminal growth rate was decreased by 1%, and future cash flows were reduced by 10%. As at 19 April 2020, no reasonably possible change in an individual key input or assumption, as described, would result in the carrying amount exceeding its recoverable amount based on value in use.

## 12. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold Building Improvements £000 | Motor Vehicles £000 | Fixtures and Fitting £000 | Right of use asset £000 | Total £000 |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 23 April 2018 (as previously reported) | 39,413 | 104 | 28,167 | - | 67,684 |
| Adoption of IFRS 16 | (3,859) | - | - | 80,998 | 77,139 |
| At 23 April 2018 (as restated) | 35,554 | 104 | 28,167 | 80,998 | 144,823 |
| Additions | 9,660 | 37 | 12,106 | 19,857 | 41,660 |
| Disposals | (287) | (58) | (312) | (221) | (878) |
| At 21 April 2019 | 44,927 | 83 | 39,961 | 100,634 | 185,605 |
| **Accumulated depreciation** | | | | | |
| At 23 April 2018 (as previously reported) | 3,348 | 29 | 5,301 | - | 8,678 |
| Adoption of IFRS 16 | (535) | - | - | 15,424 | 14,889 |
| At 23 April 2018 (as restated) | 2,813 | 29 | 5,301 | 15,424 | 23,567 |
| Provided for the year | 2,672 | 27 | 5,153 | 5,694 | 13,546 |
| Disposals | (286) | (56) | (303) | (124) | (769) |
| At 21 April 2019 | 5,199 | - | 10,151 | 20,994 | 36,344 |
| **Net book value** | | | | | |
| At 21 April 2019 | 39,728 | 83 | 29,810 | 79,640 | 149,261 |
| | | | | | |
| **Cost** | | | | | |
| At 22 April 2019 | 44,927 | 83 | 39,961 | 100,634 | 185,605 |
| Additions | 9,571 | 10 | 13,217 | 21,029 | 43,827 |
| Disposals | - | (12) | (31) | (183) | (226) |
| At 19 April 2020 | 54,498 | 81 | 53,147 | 121,480 | 229,206 |
| **Accumulated depreciation** | | | | | |
| At 22 April 2019 | 5,199 | - | 10,151 | 20,994 | 36,344 |
| Provided for the year | 3,160 | 34 | 6,436 | 7,177 | 16,807 |
| Impairment | 2,166 | - | 400 | 7,263 | 9,829 |
| Disposals | | (12) | (26) | (183) | (221) |
| At 19 April 2020 | 10,525 | 22 | 16,961 | 35,251 | 62,759 |
| **Net book value** | | | | | |
| At 19 April 2020 | 43,973 | 59 | 36,186 | 86,229 | 166,447 |

**Impairment of property, plant and equipment and right of use assets**

The Group has determined that each site is a separate CGU for impairment testing purposes. Each CGU is tested for impairment at the balance sheet date if there exists at that date any indicators of impairment. The Covid-19 pandemic and the associated national lockdown introduced on 20 March 2020 are considered an indicator of potential impairment, accordingly all sites have been tested for impairment.

The value in use of each CGU is calculated based upon the Group's latest three-year forecast, incorporating the impact of the Covid-19 lockdown and assumptions concerning the rate at which site level cash flows will recover. The site cash flows include an allocation of central costs and ongoing capital expenditure to maintain the sites. The cash flows exclude any growth capital. Cash flows beyond the three-year period are extrapolated using the Group's estimate of the long-term growth rate, currently 2.0%.

The key assumptions in the value in use calculations are the like for like sales projections for each site, changes in the operating cost base, the long-term growth rate and the pre-tax discount rate. The post-tax discount rate is derived from the Group's WACC and is currently 8.0%.

During the year the Group has recognised an impairment of charge of £9,829,000 (2019: £nil). The cash flows used within the impairment model are based upon assumptions which are sources of estimation uncertainty. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in the key assumptions. A reduction in site cash flows of 10% in each year would result in an increase in the impairment charge of £797,000. A 100 basis point increase in the discount rate would result in an increase in the impairment charge of £1,354,000 and a 50 basis point reduction in the terminal growth rate would result in an increase in the impairment charge of £438,000.

## 13. INVENTORIES

| | 19 April 2020 £000 | 21 April 2019 £000 |
|---|---|---|
| Food and beverages for resale | 815 | 1,500 |
| | 815 | 1,500 |

There is no material difference between the replacement cost of inventories and the amounts stated above.

Inventories are charged to cost of sales in the consolidated statement of comprehensive income.

## 14. TRADE AND OTHER RECEIVABLES

| | 19 April 2020 £000 | 21 April 2019 Restated £000 |
|---|---|---|
| **Included within current assets** | | |
| Trade receivables | 661 | 78 |
| Corporation tax recoverable | 1,126 | - |
| Finance lease receivable | 80 | 75 |
| Other receivables | 4,575 | 310 |
| Prepayments | 408 | 4,420 |
| | 6,850 | 4,883 |
| **Included within current assets** | | |
| Finance lease receivable | 752 | 831 |

Receivables are denominated in sterling.

The Group held no collateral against these receivables at the balance sheet dates. The Directors consider that the carrying amount of receivables are recoverable in full and that any expected credit losses are immaterial.

At each year end, there were no overdue receivable balances.

## 15. CASH AND CASH EQUIVALENTS

| | 19 April 2020 £000 | 21 April 2019 £000 |
|---|---|---|
| Cash at bank and in hand | 4,083 | 6,500 |
| | 4,083 | 6,500 |

Cash and cash equivalents comprise cash at bank and in hand. The fair value of cash and cash equivalents is the same as the carrying value of £4,083,000 (21 April 2019: £6,500,000).

## 16. TRADE AND OTHER PAYABLES

| | 19 April 2020<br>£000 | 21 April 2019<br>Restated<br>£000 |
|---|---|---|
| Included in current liabilities: | | |
| Trade payables | 16,891 | 16,703 |
| Corporation tax | - | 294 |
| Other taxation and social security | 7,179 | 5,970 |
| Other payables | 5,579 | 5,698 |
| Accruals and deferred income | 4,469 | 3,775 |
| | 34,118 | 32,440 |

Trade payables were all denominated in sterling and comprise amounts outstanding for trade purchases and ongoing costs and are non-interest bearing.

The Directors consider that the carrying amount of trade payables approximate to their fair value.

## 17. LEASES

This note provides information for leases where the Group is the lessee.

The Group leases the entire Lounge and Cosy Club estates as well as its Head Office. The leases are non-cancellable operating leases with varying terms, escalation clauses and renewal rights and in some cases include variable payments that are not fixed in amount but based upon a percentage of sales. Rental contracts are typically made for fixed years of between 10 and 25 years, the average lease runs for 16.1 years from commencement.

Prior to the adoption of IFRS 16 leases of property, plant and equipment were classified as either finance leases or operating leases. From 23 April 2018, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. For adjustments recognised on adoption of IFRS 16 on 23 April 2018, please refer to note 31.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable, and
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

**Amounts recognised in the balance sheet**

| | 19 April 2020<br>£000 | 21 April 2019<br>£000 |
|---|---|---|
| Right of use assets – leasehold properties | 86,229 | 79,640 |
| Lease liabilities | | |
| Current | 6,160 | 4,946 |
| Non-current | 98,779 | 84,192 |
| | 104,939 | 89,138 |

Additions to right of use assets during the year ended 19 April 2020 were £21,029,000 (2019: £19,857,000).

A maturity analysis of gross lease liability payments is included within Note 19.

