Loungers plc

Results for the 52 weeks ended 19 April 2020

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COSY CLUB

SEPTEMBER 2020

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FY20 Highlights Pre-Covid

- Our performance both pre and post lockdown demonstrates our unrivalled position in the sector in terms of our trading prospects and the potential scale of the brands
- Pre-Covid we were delivering on our IPO commitments
  - Market out-performance – LFL sales growth of 4.5% and EBITDA growth of 22.7%
  - Continuation of the roll-out with 21 new site openings, further demonstrating the potential scale of our brands
- Constant focus on evolution and improvement
  - Food and drink menu innovation driving sales growth and efficiency
  - Investment in technology and kitchens via the Reset project
  - Strengthened the senior team and adapted our structure for further growth
  - Enhanced the culture within the business via employee share ownership

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FY20 Highlights – Post Covid

- Lockdown – our entrepreneurial management style came to the fore
  - Protected and enhanced the culture in the business and our reputation in communities at a challenging time
  - Protected our P&L and secured our balance sheet to ensure we had sufficient liquidity in a worst case scenario
  - Evolved our sites and operations to ensure we were Covid-safe whilst critically protecting the customer experience
  - Used the downtime to challenge and improve the business
- Re-opening
  - All sites open by 7 August
  - Since re-opening LFL sales growth of 29.9%, underlying sales are in growth
  - Suburban and market town locations are resilient – not exposed to the worst hit areas
  - Lockdown and re-opening improved our offer and strengthened our culture
- The outlook
  - Whilst there remains uncertainty in the near term, we are very well positioned

Financial Review

Gregor Grant - CFO

Financial performance pre Covid-19 (44 weeks to 23 February)

	Wk 44 FY20 £'000s	Wk 44 FY19 £'000s	Change
Revenue	**154,876**	**127,101**	**21.9%**
Gross profit	65,472	53,030	
Gross profit %	42.3%	41.7%	0.6%
Adjusted EBITDA IFRS 16	**29,138**	**23,750**	**22.7%**
	18.8%	**18.7%**	**0.1%**
IAS 17 Rent charge	(8,506)	(6,971)	
Adjusted EBITDA IAS 17	**20,632**	**16,779**	**23.0%**
	13.3%	**13.2%**	**0.1%**

- Revenue up 21.9%, L4L sales +4.5%
- Gross margin 60 basis points higher,
  - Driven by CGS improvement
- IAS 17 Adjusted EBITDA of £20.6m
- Adjusted EBITDA ahead by 10 basis points on both IFRS 16 and IAS 17 measures
  - Gross margin gain of 0.6% and operational leverage gain of 0.4%, offset by
  - Utilities, pensions, rates (0.5%) and incremental listed company costs (0.3%)

Exceptional costs

	FY20 £'000s
Covid-19 stock write off	903
IPO Costs	1,528
HO Relocation	175
Exceptional cash costs	**2,606**
IPO Share awards	2,901
Impairment of fixed assets	9,829
Charged in operating loss	**15,336**
Loan arrangement fees	1,447
Total exceptionals	**16,783**

- Statutory pre-tax loss reflects £16.8m of exceptionals
- Fixed asset impairment costs of £9.8m
  - Covid-19 an adjusting event
  - £7.3m of the charge against IFRS 16 right of use assets
  - Impairment cash flow forecasts reflect the FY21 lockdown
  - Site by site appraisal, no credit for out-performers
  - No cash impact
  - Two sites closed during lockdown, no further closures anticipated

Cash flow

Cash Flow (IAS 17)	FY20 £'000s	FY19 £'000s
Adjusted EBITDA	**18,813**	**20,582**
Pre-opening costs	(2,646)	(2,251)
Corporation tax paid	(1,290)	(1,018)
Movement in working capital	1,544	3,145
Cash generated from operations	**16,421**	**20,458**
Exceptional cash costs	(2,606)	(462)
Cash generated post exceptionals	**13,815**	**19,996**
Capital expenditure	(23,058)	(21,162)
Disposal of fixed assets	10	0
Interest paid	(1,099)	(4,066)
Issue of shares	57,941	63
Borrowings	(50,026)	4,000
Cash outflow	**(2,417)**	**(1,169)**
Cash b/f	6,500	7,669
Cash c/f	**4,083**	**6,500**

