

# LOUNGERS PLC

Results for the 24 weeks ended 1<sup>st</sup> October



28<sup>th</sup> November 2023

LOUNGERS PLC

COSY CLUB

LOUNGE



# Highlights

Delighted with another strong financial performance in the first half:

- Like for like sales up +7.7%, (+25% on a four-year basis)
- Adjusted EBITDA (IAS17) £17.3m
- Improving margin at 11.6% up 60 bps, and a clear path to pre-Covid conversion

Roll-out continues successfully:

- New sites continue to perform very strongly
- Property market very much in our favour – rent at a proportion of sales has now reduced to 4.4%

Current trading remains strong:

- Approaching Christmas with optimism
- No change in customer behaviour despite economic backdrop

# Financial Review

Gregor Grant - CFO

# Results summary H1 FY24 vs H1 FY23

	H1 FY24 £m	H1 FY23 £m	Var
Revenue	149.6	122.3	+22.3%
Gross profit	59.3	47.9	+23.8%
	39.6%	39.2%	+40bps
Adjusted EBITDA IFRS16	23.9	19.3	+23.6%
	15.9%	15.8%	+10bps
Adjusted EBITDA IAS17	17.3	13.5	+28.2%
	11.6%	11.0%	+60bps
Adjusted operating profit IFRS16	11.3	9.2	+23.7%
	7.6%	7.5%	+10bps
Profit before tax IFRS16	3.9	2.8	+39.0%

- **Revenue of £149.6m up 22.3%**
  - Additional net 32 sites year on year
  - One-year LFL sales performance (+7.7%)
  - Four-year LFL sales performance (+25.0%)
- **Gross profit growth of 23.8%**
  - Margin ahead by 40bps
- **IAS17 EBITDA growth of 28.2%**
  - Margin ahead by 60bps
  - Positive impact of gross profit margin and fixed cost leverage offset impact of energy costs
- **Profit before tax of £3.9m**

# LFL sales performance

- **One-year LFL of +7.7%**

	FY24 H1 24wks	FY24 32wks YTD
LFL Sales – 1 Year	7.7%	7.6%

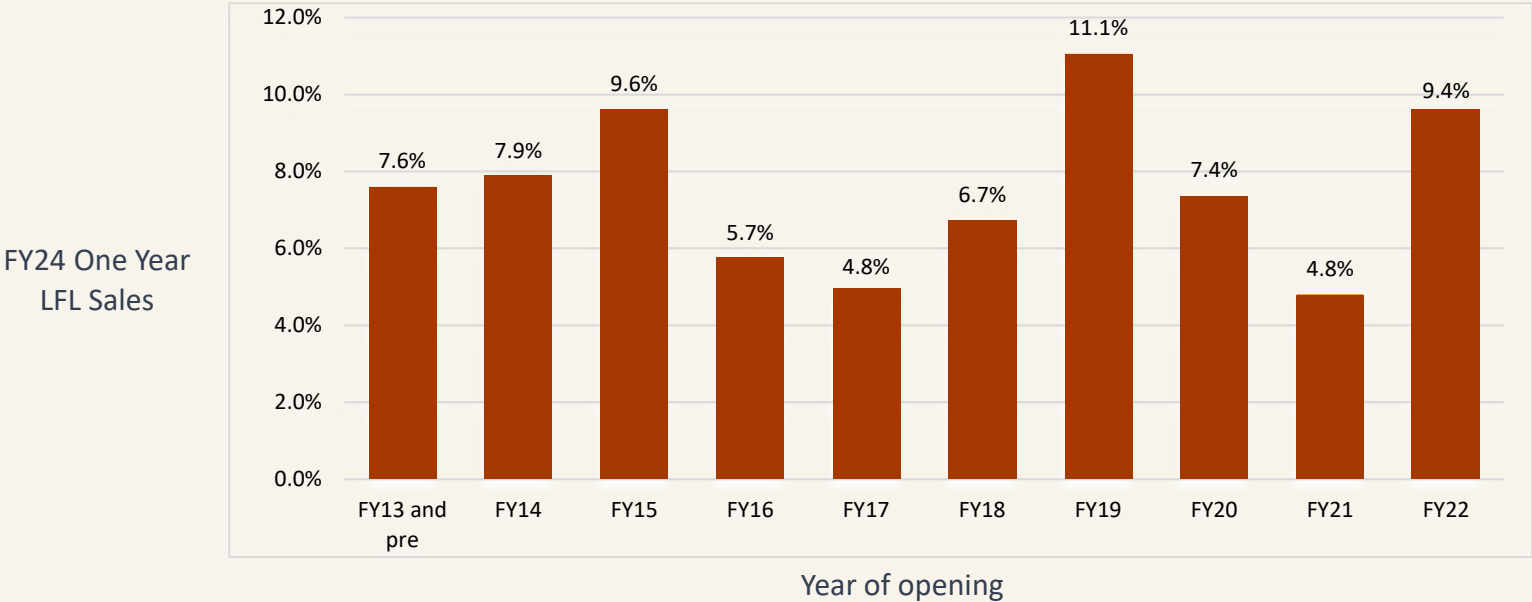
- **Four-year LFL of +25.0%**
- Compares 24 weeks ended 1<sup>st</sup> Oct 2023 to 24 weeks ended 6<sup>th</sup> Oct 2019