**Amounts recognised in the consolidated statement of comprehensive income**

| | 19 April 2020 £000 | 21 April 2019 £000 |
|---|---|---|
| Depreciation charge of right of use assets | 7,177 | 5,694 |
| Impairment charge of right of use assets | 7,263 | - |
| Interest expense (included in finance cost) | 5,478 | 4,671 |

Total cash outflow for leases in 2020 was £10,706,000 (2019: £8,412,000).

## 18. BORROWINGS

| | 19 April 2020 £000 | 21 April 2019 £000 |
|---|---|---|
| Long term borrowings: | | |
| Secured bank loans | 39,500 | 71,000 |
| Loan arrangement fees | (461) | (1,447) |
| Loans from related parties | - | 17,932 |
| Preference shares | - | 84,627 |
| | 39,039 | 172,112 |

As part of the IPO process, a share for share exchange saw the preference shares and accrued dividends in Lion/Jenga Topco (21 April 2019: £84,627,000) reclassified as ordinary shares in Loungers plc. Net proceeds of £57,941,000 raised from the IPO and a new term loan facility of £32,500,000 were utilised to repay outstanding loan stock (21 April 2019: £17,932,000) and bank debt (21 April 2019: £71,000,000).

**Secured bank loans**

The Group's bank borrowings are secured by way of fixed and floating charges over the Group's assets.

The facilities entered into at the time of the IPO provide for a term loan of £32,500,000 and a revolving credit facility ("RCF") of £10,000,000. The term loan is a five-year non-amortising facility with a margin of 2% above LIBOR. A three-year interest rate swap has been entered into that fixes LIBOR on the full term loan facility at 0.7%.

The term loan and RCF are subject to financial covenants relating to leverage and interest cover. The Group has been in compliance with all of the covenants during the periods under review.

At 19 April 2020 the term loan was fully drawn and £7,000,000 had been drawn down under the revolving credit facility.

Prior to the IPO the Group's financing facilities included a £60,000,000 term loan, a £15,000,000 capex facility to assist in funding the Group's expansion programme and a £5,000,000 revolving credit facility to cover working capital and liquidity commitments. At 21 April 2019 the term loan was fully drawn, £11,000,000 was drawn under the capex facility and £nil under the revolving credit facility.

**Loans from related parties**

The Group issued investor loan notes ("ILNs") with a value of £25,000,000 in December 2016. These ILNs were unsecured 13% fixed rate PIK loan notes. At 21 April 2019, ILNs with a principal value of £13,454,000 and accrued interest of £4,478,000 were outstanding. These loan notes and accrued interest were repaid as part of the IPO process.

**Preference shares**

The preference shares consisted of two classes of share, the P1 preference shares and the P2 preference shares. The P1 preference shares did not carry voting rights. They carried the entitlement to an annual dividend of 10.9%. On a return of capital (including on winding up) they ranked ahead of the A, B, C and D ordinary shares but behind the P2 preference shares. The shares were cumulative and were redeemable in certain circumstances or on maturity in December 2026.

The P2 preference shares did not carry voting rights. They carried the entitlement to an annual dividend of 13.0%. On a return of capital (including on winding up) they ranked ahead of the A, B, C and D ordinary shares and the P1 preference shares. The shares were cumulative and were redeemable in certain circumstances or on maturity in December 2026.

The P1 and P2 preference shares and accrued dividends were reclassified as ordinary shares in Loungers plc as part of the IPO process.

## 19. FINANCIAL INSTRUMENTS

The Group is exposed to the risks that arise from its use of financial instruments. Derivative instruments may be transacted solely for risk management purposes. The management consider that the key financial risk factors of the business are liquidity risks, interest rate risk and market risks. The Group operates solely within the UK and therefore has limited exposure to foreign exchange risk. The Group's exposure to credit risk is limited due to insignificant receivables balances.

The Group enters into interest rate swap transactions, which create derivative assets and liabilities, their purpose being to manage the interest rate risk arising from the Group's borrowings.

This note describes the objectives, policies and processes of the Group for managing those risks and the methods used to measure them.

### Interest rate risk

The Group's exposure to the variable interest element of its term loan is fully hedged by an interest rate swap.

### Commodity price risk

The Group is exposed to movements in the wholesale prices of foods and drinks. Although the Group sources a majority of products in the UK, there is a risk that Brexit will cause a significant increase in wholesale food and drink prices. Prices are typically fixed for years of 3-6 months to address seasonality, with suppliers hedging foreign exchange risk across these years. The Group benchmarks and verifies any potential cost changes from suppliers and also has the ability to flex its menu items to mitigate specific product related cost pressures.

### Liquidity risk

The Group's primary objective is to ensure that it has sufficient funds available to meet its financial obligations as they fall due. The Covid-19 pandemic and the lockdown period that ensued significantly raised the potential liquidity risk. This increased risk was addressed through the raising of an additional £8.1m (net) of equity capital and by agreeing an additional £15m RCF with the Group's bankers. Further details are provided in the strategic report on page 17.

### Capital risk

The Group manages its capital to ensure it will be able to continue as a going concern while maximising the return to shareholders through optimising the debt and equity balance.

The Group monitors cash balances and prepares regular forecasts, which are reviewed by the board. In order to maintain or adjust the capital structure, the Group may, in the future, return capital to shareholders, issue new shares or sell assets to reduce debt.

### Financial assets and liabilities

Financial assets and liabilities consist of the following:

| | 19 April 2020<br><br>£000 | 21 April 2019<br>Restated<br>£000 |
|---|---|---|
| **Financial Assets** | | |
| Financial assets that are debt instruments measured at amortised cost | 9,319 | 6,888 |
| **Financial liabilities** | | |
| Financial liabilities measured at amortised cost | (61,509) | (194,513) |
| Financial liabilities held at fair value | (332) | (10) |

Financial assets held at amortised cost include trade and other receivables and cash. Financial liabilities held at amortised cost include trade and other payables, borrowings and, at 21 April 2019, preference share liabilities.

Financial liabilities held at fair value represent interest rate swaps.

There are no material differences between the carrying values of financial assets and liabilities held at amortised cost and their fair values.

### Hedging

The Group has entered into an interest rate swap as described above which qualifies as a cashflow hedge. The movements in fair value have been recognised as follows:

| | £000 |
|---|---|
| Derivative liability at 22 April 2019 | (10) |
| Recognised through other comprehensive income | (322) |
| Derivative liability at 19 April 2020 | (332) |

### Maturity analysis

The maturity analysis table below analyses the Group's contractual undiscounted cash flows (both principal and interest) for the Group's financial liabilities, after taking into account the effect of interest rate swaps.

| | Less than 1 year | Between 1 and 5 years | More than 5 years | Total |
|---|---|---|---|---|
| **For the 52 week year ended 19 April 2020** | | | | |
| Secured bank loans | 1,035 | 42,616 | - | 43,651 |
| Lease liabilities | 11,572 | 47,330 | 87,087 | 145,989 |
| Trade and other payables | 22,470 | - | - | 22,470 |
| | 35,077 | 89,946 | 87,087 | 212,110 |
| **For the 52 week year ended 21 April 2019** | | | | |
| Secured bank loans | 4,224 | 27,351 | 60,302 | 91,877 |
| Loans from related parties | - | - | 45,698 | 45,698 |
| Preference shares | - | - | 188,869 | 188,869 |
| Lease liabilities | 9,930 | 39,986 | 79,262 | 129,178 |
| Trade and other payables | 22,401 | - | - | 22,401 |
| | 36,555 | 67,337 | 374,131 | 478,023 |

The secured bank loans include the impact of cash flow hedges.