	FY24 H1 24wks	FY24 32wks YTD
LFL Sales – 4 Year	25.0%	25.0%

- **One-year LFL of track record**
- Consistent sales growth, both volume and price, post-Covid

	FY21 13wks	FY22 20wks	FY23 20wks	FY24 24wks
LFL Sales – 1 Year	-1.1%	+13.6%	+1.5%	+7.7%

# Consistent one year LFL performance across site age cohorts



- Reasonably consistent split of +7.7% across the various age cohorts
- Continued strong showing from the 55 sites in the FY15 and earlier cohorts

# Underlying margin FY24 vs FY23 – margin expansion on track

**FY23 H1 Adjusted EBITDA Margin IAS17** **11.0%**

Cost of sales (inc. site labour)	0.6%
Variable costs	(0.1%)
Energy	(0.5%)
Site rent rates and service charge	0.6%
Central costs	-

**FY24 H1 Adjusted EBITDA Margin IAS17** **11.6%**

- **IAS17 Adjusted EBITDA margin up 60bps vs FY23**
- **Cost of sales (inc. site labour) positive 60bps**
  - CGS margin growth of 60bps
  - Labour ratio flat – NLW 9.7% increase absorbed
- **Variable costs negative 10bps**
  - Maintenance 1.8% of revenue vs 1.7%
- **Energy costs negative 50bps**
  - 75 Sites added post May 2020 energy hedge
- **Site fixed costs positive 60bps**
  - Rent to revenue ratio improved to 4.4% from 4.7%
  - Rates improved to 2.2% of revenue from 2.5%
- **Central costs flat**
- **IAS17 FY23 Adjusted EBITDA margin of 11.6%**
  - H2 Margin typically higher than H1 margin
  - FY23 H1 margin of 11.0% and H2 margin of 12.9%

# Margin outlook – inflation continuing to moderate

	FY24 July Expectation	FY24 November Expectation	Update
Selling Price	6%	7%	Further c3% price taken in October menus
CGS Food	6%	6%	Pressure continuing to moderate
CGS Drink	3-4%	3%	Benefit from new draught range
Labour	8%	8%	Rate of pay pressure
Utilities	20%	20%	Impact of spreading new hedges across mature estate

## • Food inflation

- Top 20 ingredients saw weighted average inflation of 10.2% September 2023 vs September 2022
- Same top 20 products have seen 0.2% inflation over H1 FY24 – cooking oil price reduction offsetting pork and eggs

## • Drink inflation

- Top 20 products saw weighted average inflation of 2.7% over H1 FY24

## • Energy

- May 2020 hedge ends 30 September 2024
- Currently hedged 49% of 24/25 and 25% of 25/26 electricity

## • NLW April 2024

- NLW increase of 9.8% to £11.44 from April 2024
- Extended to 21 and 22 year olds
- April 2023 increase of 9.7% absorbed with labour % maintained



# Cash flow IAS17 – continuing strong cash generation

- **Cash generated from operations of £14.9m**
- **Working capital outflow of £0.3m**
  - Improvement vs FY23 flattered by payment timing
- **Maintenance capex includes all non-new site capex**
- **Free cash flow of £11.7m in addition to b/f cash balances of £26.4m used to fund:**
  - New site capex of £17.1m
  - Term loan repayment of £12.5m
  - Refinance costs of £0.3m
  - Purchase of own shares / cash settlement £0.7m
- **Closing cash of £5.7m**