## 20. DEFERRED TAXATION

| | Accelerated capital allowances £000 | Losses £000 | Acquisition accounting £000 | Share schemes £000 | Other £000 | Total £000 |
|---|---|---|---|---|---|---|
| At 23 April 2018 (restated) | (898) | - | (1,672) | 90 | 479 | (2,001) |
| Recognised in income statement | (169) | - | 255 | 1 | 320 | 407 |
| At 21 April 2019 | (1,067) | - | (1,417) | 91 | 799 | (1,594) |
| Recognised in income statement | 800 | 318 | 255 | 135 | 432 | 1,940 |
| Change in deferred tax rate | (126) | - | - | 11 | 5 | (110) |
| At 19 April 2020 | (393) | 318 | (1,162) | 237 | 1,236 | 236 |

The Group had unrecognised deferred tax assets as follows:

| | 19 April 2020 £000 | 21 April 2019 £000 |
|---|---|---|
| Unrecognised deferred tax assets | 58 | 521 |

## 21. SHARE BASED PAYMENTS

**Year ended 19 April 2020**

The Group had the following share based payment arrangements in operation during the year:

- Loungers plc Employee Share Plan
- Loungers plc Senior Management Restricted Share Plan
- Loungers plc Value Creation Plan

In accordance with IFRS 2 Share Based Payments, the value of the awards is measured at fair value at the date of the grant. The fair value is expensed on a straight-line basis over the vesting period, based on management's estimate of the number of shares that will eventually vest. The Group recognised a total charge of £3,538,000 in respect of the Group's share based payment plans and related employer's national insurance of £488,000. The total cost of £4,026,000 includes £2,901,000 that relates to awards made at IPO. These costs have been treated as exceptional IPO related costs. A further charge of £1,125,000 relates to ongoing share based payments in respect of the Senior Management Restricted Share Plan and the Value Creation Plan. The total charge of £4,026,000 is split by scheme as follows:

| | Year ended 19 April 2020 £000 | Year ended 21 April 2019 £000 |
|---|---|---|
| Employee share plan | 500 | - |
| Senior management restricted share plan | 2,754 | - |
| Value creation plan | 772 | - |
| Employer's management bonus plan | - | (87) |
| | 4,026 | (87) |

| | Granted during the year Number | Lapsed during the year Number | Outstanding at 19 April 2020 Number |
|---|---|---|---|
| Employee share plan | 285,500 | (65,500) | 220,000 |
| Senior management restricted share plan | 1,552,069 | (37,561) | 1,514,508 |
| Value creation plan | - | - | - |

**Employee Share Plan**

Share grants over 285,500 shares were made at the time of the IPO. These awards had no performance conditions other than continued employment for one year post IPO. Post year end a total of 220,000 shares were issued in respect of the awards made.

**Senior Management Restricted Share Plan**

Share grants over 455,000 shares were made at the time of the IPO. These awards had no performance conditions other than continued employment for one year post IPO. Post year end a total of 430,000 shares were issued in respect of the awards made.

Share options in respect of 625,000 shares were granted at the time of the IPO. These options vested at the date of grant. The option price is £0.01 and the options are exercisable in equal instalments on the first, second and third anniversary of the IPO.

A further 472,069 nil cost options were awarded during the year. These options have no performance conditions, other than continued employment for three years post grant, and are exercisable on the third anniversary of issue. A total of 12,561 options awarded during the year had lapsed at year end.

**Value Creation Plan**

The Value Creation Plan ("VCP") is a discretionary executive share plan. One-off VCP awards were granted at the time of the IPO, with no further awards being made to participants. The vesting conditions of the VCP are set out in the Remuneration Committee report.

The fair value of the total shareholder return ("TSR") element of the award was estimated at the grant date using a Monte Carlo simulation model, taking into account the terms and conditions upon which the awards were granted. This model simulates the TSR and compares it against a group of comparator companies. It uses historic dividends and share price fluctuations to predict the distribution of relative share price performance. The shares are potentially dilutive for the purposes of calculating diluted earnings per share. The following assumptions were used:

| | |
|---|---|
| Share price at date of grant | £2.00 |
| Exercise price | Nil |
| Expected volatility | 35% |
| Term until exercised | 3 years |
| Maximum dilution | 6.00% |
| Risk free interest rate | 0.74% |
| Expected dividend yield | 0.00% |

The fair value of the VCP at grant was £2,600,000.

**Year ended 21 April 2019**
**Employer's Management Bonus Scheme**
Prior to the IPO the Company operated a cash settled Employer's Management Bonus Scheme. This required the Company to make a cash payment upon change of ownership or IPO ("an exit event"), based on the value of the Company's shares at that time. This liability was remeasured at each balance sheet date, with the directors' best estimate of cost being spread over the expected period prior to the exit event. At 21 April 2019 the directors calculated the liability based upon the valuation achieved in the Company's IPO and there was a subsequent credit to the income statement of £87,000.

## 22. CALLED-UP SHARE CAPITAL

| | 19 April 2020 £000 | 21 April 2019 £000 |
|---|---|---|
| Allotted, called up and fully paid ordinary shares | 925 | 53 |
| Redeemable preference shares | 100 | - |
| | 1,025 | 53 |

| | 19 April 2020 Number | 21 April 2019 Number |
|---|---|---|
| Ordinary shares at £0.01 each | 92,500,000 | - |
| Ordinary A shares at £0.01 each | - | 2,737,281 |
| Ordinary B shares at £0.01 each | - | 946,052 |
| Ordinary C shares at £0.09 each | - | 129,999 |
| Ordinary D shares at £0.01 each | - | 417,086 |
| Redeemable preference shares at £49,999 each | 2 | - |

The table below summarises the movements in share capital for Loungers plc during the year ended 19 April 2020:

| | Ordinary Shares £1.00 NV | Ordinary Shares £0.01 NV | Preference Shares £0.50 NV | Deferred Shares £0.01 NV | Redeemable Preference Shares £49,999 NV | |
|---|---|---|---|---|---|---|
| | | | Number of shares | | | £000 |
| At date of incorporation | 1 | - | - | - | 1 | 50 |
| Share for share exchange | 8,460,835 | - | 132,386,444 | - | 1 | 74,704 |
| Share conversion | - | 42,322,050 | (132,386,444) | 6,577,000,150 | - | - |
| Share subdivision | (8,460,836) | 19,110,695 | - | 826,972,905 | - | - |
| Shares issued | - | 269,158 | - | - | - | - |
| Shares issued on IPO | - | 30,798,097 | - | - | - | 311 |
| Capital reduction | - | - | - | (7,403,973,055) | - | (74,040) |
| At 19 April 2020 | - | 92,500,000 | - | - | 2 | 1,025 |

The Company was incorporated on 28 March 2019 with one ordinary share of £1 and one redeemable preference share of £49,999.

On 23 April 2019 the shareholders of Lion/Jenga Topco exchanged their ordinary and preference shares in Lion/Jenga Topco for ordinary shares of £1.00 and preference shares of £0.50 in the Company. There immediately followed a share conversion whereby the preference shares of £0.50 in the Company were exchanged for ordinary shares of £0.01 and deferred shares of £0.01 and a share subdivision and conversion whereby the ordinary shares of £1.00 in the Company were converted into ordinary shares of £0.01 and deferred shares of £0.01.

On 29 April 2019 the Company allotted a further 31,067,255 ordinary shares of £0.01, raising gross proceeds of £62,135,510.

On 10 September 2019 the Court approved the cancellation of 7,403,973,055 deferred shares of £0.01.

### Rights of shareholders

The redeemable preference shares carry no right to vote. They have the right to be redeemed at nominal value by the Company.

## 23. EQUITY

The Group's Equity comprises the following:

### Called-up share capital

Called-up share capital represents the nominal value of the shares issued.

### Share premium account

The share premium account records the amount above the nominal value received for shares sold.

### Hedge reserve

The hedge reserve represents the cumulative profits or losses on the mark-to-market at the balance sheet of the Group's interest rate hedge.

### Other reserve

The movement in other reserves is set out in the table below:

| | Other Reserve £000 | Merger Reserve £000 | Capital Contribution Reserve £000 | Total Other Reserves £000 |
|---|---|---|---|---|
| At 22 April 2019 | - | - | 51 | 51 |
| Share for share exchange with Lion/Jenga Topco | 18,451 | (4,224) | - | 14,227 |
| At 19 April 2020 | 18,451 | (4,224) | 51 | 14,278 |

The other reserve and the merger reserve arose on the share for share exchange between Loungers plc and Lion/Jenga Topco Limited.

The capital contribution reserve represents additional contributions from shareholders.

### Profit and loss account

The profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

## 24. NOTE TO CASH FLOW STATEMENT

| | Year ended 19 April 2020 £000 | Year ended 21 April 2019 Restated £000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| **Loss before tax** | (14,781) | (6,700) |
| **Adjustments for:** | | |
| Depreciation of property, plant and equipment | 9,630 | 7,852 |
| Depreciation of right of use assets | 7,177 | 5,694 |
| Impairment of property, plant and equipment | 9,829 | - |
| Share based payment transactions | 4,027 | (87) |
| Profit on disposal of tangible assets | (5) | (29) |
| Finance income | (50) | (54) |
| Finance costs | 8,115 | 19,457 |
| Changes in inventories | 685 | (435) |
| Changes in trade and other receivables | (733) | (703) |
| Changes in trade and other payables | 1,793 | 4,310 |
| **Cash generated from operations** | 25,687 | 29,305 |
| Tax paid | (1,290) | (1,018) |
| **Net cash generated from operating activities** | 24,397 | 28,287 |

## 25. ANALYSIS OF CHANGES IN NET DEBT

| | 23 April 2018 Restated £000 | Cash flows £000 | Non-cash movement £000 | 21 April 2019 Restated £000 |
|---|---|---|---|---|
| Cash in hand | 7,669 | (1,169) | - | 6,500 |
| Bank Loans | (65,268) | (4,000) | (285) | (69,553) |
| Lease liabilities | (73,164) | 8,412 | (24,386) | (89,138) |
| Unsecured loan stock | (15,874) | - | (2,058) | (17,932) |
| Preference shares | (76,226) | - | (8,401) | (84,627) |
| **Net debt** | (222,863) | 3,243 | (35,130) | (254,750) |
| Derivatives | | | | |
| Interest-rate swaps asset / (liability) | 323 | - | (333) | (10) |
| Total derivatives | 323 | - | (333) | (10) |
| **Net debt after derivatives** | (222,540) | 3,243 | (35,463) | (254,760) |

| | 22 April 2019 Restated £000 | Cash flows £000 | Non-cash movement £000 | 19 April 2020 £000 |
|---|---|---|---|---|
| Cash in hand | 6,500 | (2,417) | - | 4,083 |
| Bank Loans – due after one year | (69,553) | 32,076 | (1,562) | (39,039) |
| Lease liabilities | (89,138) | 10,706 | (26,507) | (104,939) |
| Unsecured loan stock – due after one year | (17,932) | 17,950 | (18) | - |
| Preference shares – due after one year | (84,627) | - | 84,627 | - |
| **Net debt** | (254,750) | 58,315 | 56,540 | (139,895) |
| Derivatives | | | | |
| Interest-rate swaps liability | (10) | 10 | (332) | (332) |
| Total derivatives | (10) | 10 | (332) | (332) |
| **Net debt after derivatives** | (254,760) | 58,325 | 56,208 | (140,227) |

Non-cash movements in bank loans due after one year relate to the amortisation of bank loan issue costs.

## 26. PENSION COMMITMENTS

| | Year ended 19 April 2020 £000 | Year ended 21 April 2019 £000 |
|---|---|---|
| Pension cost | 802 | 537 |

The following contributions were payable to the fund and are included in creditors:

| | 19 April 2020 £000 | 21 April 2019 £000 |
|---|---|---|
| Pension contributions payable | 327 | 267 |

## 27. LESSOR

The Group leases out un-utilised property space under non-cancellable operating leases. The Group is due to receive minimum lease payments under non-cancellable operating leases as follows:

| | 19 April 2020 £000 | 21 April 2019 £000 |
|---|---|---|
| Within one year | 125 | 235 |
| In two to five years | 500 | 918 |
| After five years | 445 | 769 |
| | 1,070 | 1,922 |

## 28. RELATED PARTY TRANSACTIONS

A Reilley and J Bishop, a director of the Company's subsidiary, Loungers UK Limited, are directors of Flatcappers Limited. Additionally, they are partners in Colombe D'Or Property LLP (formerly Loungers Property LLP); the Group leases three properties from Colombe D'Or. The Group undertook the following transactions, stated net of VAT:

| | 19 April 2020 £000 | 21 April 2019 £000 |
|---|---|---|
| Sales to related parties: | | |
| Flatcappers Limited | 21 | 90 |
| Purchases from related parties: | | |
| Colombe D'Or Property LLP | 117 | 167 |
| Amounts owed (to) / from related parties: | | |
| Flatcappers Limited | - | - |
| Colombe D'Or Property LLP | - | - |

A Reilley is a director and shareholder of Reilley Properties Limited. The Group leases two properties from Reilley Properties Limited and undertook the following transactions:

| | 19 April 2020 £000 | 21 April 2019 £000 |
|---|---|---|
| Purchases from Reilley Properties Limited | 240 | 171 |
| Amounts owed to Reilley Properties Limited | 57 | - |

Lion Capital LLP, prior to the IPO, had the following interest in the investor loan notes:

| | 19 April 2020<br>£000 | 21 April 2019<br>£000 |
|---|---|---|
| Interest charged in the year | 18 | 2,058 |
| Amount due to Lion Capital at year end | - | 17,932 |
| Amounts paid to Lion Capital | 17,950 | - |

Management and Lion Capital LLP, prior to the IPO, had the following interests in the preference shares issued by the Group:

| | 19 April 2020<br>£000 | 21 April 2019<br>£000 |
|---|---|---|
| **Management** | | |
| Preference dividends charged in the year | 2 | 843 |
| Preference dividends due at year end | - | 7,530 |
| Preference dividends exchanged for ordinary shares at IPO | 7,532 | - |
| | | |
| **Lion Capital LLP** | | |
| Preference dividends charged in the year | 15 | 7,558 |
| Preference dividends due at year end | - | 77,097 |
| Preference dividends exchanged for ordinary shares at IPO | 77,112 | - |

## 29. LEGAL ENTITIES

The following table presents the investments in which the Group owns a portion of the nominal value of any class of share capital:

| | | |
|---|---|---|
| Direct Subsidiary Holding | | |
| Lion/Jenga Topco Limited | Ordinary 100% | Holding company |
| Indirect Subsidiary Holding | | |
| Lion/Jenga Midco Limited | Ordinary 100% | Holding company |
| Lion/Jenga Bidco Limited | Ordinary 100% | Holding company |
| Loungers Holdings Limited | Ordinary 100% | Holding company |
| Loungers UK Limited | Ordinary 100% | The development, operation and management of all day neighbourhood café/bars and bar/restaurants. |

The registered office of all four subsidiaries is 26 Baldwin Street, Bristol, BS1 1SE.