	H1 FY24 £m	H1 FY23 £m
<b>Adjusted EBITDA IAS17</b>	<b>17.3</b>	<b>13.5</b>
Pre-opening costs	(2.1)	(1.5)
Changes in working capital	(0.3)	(4.7)
<b>Cash generated from operations</b>	<b>14.9</b>	<b>7.3</b>
Maintenance capex	(4.0)	(3.4)
Interest paid (net)	(0.8)	(0.4)
Employee share awards	(0.2)	(0.2)
<b>Free cash flow</b>	<b>11.7</b>	<b>3.3</b>
New site capex	(17.1)	(10.3)
Freehold / leasehold premium	-	(1.3)
Term loan repayment	(12.5)	-
Refinancing costs	(0.3)	-
Purchase of own shares / cash settle awards	(0.7)	-
<b>Cash outflow</b>	<b>(20.7)</b>	<b>(8.3)</b>
Cash b/f	26.4	31.3
<b>Cash c/f</b>	<b>5.7</b>	<b>23.0</b>

# Cash flow IAS17 – free cash flow covers 97% of new site capex

- **LTM Cash flow provides a better perspective**
  - Remove half year working capital impact
  - Reflect the acceleration in new site capex, 34 new sites built
- **Cash generated from operations of £43.8m**
- **Working capital inflow of £10.0m**
  - Flattered by payment timing
- **Free cash flow of £33.7m**
  - After maintenance capex of £8.4m – all capex bar new site
- **Free cash flow funds 97% of new site capex**
  - New site capex of £34.8m

	LTM H1 FY24 £m
<b>Adjusted EBITDA IAS17</b>	<b>38.0</b>
Pre-opening costs	(4.2)
Changes in working capital	10.0
<b>Cash generated from operations</b>	<b>43.8</b>
Maintenance capex	(8.4)
Interest paid (net)	(1.5)
Employee share awards	(0.2)
<b>Free cash flow</b>	<b>33.7</b>
New site capex	(34.8)
Route acquisition	(2.7)
Term loan repayment	(12.5)
Refinancing costs	(0.3)
Purchase of own shares / cash settle awards	(0.7)
<b>Cash outflow</b>	<b>(17.3)</b>
Cash b/f	23.0
<b>Cash c/f</b>	<b>5.7</b>

# Capital expenditure

	H1 FY24 £m	H1 FY23 £m
New site	20.1	13.1
Landlord contributions	(2.0)	(1.9)
<b>Net new site spend</b>	<b>18.1</b>	<b>11.2</b>
Maintenance	2.3	1.6
Splash and dash / external area	0.6	0.1
Kitchen re-set	0.6	0.9
Central	0.2	0.3
Advance purchases	0.3	-
Furniture refurb	-	0.6
Freehold / leasehold premium	-	1.3
<b>Net spend</b>	<b>22.1</b>	<b>15.9</b>
Capex creditor movement	(1.0)	(0.9)
<b>Cash out flow</b>	<b>21.1</b>	<b>15.0</b>

- **Net new site capex of £18.1m**
  - Includes £14.5m spend re 16 new sites built and opened in the period, 11 new sites opened in FY23
  - 16 new sites include 14 Lounges and two Brightsides
  - Spend includes £1.1m on Ormo Lounge
  - Spend is net of LLC of £2.0m. Expect c£4.0m for the full year
- **Maintenance capex of £2.3m**
  - Represents 1.5% of revenue (FY23 1.3%)
  - P&L maintenance spend was 1.8% of revenue (FY23 1.7%)
- **Lounge kitchen re-set**
  - Project completed in May
- **Advance purchases**
  - Reflects increase in bulk purchasing for future projects

# Non property net debt

	H1 FY24 £m	FY23 £m	H1 FY23 £m
Cash	5.7	26.4	23.0
Term Loan	(20.0)	(32.5)	(32.5)
<b>Net debt</b>	<b>(14.3)</b>	<b>(6.1)</b>	<b>(9.5)</b>

- **Net debt £14.3m**
- **Year on year £4.8m increase in net debt, after:**
  - £43.2m capex outflow
  - £2.7m outflow to fund Route acquisition
  - £0.7m purchase of own shares / cash settled awards
- **Bank facilities re-financed June 2023**
  - Term loan reduced to £20.0m (from £32.5m)
  - RCF increased to £22.5m (from £10.0m)
  - No change in total liquidity
  - No change in covenants
  - Facility to June 2026
- **Strong balance sheet and funding position**

# FY24 53 Week Year

- **FY24 will be a 53-week year ending on 21 April 2024**
- **Expectation is that the additional week will add:**
  - c£6.8m revenue
  - c£1.1m IFRS16 Adjusted EBITDA
  - c£0.8m IAS17 Adjusted EBITDA

# Strategy and Operations Review

Nick Collins - CEO

# Continuing to deliver on the strategy we set out at IPO

- Consistent, sector leading LFL sales growth
- Improving margins as we benefit from scale purchasing and operational gearing
- Comfortable operationally delivering 35 site openings per annum – results demonstrate this
- Roll-out is financed through internally generated cash flow and net debt is very conservative
- Proven potential scale of in excess of 600 Lounges and 65 Cosy Clubs
- Best in class management team





# Sales and the consumer



- No shift in the way our customers are behaving across the brands
- Historically our growth has been volume driven – volumes are currently flat, with price dominating our LFL sales growth
- Our sales volumes are, however, materially ahead of pre-Covid – we think we are unique in this regard

- We are optimistic with regard to the outlook and expect to see a return to volume growth in the short to medium term:
  - We represent excellent value for money across all brands, we have taken a lot less price than most other operators
  - Our constantly evolving all-day offer is so relevant and has never been better
  - Our new site openings are performing very well



# LOUNGE

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## CAFÉ BARS



# A recap on 'What is a Lounge?'

LOUNGE

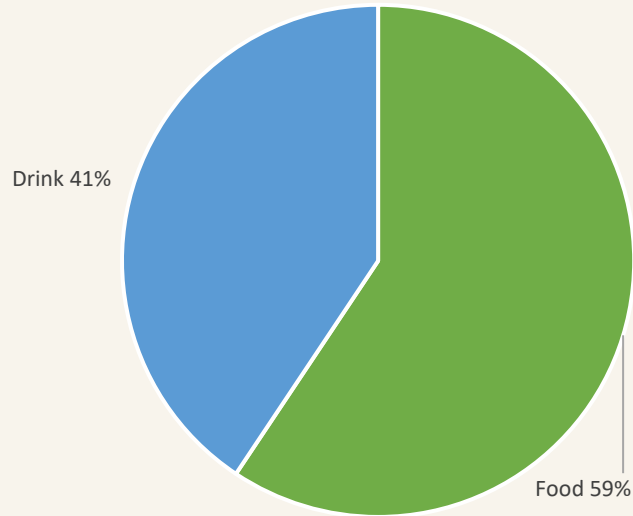
CAFÉ BARS



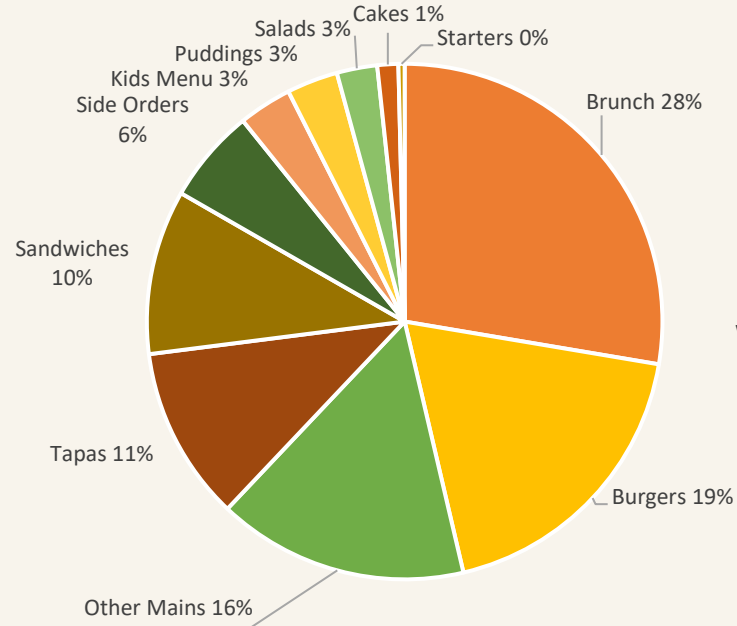
# A recap on 'What is a Lounge?'