## 30. POST BALANCE SHEET EVENTS NOTE

On 22 April, in response to the Covid 19 lockdown and to ensure that Group had sufficient liquidity to withstand a very prolonged lockdown, the Group announced the following initiatives to strengthen its financial position:

- The issue of 9,250,000 ordinary shares of 1 pence each to existing shareholders at a price of 90 pence per ordinary share to raise gross proceeds of £8,325,000.
- An incremental £15m revolving credit facility with its bankers, Santander Corporate Banking and Bank of Ireland.
- The waiver of the covenant tests scheduled for 12 July 2020 and 4 October 2020, and amendments to the tests running through to 3 October 2021.

On 4 May 2020, the Company allotted and issued 650,000 ordinary shares of 1 pence each in the Company following the vesting of awards made to 480 Company employees pursuant to the Company's Employee Share Plan.

On 4 July 2020, the Group commenced a phased re-opening of its sites, with all of its sites re-opened and fully operational by 7 August 2020.

## 31. IMPACT OF ADOPTION OF IFRS 16 IN THE YEAR

The Group applied IFRS 16 Leases for the first time. The Group applied the standard using the fully retrospective method, with the date of initial application of 23 April 2018, and has restated its results for comparative periods as if the Group had always applied the new standard.

The impact of adopting IFRS 16 on the Group's consolidated statement of comprehensive income, consolidated statement of financial position and consolidated statement of cash flows is presented in the following tables.

| | Reported Year ended 21 April 2019 £000 | IFRS 16 Transition £000 | Restated Year ended 21 April 2019 £000 |
|---|---|---|---|
| Revenue | 152,999 | - | 152,999 |
| Cost of sales | (89,485) | - | (89,485) |
| **Gross profit** | 63,514 | - | 63,514 |
| Administrative expenses | (53,717) | 2,906 | (50,811) |
| **Operating profit** | 9,797 | 2,906 | 12,703 |
| Operating profit before exceptional items | 10,259 | 2,906 | 13,165 |
| Exceptional items included in administrative expenses | (462) | - | (462) |
| Finance income | - | 54 | 54 |
| Finance costs | (14,786) | (4,671) | (19,457) |
| **Loss before taxation** | (4,989) | (1,711) | (6,700) |
| Tax credit / (charge) on loss | (750) | 290 | (460) |
| **Loss for the year** | (5,739) | (1,421) | (7,160) |
| **Other comprehensive expense:** | | | |
| Cash flow hedge – change in value of hedging instrument | (333) | - | (333) |
| **Other comprehensive expense for the year** | (333) | - | (333) |
| **Total comprehensive expense for the year** | (6,072) | (1,421) | (7,493) |

The adjustments to the consolidated statement of financial position are as follows:

| | Reported at 22 April 2018 £000 | IFRS 16 Transition £000 | Restated at 22 April 2018 £000 | Reported at 21 April 2019 £000 | IFRS 16 Transition £000 | Restated at 21 April 2019 £000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| **Non-current** | | | | | | |
| Intangible assets | 113,227 | - | 113,227 | 113,227 | - | 113,227 |
| Property, plant and equipment | 59,006 | 62,250 | 121,256 | 74,073 | 75,188 | 149,261 |
| **Total non-current assets** | 172,233 | 62,250 | 234,483 | 187,300 | 75,188 | 262,488 |
| **Current** | | | | | | |
| Inventories | 1,065 | - | 1,065 | 1,500 | - | 1,500 |
| Trade and other receivables | 5,182 | (136) | 5,046 | 6,289 | (575) | 5,714 |
| Derivative financial instruments | 323 | - | 323 | - | - | - |
| Cash and cash equivalents | 7,669 | - | 7,669 | 6,500 | - | 6,500 |
| **Total current assets** | 14,239 | (136) | 14,103 | 14,289 | (575) | 13,714 |
| **Total assets** | 186,472 | 62,114 | 248,586 | 201,589 | 74,613 | 276,202 |
| **Liabilities** | | | | | | |
| **Current liabilities** | | | | | | |
| Trade and other payables | (27,723) | 8 | (27,715) | (33,095) | 655 | (32,440) |
| Lease liabilities | - | (3,759) | (3,759) | - | (4,946) | (4,946) |
| Derivative financial instruments | - | - | - | (10) | - | (10) |
| **Total current liabilities** | (27,723) | (3,751) | (31,474) | (33,105) | (4,291) | (37,396) |
| **Non-current liabilities** | | | | | | |
| Borrowings | (157,368) | - | (157,368) | (172,112) | - | (172,112) |
| Lease liabilities | - | (69,405) | (69,405) | - | (84,192) | (84,192) |
| Accruals and deferred income | (8,183) | 8,183 | - | (9,312) | 9,312 | - |
| Deferred tax liabilities | (2,465) | 464 | (2,001) | (2,348) | 754 | (1,594) |
| Provisions | (130) | 130 | - | (118) | 118 | - |
| **Total liabilities** | (195,869) | (64,379) | (260,248) | (216,995) | (78,299) | (295,294) |
| **Net liabilities** | (9,397) | (2,265) | (11,662) | (15,406) | (3,686) | (19,092) |
| Called up share capital | 53 | - | 53 | 53 | - | 53 |
| Share premium | 4,172 | - | 4,172 | 4,184 | - | 4,184 |
| Hedge reserve | 323 | - | 323 | (10) | - | (10) |
| Other reserve | - | - | - | 51 | - | 51 |
| Accumulated profits / (losses) | (13,945) | (2,265) | (16,210) | (19,684) | (3,686) | (23,370) |
| **Total equity** | (9,397) | (2,265) | (11,662) | (15,406) | (3,686) | (19,092) |

| | Reported Year ended 21 April 2019 £000 | IFRS 16 Transition £000 | Restated Year ended 21 April 2019 £000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Loss After Tax** | (4,989) | (1,711) | (6,700) |
| **Adjustments for:** | | | |
| Depreciation of property, plant and equipment | 8,147 | (295) | 7,852 |
| Depreciation of right of use assets | - | 5,694 | 5,694 |
| Share based payment transactions | (87) | - | (87) |
| Profit on disposal of tangible assets | 12 | (41) | (29) |
| Finance Income | - | (54) | (54) |
| Finance Costs | 14,786 | 4,671 | 19,457 |
| Changes in inventories | (435) | - | (435) |
| Changes in trade and other receivables | (1,074) | 371 | (703) |
| Changes in trade and other payables | 6,089 | (1,779) | 4,310 |
| Changes in provisions | (12) | 12 | - |
| **Cash generated from operations** | 22,437 | 6,868 | 29,305 |
| Tax paid | (1,018) | - | (1,018) |
| **Net cash generated from operating activities** | 21,419 | 6,868 | 28,287 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | (22,585) | 1,423 | (21,162) |
| **Net cash used in investing activities** | (22,585) | 1,423 | (21,162) |
| **Cash flows from financing activities** | | | |
| Issue of ordinary shares | 12 | - | 12 |
| Capital contribution | 51 | - | 51 |
| Bank loans advanced | 6,000 | - | 6,000 |
| Bank loans repaid | (2,000) | - | (2,000) |
| Interest paid | (4,066) | - | (4,066) |
| Finance lease liabilities paid | - | (3,744) | (3,744) |
| Finance lease interest paid | - | (4,668) | (4,668) |
| Finance lease receivables | - | 121 | 121 |
| **Net cash used in financing activities** | (3) | (8,291) | (8,294) |
| **Net decrease in cash and cash equivalents** | (1,169) | - | (1,169) |
| Cash and cash equivalents at beginning of the year | 7,669 | - | 7,669 |
| **Cash and cash equivalents at end of the year** | 6,500 | - | 6,500 |

# INDEPENDENT AUDITORS' REPORT

## TO THE MEMBERS OF LOUNGERS PLC

## REPORT ON THE AUDIT OF THE COMPANY FINANCIAL STATEMENTS

### OPINION

In our opinion, Loungers plc's company financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 19 April 2020;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the company statement of financial position as at 19 April 2020; the company statement of changes in equity for the 55 week period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### BASIS FOR OPINION

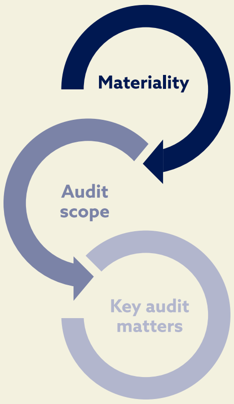
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### OUR AUDIT APPROACH

### OVERVIEW




- Overall materiality: £1,090,000, based on the lower of 1% of total assets and an allocation of group materiality.
- The company is structured as a single reporting unit and the audit was carried out by a single audit team.
- The impact of COVID-19.