LOUNGE  
CAFÉ BARS

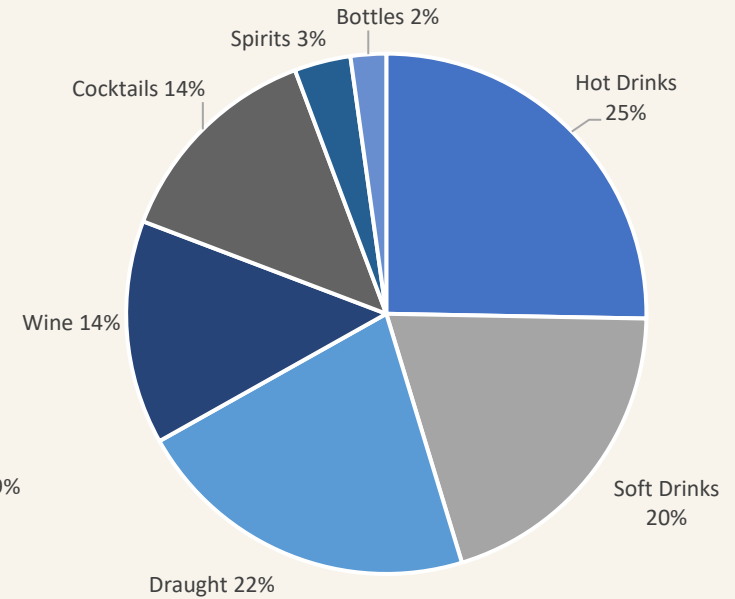
Lounge Food/Drink Sales Mix (£)



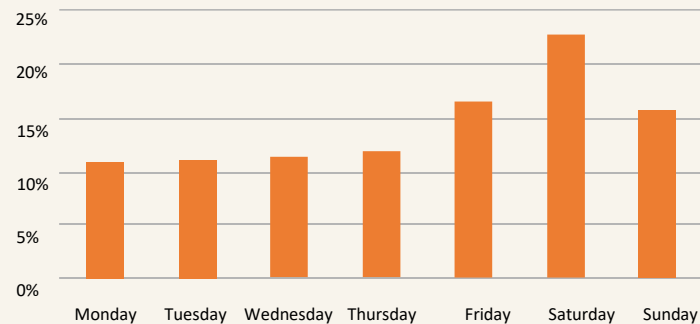
Lounge Food Sales Mix by Category (£)



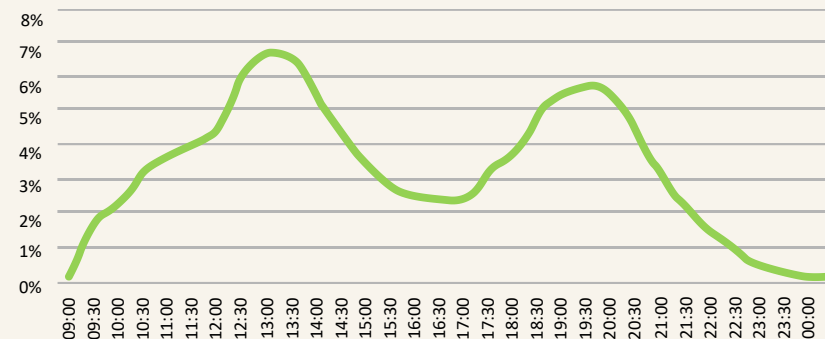
Lounge Drink Sales Mix by Category (£)



Lounges Sales % Split by Day



Lounges Sales % Split by Half Hour





# Our all day offer is constantly evolving

LOUNGE

CAFÉ BARS



- Six-monthly menu changes keep us relevant and provide our customers with choice.
  - Introduction of lamb flatbread and curry a great example of food evolution whilst protecting our teams and margin
  - New cauliflower dishes strengthen our vegan offer



- Real focus on improving our already good coffee offer



- Enhanced cold drinks range with investment in new blended drinks offer:
  - New milkshakes a much better product
  - Iced coffee section has delivered +50% LFL



- Christmas bookings now available for tables of 6+ and no need for a deposit

# Our value for money is a significant factor in our strong performance

COSTA				
Latte	£3.35	£3.75	▲	11.9%

Boston Tea Party				
Latte	£2.95	£3.40	▼	15.3%
Breakfast (the West Country)	£10.25	£11.25	▲	9.8%

STARBUCKS				
Latte	£3.45	£3.80	▲	10.1%

wetherspoon				
Latte	£1.35	£1.50	▼	11.1%
Carlsberg Pint	£2.39	£2.76	▼	15.5%
House White Wine (175ml)	£2.45	£2.72	▼	11.0%
Breakfast (Small All Day Brunch)	£7.40	£8.35	▼	12.8%
Entry Level Burger	£6.20	£6.99	▼	12.7%

THE ENCORE				
Amstel Pint	£5.00	£5.35	▼	7.0%
Entry Level Burger (Bacon & Cheese)	£17.95	£19.25	▲	7.2%

PROSPERO LOUNGE				
Latte	£3.30	£3.55		7.6%
Cruzcampo Pint	£4.80	£5.40		N/A
House White Wine (175ml)	£4.90	£5.20		6.1%
Lounge Breakfast	£9.75	£10.50		7.7%
Lounge Burger	£10.95	£11.75		7.3%

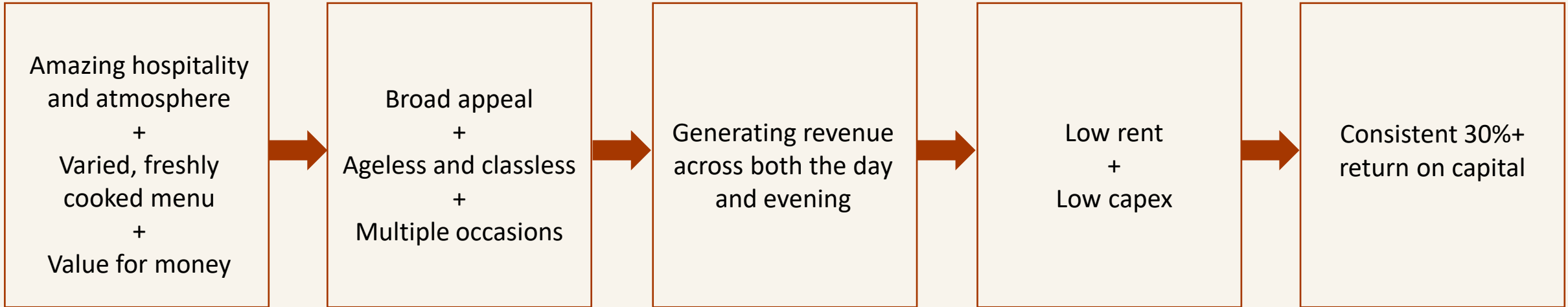
GREENE KING DIRTY DUCK				
Amstel Pint	£4.64	£5.09	▼	9.7%
House White Wine (175ml)	£5.69	£5.90	▲	3.7%
Entry Level Burger (Bacon & Cheese)	£14.95	£14.95	▲	0.0%

ALL-BAR-ONE				
Latte	£2.75	£3.25	▼	18.2%
Amstel Pint	£5.45	£6.00	▲	10.1%
House White Wine (175ml)	£5.65	£7.00	▲	23.9%
Breakfast (Full English)	£9.95	£10.95	▲	10.1%
Entry Level Burger (Cheese Burger)	£12.95	£14.50	▲	12.0%

MILLER & CARTER - STEAKHOUSE -				
Amstel Pint	£4.95	£5.25	▼	6.1%
House White Wine (175ml)	£5.15	£5.65	▲	9.7%
Entry Level Burger (Bacon & Cheese)	£15.50	£17.50	▲	12.9%

▼ Priced lower than Prospero  
▲ Priced higher than Prospero  
 Nov-2022 price     Nov-2023 price

# Why do we achieve such strong returns on capital?



# COSY CLUB





# Opportunity to build on existing level of sales

**COSY CLUB**



- Lucy Knowles new Cosy Club Managing Director
- Brings both significant operational expertise alongside sales and marketing experience



- Cosy Club Oxford launched in October – our 36<sup>th</sup> Cosy Club
  - Beautiful fit-out across 8,500 square feet
  - Last week sales **£85k**, anticipate steady growth as the day-time day part matures



- Christmas bookings ahead vs FY23



- Autumn-winter menu launch saw the menu further strengthened



- Cosy Club returns on capital in line with Lounge, but we think there is more in the tank



# Brightside

ROADSIDE DINING



# The journey so far



Saltash - Cornwall



Honiton - Devon

- Second and third sites in Saltash and Honiton launched in June and August
- Average weekly sales of £22,500 represent a solid start
  - Strong representation from people living locally - community market one we know well
  - Seasonality very pronounced, school holidays very busy
- Sales mix 75% Food, 25% drinks – best-selling dishes are the breakfast and the burger
- Customer feedback has been excellent – we are confident we are delivering a great product and experience, the legacy, more value-driven customer has largely now moved-on
- We need to grow sales through building awareness and familiarity:
  - Very different market vs Lounge or Cosy Club where thousands of people walk past every day
  - Marketing strategy continues to evolve
- The journey is just starting and it's too early to talk about scale and long-term ambition