## THE SCOPE OF OUR AUDIT

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

**Key audit matter**

The impact of COVID-19

As set of on pages 3 to 20, COVID-19 has had a number of significant financial, as well as operational, impacts, both during lockdown and since. Management have also considered the impacts of COVID-19 on the financial statements including in respect of their assessment on the going concern basis of preparation of the financial statements and in respect of any potential for the impairment of assets.

As part of our risk assessment, we considered the potential impact for the entity to be the following:

- The effects of lockdown and social distancing restrictions on consumer behaviour has resulted in reduced footfall and therefore reduced revenue, profitability and cash generation of the group. This creates a risk of impairment of the carrying value of investments.
- The lower level of revenue, profit and cash generation also creates a going concern risk related to the adequacy and availability of bank facilities going forward in the overall liquidity requirements of the Group.
- Disclosure of the impact of COVID-19 on the group's business in the financial statements.

**How our audit addressed the key audit matter**

We have considered the impact of COVID-19 on various areas of the financial statements and performed procedures to address the risk around the impact of COVID-19. We have set out our responses to the risk in respective areas of the financial statements as below:

In respect of the impact of a potential impairment of the carrying value of investments, we obtained the entity's assessment of any potential impairment using their value in use calculations and performed the following:

- We assessed the assumptions used in determining the value in use calculations. This included engaging our valuation experts to confirm that the discount rate used in the calculations was reasonable.
- We also assessed the revenue, profit and cash flows included in the value in use calculations, taking into account actual results since the outbreak of COVID-19 and after the balance sheet date. We also considered the results of a number of sensitivity scenarios in respect of forecast revenue, discount rate and long-term growth rate.
- We tested the model used to calculate the value in use to ensure that it determined the net present value of the future cashflows correctly.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| | In respect of the potential impact on the going concern assessment, we have understood how management have factored in the impact of COVID-19 on their assessment of future cash flows and bank facility covenant compliance. This included a downside scenario which included lower levels of revenue across sites, the potential for regional lockdowns resulting in the closure of sites, and more severe affects of COVID-19 over the winter months. In doing this we have validated management's assumptions by looking at the actual impact on revenue and operating expense cash flows since the outbreak of COVID-19. We also validated the terms of the revised bank facility and the proceeds from the placing which took place after the year end. Further we have assessed the availability of financial resources and the ability of the Group to absorb potential adverse circumstances over the going concern period.<br><br>We have read management's disclosures in the financial statements and the related narrative disclosures within the 'other information' to confirm they are consistent with the financial statements and our knowledge based on our audit.<br><br>Overall, we consider management's assessment of the impact of COVID-19 on the financial statements to be reasonable. Our conclusion in respect of going concern is stated below. We have read management's disclosures in the financial statements and the relative narrative. |

## HOW WE TAILORED THE AUDIT SCOPE

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

The entity's finance function is based in one location in Bristol, UK.

The company is structured as a single reporting unit and the audit was carried out by a single audit team.

## MATERIALITY

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | |
|---|---|
| **Overall group materiality** | £1,090,000. |
| **How we determined it** | Lower of 1% of total assets and an allocation of group materiality. |
| **Rationale for benchmark applied** | As the entity is a holding company, we consider that total assets is the most appropriate benchmark to assess materiality. |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £54,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## CONCLUSIONS RELATING TO GOING CONCERN

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

## REPORTING ON OTHER INFORMATION

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

### STRATEGIC REPORT AND DIRECTORS' REPORT

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 19 April 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

## RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

### RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

### USE OF THIS REPORT

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## OTHER REQUIRED REPORTING

### COMPANIES ACT 2006 EXCEPTION REPORTING

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

## OTHER MATTER

We have reported separately on the group financial statements of Loungers plc for the 52 week period ended 19 April 2020.

**Colin Bates**
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants
Bristol

16 September 2020

# COMPANY STATEMENT OF FINANCIAL POSITION

## AS AT 19 APRIL 2020

| | Note | At 19 April 2020 £000 |
|---|---|---|
| **Assets** | | |
| **Non-current** | | |
| Investments | 5 | 136,300 |
| **Total non-current assets** | | 136,300 |
| | | |
| **Current assets** | | |
| Trade and other receivables | 6 | 18,554 |
| **Total current assets** | | 18,554 |
| **Total assets** | | 154,854 |
| | | |
| **Liabilities** | | |
| **Current liabilities** | | |
| Trade and other payables | 7 | (4,225) |
| **Total current liabilities** | | (4,225) |
| **Total liabilities** | | (4,225) |
| **Net assets** | | 150,629 |
| Called up share capital | 8 | 1,025 |
| Other reserve | 9 | 18,451 |
| Retained earnings | | |
| Loss for the year attributable to the owners | | (520) |
| Other changes in retained earnings | | 131,673 |
| | 9 | 131,153 |
| **Total equity** | | 150,629 |

The financial statements on pages 82 to 87 were approved and authorised for issue by the Board and were signed on its behalf by:

**Nick Collins**
Chief Executive Officer

16 September 2020

**Gregor Grant**
Chief Financial Officer

16 September 2020

# COMPANY STATEMENT OF CHANGES IN EQUITY

## FOR THE 55 WEEKS ENDED 19 APRIL 2020

| | Called up share capital £000 | Share premium £000 | Other reserve £000 | Retained earnings £000 | Total equity £000 |
|---|---|---|---|---|---|
| Balance on incorporation | 50 | - | - | - | 50 |
| Redeemable preference shares issued | 50 | - | - | - | 50 |
| Share for share exchange – ordinary shares | 8,461 | - | - | - | 8,461 |
| Preference debt for equity swap | 66,193 | - | 18,451 | - | 84,644 |
| Ordinary shares issued | 3 | - | - | - | 3 |
| Ordinary shares issued on IPO | 308 | 61,288 | - | (3,655) | 57,941 |
| Capital reduction | (74,040) | (61,288) | - | 135,328 | - |
| **Total transactions with owners** | 975 | - | 18,451 | 131,673 | 151,099 |
| Loss for the year | - | - | - | (520) | (520) |
| **Total comprehensive expense for the 55 week period** | - | - | - | (520) | (520) |
| **At 19 April 2020** | 1,025 | - | 18,451 | 131,153 | 150,629 |

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

### FOR THE 55 WEEKS ENDED 19 APRIL 2020

## 1. GENERAL INFORMATION

Loungers plc ("the company") is incorporated and domiciled in the United Kingdom with company number 11910770. The registered address of the Company is 26 Baldwin Street, Bristol, United Kingdom, BS1 1SE.

The Company was incorporated on 28 March 2019 and was admitted to trading on the AIM market on 29 April 2019.

The Company is a public company limited by shares whose shares are publicly traded on the Alternative Investment Market ("AIM") of the London Stock Exchange.

The principal activity of the Company and the nature of the Company's operations is as a holding entity.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies is set out below. These have been applied consistently in the Financial Statements.