# Property headlines

- 16 sites opened in H1, on track to open 34 sites during the financial year, pipeline remains strong
- Rent has now reduced to 4.4% of sales
- Slight bias towards the North East and South East, Scotland on the horizon
- Market continues to be very tenant-friendly
  - We continue to source prime-pitch opportunities, predominantly former retail or bank units
  - Landlord packages remain very competitive, albeit rising interest rates will see capital contributions dip with rent free periods increasing
- We are using more footfall and demographic data to draw conclusions about the existing estate, new opportunities and the overall potential scale of the brands



# Case Study – Navio Lounge

- Opened in Nantwich on 26<sup>th</sup> July 2023
- 15-year lease
- Rent £60k
- Landlord package 24 months
- Gross AWS £37k (16 weeks)
- Net capex £840k
- Forecast CROCCI 36%
- Nearest sites: Cappello 16 miles, Unico 32 miles



NAVIO LOUNGE

CAFÉ BAR





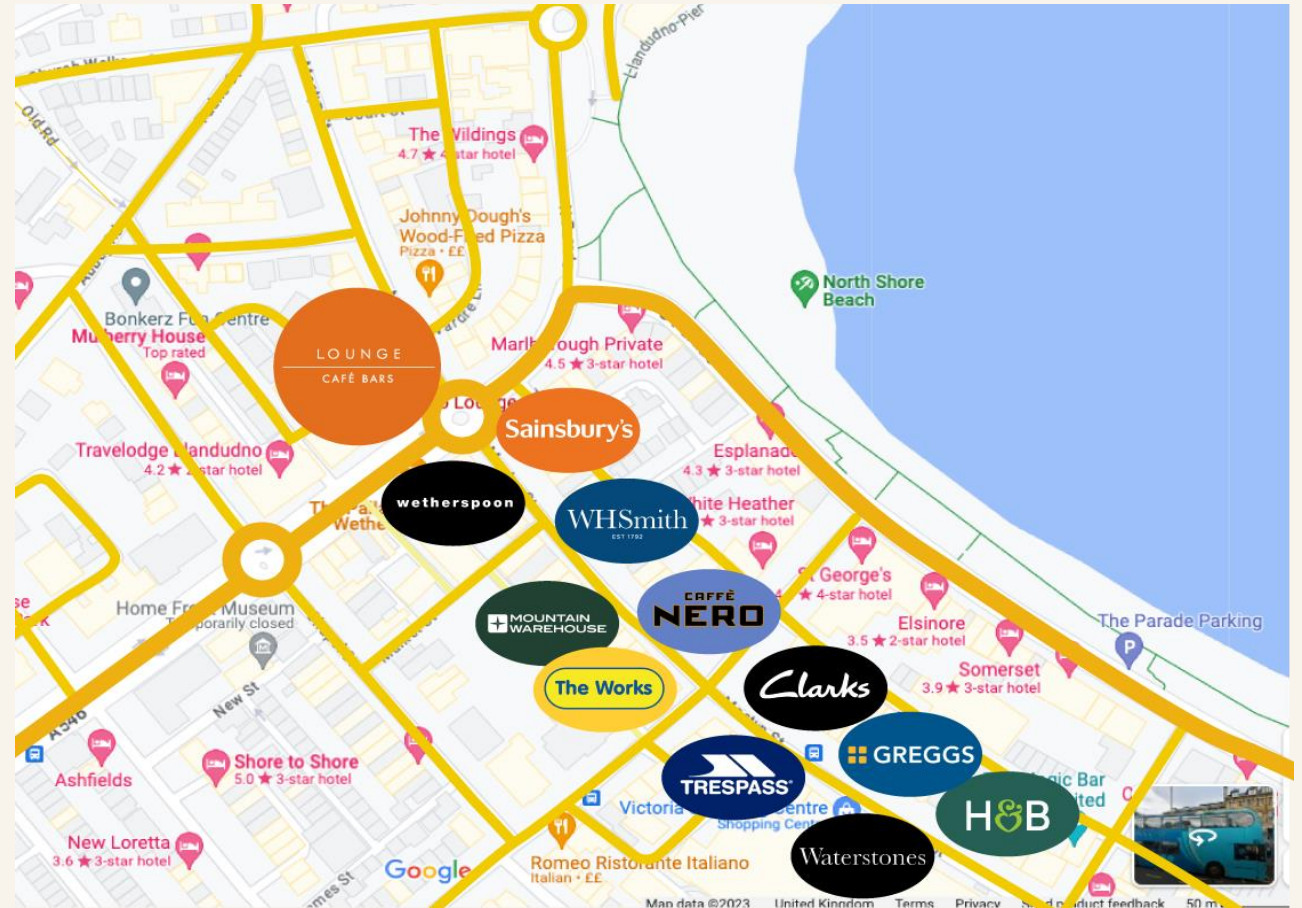
# Case Study – Ormo Lounge

- Opened in Llandudno on 11<sup>th</sup> May 2023
- 15-year lease
- Rent £64k
- Landlord package 37.5 months
- Gross AWS £63k (27 weeks)
- Net capex £1,290k
- Forecast CROCCI 54%
- Nearest sites: Clio 21 miles, Torello 21 miles



ORMO LOUNGE

CAFÉ BAR



# Lounge versatility – we trade strongly in a variety of different locations:



- Armado Lounge, Plymouth
- Average weekly sales £41k
- Coastal Lounge



- Martino Lounge, Morpeth
- Average weekly sales £34k
- North East Lounge



- Caballero Lounge, Leeds
- Average weekly sales £35k
- Retail/leisure scheme Lounge



- Acordo Lounge, Deal
- Average weekly sales £29k
- Coastal town Lounge



# Where do our sites come from (2022-23)

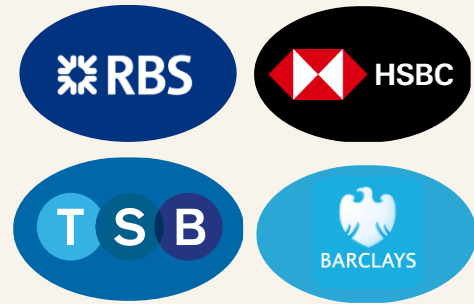
## Former Retail (23 sites)



## Former Pub/Restaurant (16 sites)



## Former Bank (6 sites)



## New Development (14 sites)

- Maidenhead Sorbon Estates Ltd
- Basildon Town Council
- Fosse Park West GP Ltd
- Uxbridge Landlord redevelopment
- Wembley
- Egham Runnymede Borough Council
- Former Chester Library - Chester Council
- East Grinstead Evolve Estates
- The Springs, Leeds - Thorpe Park Developments
- Redhill - Reigate and Banstead Council
- Neath - Neath Port Talbot Council
- Bath Rd, Cheltenham- Gateway 252
- Burnley- Burnley Borough Council
- Jesus College, Oxford

# The Good Stuff – Loungers and our ESG ambition

## Community



### Bring joy to local places

- Every year:
- Host 10,000 community events
  - Raise £100,000 for charity every June via LoungeAid
  - Provide 10,000 free meals for people in need

## Customers



### Be proud of what we put on the plate

- Every menu to have at least two main meals under 800 kcal
- Establish guideline parameters for all new product development

## People



### We care about our teams

- 40% of senior leaders to be female by 2028
- 50% of management roles to be filled by internal hires by 2028
- Increase the % of our team who enjoy working at Loungers to an average of 8/10

## Planet



### Deliver hospitality sustainably

- Net zero by 2035 (Scopes 1&2)
- Increase recycling by 10% and food composting by 20% by end 2024

## Suppliers



### Work with our partners to raise standards

- 100% of suppliers on SEDEX by end FY24



# Continuing to invest in our people

- Recruitment landscape continues to gradually be more employer friendly
- Continuing trends of a younger team wanting shorter hours
- We have re-worked bonus structures at site level to ensure incentivisation aligned
- Focusing ever-more on team development and progression:
  - We want to be renowned for building careers in hospitality
  - H2 will see our emphasis on and investment in learning and development further increase
- Loungefest-23 was a great success – investment of £0.7m, looking to get suppliers to start partially funding from 2024
- Lucy Knowles joined as Cosy Club MD



# Conclusions

Alex Reilley – Executive Chairman

# Conclusions

- The consistency of the sales performance highlights the relevance of our brands and the opportunity in front of us
- There is so much for us to go for if we continue to evolve and protect & nurture the culture
  - 650+ sites for Lounge and Cosy Club feels very conservative as we open new sites in a variety of locations
- We are playing a significant role in the transformation of the high street:
  - We are proud of our role in improving communities through job creation, investment and providing a great place to spend time
- We have the strongest senior team in the sector and believe we can have a significant influence on the UK eating and drinking out sector for years to come