### 2.1 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Financial Statements have been prepared in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) as issued in August 2014 and the Companies Act 2006.

The financial statements have been prepared under the historical cost convention. The financial statements are presented in thousands of pounds sterling ('£000') except where otherwise indicated.

The Company is a qualifying entity for the purposes of FRS 102, as it prepares publicly available consolidated financial statements, which are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group. The Company has therefore taken advantage of the exemptions from the following disclosure requirements in FRS 102:

- Section 4 'Statement of Financial Position' – Reconciliation of the opening and closing number of shares;
- Section 7 'Statement of Cash Flows' – Presentation of a statement of cash flows and related notes and disclosures;
- Section 11 'Basic Financial Instruments' – Carrying amounts, interest income/expense and net gains/losses for each category of financial instrument not measured at fair value through profit or loss, and information that enables users to evaluate the significance of financial instruments;
- Section 33 'Related Party Disclosures' – Compensation for key management personnel.

These financial statements present information about the Company as an individual entity and not about its Group.

As permitted by section 408(3) of the Companies Act 2006, no profit and loss account has been presented for the Company. The loss for the financial year dealt with in the Financial Statements of the Parent Company is £520,000.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. The policies have been consistently applied to all years presented, unless otherwise stated.

### 2.2 GOING CONCERN

The directors have concluded that it is appropriate for the financial statements to be prepared on the going concern basis (see Note 2.2 to the consolidated financial statements).

### 2.3 NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ADOPTED

The new standard impacting the Group for the year ended 19 April 2020 is: IFRS 16 'Leases'. The adoption of this standard has not had any impact upon the Company's financial statements.

### 2.4 INVESTMENTS

Investments held as fixed assets are stated at cost less provision for any impairment. The carrying value of investments are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

### 2.5 TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components, when they are recognised at fair value. The Company holds the trade and other receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables.

To measure the expected credit losses, trade receivables and other assets are grouped based on shared credit risk characteristics and the days past due.

### 2.6 FINANCIAL INSTRUMENTS

The Company enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, and loans from banks and other third parties.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at the present value of the future cash flows and subsequently at amortised cost using the effective interest rate method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting year for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income.

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

### 2.7 TRADE AND OTHER PAYABLES

Short-term creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest rate method.

### 2.8 CURRENT AND DEFERRED TAXATION

The tax expense for each reporting year comprises current and deferred tax.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and

Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same tax authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### 2.9 RELATED PARTY TRANSACTIONS

The Company discloses transactions with related parties which are not wholly owned within the Group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors, separate disclosure is necessary to understand the effect of the transactions on the Company Financial Statements.

## 3. INFORMATION INCLUDED IN THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Some of the information included in the notes to the consolidated financial statements is directly relevant to the financial statements of the company. Please refer to the following:

Note 5 – Auditors' remuneration

Note 21 – Share based payments

Note 30 – Post balance sheet events

## 4. STAFF COSTS

Loungers plc has no employees other than the Directors. Details of Directors emoluments are disclosed in the Remuneration Committee Report on pages 30-32 and in note 6 of the notes to the consolidated financial statements.

## 5. INVESTMENTS

| | £000 |
|---|---|
| At the beginning of the year | - |
| Additions | 136,300 |
| At 19 April 2020 | 136,300 |

The additions in the year reflect the share for share exchange by which Loungers plc acquired the entire issued share capital of Lion / Jenga Topco on 24 April 2019.

The Company's subsidiary undertakings are shown in note 29 to the Consolidated Financial Statements.

## 6. TRADE AND OTHER RECEIVABLES

| | 19 April 2020 £000 |
|---|---|
| **Included within current assets** | |
| Other receivables | 103 |
| Amounts owed by Group companies | 18,451 |
| | 18,554 |

Amounts owed by Group companies are repayable on demand and are non-interest bearing.

## 7. TRADE AND OTHER PAYABLES

| | 19 April 2020 £000 |
|---|---|
| **Included within current liabilities** | |
| Amounts owed to Group companies | 4,225 |
| | 4,225 |

Amounts owed to Group companies are payable on demand and are non-interest bearing.

## 8. CALLED-UP SHARE CAPITAL

| | 19 April 2020 £000 |
|---|---|
| Allotted, called up and fully paid ordinary shares | 925 |
| Redeemable preference shares | 100 |
| | 1,025 |

| | 19 April 2020 Number |
|---|---|
| Ordinary shares at £0.01 each | 92,500,000 |
| Redeemable preference shares at £49,999 each | 2 |

The table below summarises the movements in share capital for Loungers plc during the period ended 19 April 2020:

| | Ordinary Shares £1.00 NV | Ordinary Shares £0.01 NV | Preference Shares £0.50 NV | Deferred Shares £0.01 NV | Redeemable Preference Shares £49,999 NV | |
|---|---|---|---|---|---|---|
| | | | Number of shares | | | £000 |
| At date of incorporation | 1 | - | - | - | 1 | 50 |
| Share for share exchange | 8,460,835 | - | 132,386,444 | - | 1 | 74,704 |
| Share conversion | - | 42,322,050 | (132,386,444) | 6,577,000,150 | - | - |
| Share subdivision | (8,460,836) | 19,110,695 | - | 826,972,905 | - | - |
| Shares issued | - | 269,158 | - | - | - | - |
| Shares issued on IPO | - | 30,798,097 | - | - | - | 311 |
| Capital reduction | - | - | - | (7,403,973,055) | - | (74,040) |
| **At 19 April 2020** | - | 92,500,000 | - | - | 2 | 1,025 |

The Company was incorporated on 28 March 2019 with one ordinary share of £1 and one redeemable preference share of £49,999.

On 23 April 2019, the shareholders of Lion/Jenga Topco exchanged their ordinary and preference shares in Lion/Jenga Topco for ordinary shares of £1.00 and preference shares of £0.50 in the Company. There immediately followed a share conversion whereby the preference shares of £0.50 in the Company were exchanged for ordinary shares of £0.01 and deferred shares of £0.01 and a share subdivision and conversion whereby the ordinary shares of £1.00 in the Company were converted into ordinary shares of £0.01 and deferred shares of £0.01.

On 29 April 2019, the Company allotted a further 31,067,255 ordinary shares of £0.01, raising gross proceeds of £62,135,510.

On 10 September 2019, the Court approved the cancellation of 7,403,973,055 deferred shares of £0.01.

**Rights of shareholders**
The redeemable preference shares carry no right to vote. They have the right to be redeemed at nominal value by the Company.

## 9. EQUITY

The Group's Equity comprises the following:

**Called-up share capital**
Called-up share capital represents the nominal value of the shares issued.

**Other reserve**
The other reserve arose on the share for share exchange between Loungers plc and Lion/Jenga Topco Limited.

**Profit and loss account**
The profit and loss account represents cumulative profits or losses, net of dividends paid and other adjustments.

# RECONCILIATION OF STATUTORY RESULTS TO ALTERNATIVE PERFORMANCE MEASURES

| | Year ended 19 April 2020 £000 | Year ended 19 April 2019 £000 |
|---|---|---|
| Operating (loss) / profit | (6,716) | 12,703 |
| Exceptional items | 15,336 | 462 |
| Share based payment charge / (credit) | 1,125 | (87) |
| Site pre-opening costs | 2,220 | 1,904 |
| **Adjusted operating profit** | 11,965 | 14,982 |
| Depreciation (pre IFRS 16 right of use asset charge) | 9,630 | 7,853 |
| IFRS 16 Right of use asset depreciation | 7,177 | 5,694 |
| (Profit) / loss on disposal of fixed assets | (5) | 12 |
| **Adjusted EBITDA (IFRS 16)** | 28,767 | 28,541 |
| IAS 17 Rent charge | (10,380) | (8,306) |
| IAS 17 Rent charge included in IAS 17 pre-opening costs | 426 | 347 |
| **Adjusted EBITDA (IAS 17)** | 18,813 | 20,582 |
| | | |
| **Loss before tax (IFRS 16)** | (14,781) | (6,700) |
| Exceptional administrative expenses | 15,336 | 462 |
| Exceptional finance costs | 1,447 | - |
| **Adjusted profit / (loss) before tax (IFRS 16)** | 2,002 | (6,238) |
| | | |
| IAS 17 Rent charge | (10,380) | (8,306) |
| IAS 17 Leasehold depreciation (re landlord contributions) | (464) | (294) |
| IFRS 16 Right of use asset depreciation | 7,177 | 5,694 |
| IFRS 16 Lease interest charge | 5,478 | 4,671 |
| IFRS 16 Lease interest income | (50) | (54) |
| **Adjusted profit / (loss) before tax (IAS 17)** | 3,763 | (4,527) |
| | | |
| **Loss before tax (IFRS 16)** | (14,781) | (6,700) |
| IAS 17 Rent charge | (10,380) | (8,306) |
| IAS 17 Leasehold depreciation (re landlord contributions) | (464) | (294) |
| IFRS 16 Right of use asset depreciation | 7,177 | 5,694 |
| IFRS 16 Lease interest charge | 5,478 | 4,671 |
| IFRS 16 Lease interest income | (50) | (54) |
| **Loss before tax (IAS 17)** | (13,020) | (4,989) |

# RECONCILIATION OF STATUTORY RESULTS TO ALTERNATIVE PERFORMANCE MEASURES

| | Year ended 19 April 2020 £000 | Year ended 21 April 2019 £000 |
|---|---|---|
| **Adjusted profit / (loss) before tax (IFRS 16)** | 2,002 | (6,238) |
| Tax credit / (charge) | 1,960 | (460) |
| Tax effect of exceptional items | (1,719) | (69) |
| **Adjusted profit / (loss) after tax (IFRS 16)** | 2,243 | (6,767) |
| | | |
| IAS 17 Rent charge | (10,380) | (8,306) |
| IAS 17 Leasehold depreciation (re landlord contributions) | (464) | (294) |
| IFRS 16 Right of use asset depreciation | 7,177 | 5,694 |
| IFRS 16 Lease interest charge | 5,478 | 4,671 |
| IFRS 16 Lease interest income | (50) | (54) |
| IFRS 16 Tax effect | (423) | (290) |
| **Adjusted profit / (loss) after tax (IAS 17)** | 3,581 | (5,346) |
| | | |
| Basic weighted average number of shares | 91,786,283 | 19,110,695 |
| Diluted weighted average number of shares | 93,520,791 | 19,110,695 |
| | | |
| Adjusted basic earnings / (losses) per share (p) IFRS 16 | 2.4 | (35.4) |
| Adjusted diluted earnings / (losses) per share (p) IFRS 16 | 2.4 | (35.4) |
| | | |
| Adjusted basic earnings / (losses) per share (p) IAS 17 | 3.9 | (28.0) |
| Adjusted diluted earnings / (losses) per share (p) IAS 17 | 3.8 | (28.0) |
| | | |
| **Net cash generated from operating activities (IFRS 16)** | 24,397 | 28,287 |
| IAS 17 Rent charge | (10,380) | (8,306) |
| Movement in working capital | 2,616 | 1,438 |
| **Net cash generated from operating activities (IAS 17)** | 16,633 | 21,419 |

# COMPANY INFORMATION

## DIRECTORS

A M Reilley
N C E Collins
G Grant
N P Backhouse
A J G Bellamy
R Darwent
J C Little

## COMPANY SECRETARY

Prism Cosec Limited

## REGISTERED NUMBER

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## REGISTERED OFFICE

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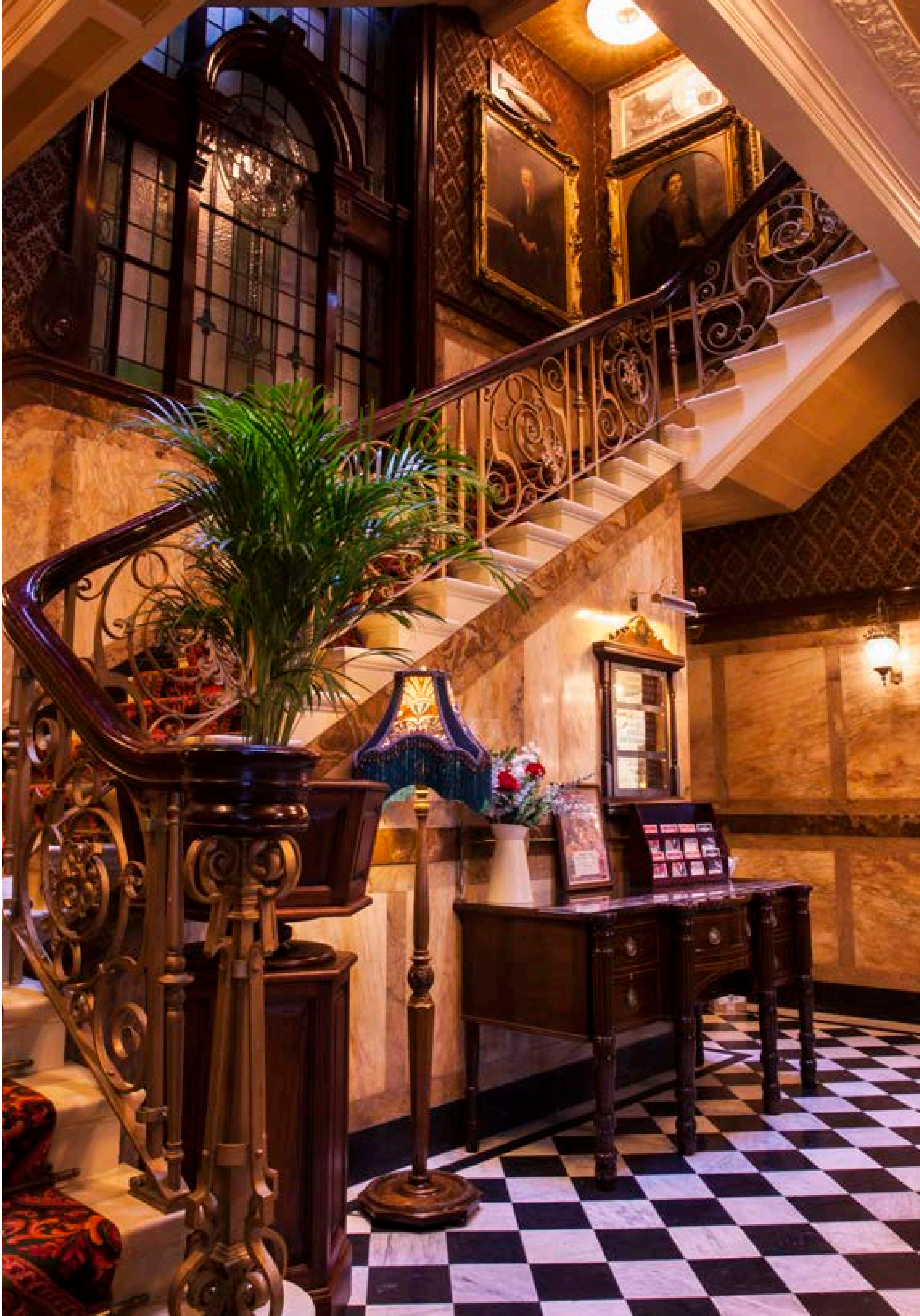


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