- Cash flow presented under IAS 17 – includes rent as an operating cash flow
- Corporation tax reflects payments on account, repaid by HMRC in FY21
- Positive movement in working capital reflects post lockdown actions to preserve cash
  - March quarter end rents not paid (deferred)
  - March PAYE and VAT payments deferred
  - March month end supplier payments deferred
- Borrowings net outflow includes £7m RCF draw pre lockdown

Capital expenditure

Capital expenditure	FY20 £'000s	FY19 £'000s
New site	20,211	19,900
LL Contributions	(2,818)	(1,417)
Net new site spend	**17,393**	**18,483**
Splash and dash	1,160	877
Re-set investment	1,025	477
Maintenance	1,972	1,737
Central capex	1,248	229
Net spend	**22,798**	**21,803**
Capex creditor movement	260	(641)
Cash out flow	**23,058**	**21,162**

- Net new site spend £1.1m lower than prior year, reflects
  - 21 completed sites vs 25 in PY
  - £17.4m spend includes £2.1m re 5 sites in WIP
- Average new site net cost £0.73m
- Landlord contributions of £2.8m includes £1.4m in respect of five Cosy Club sites
- Splash and dash includes investment at seven sites
- Kitchen re-set investment covers 26 sites
- Maintenance spend represents 1.2% of revenue
- Central capex spend includes the cost of the HO relocation

Net debt and liquidity

Net debt and liquidity	FY20 £'000s
Cash	4,083
RCF	(7,000)
Term loan	(32,500)
Net debt 19 April 2020	**(35,417)**
Cash	4,083
Overdraft facility	3,000
Additional RCF facility	15,000
Equity raise net proceeds	8,100
Proforma liquidity 19 April 2020	**30,183**
Working capital unwind forecast	(9,000)
Lock down funding	**21,183**
Weekly cash burn	480
Number of weeks funding	**44**
Proforma liquidity 19 April 2020	**30,183**
Payroll	(1,360)
Working capital unwind	(6,120)
Other	(511)
Proforma Liquidity 3 July 2020	**22,192**

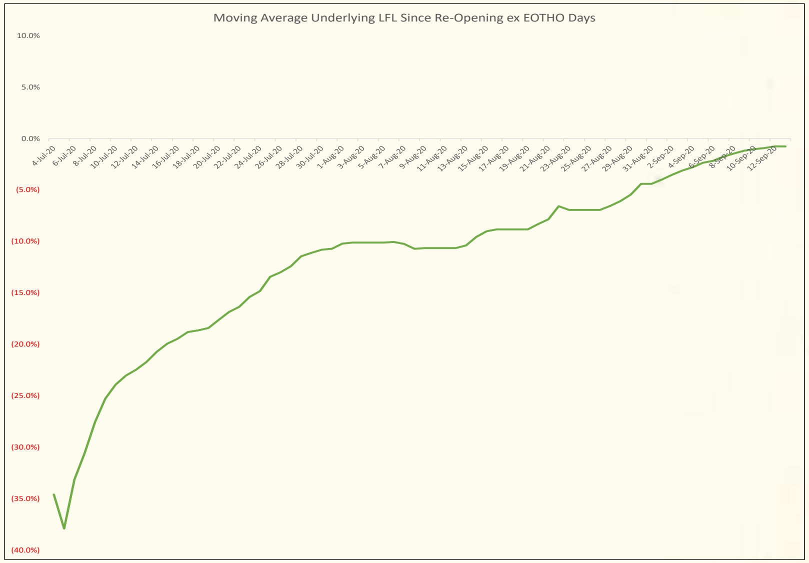
- Net debt at year end of £35.4m and liquidity of £7.1m
- Liquidity raised to £30.2m via additional RCF of £15m and equity raise of net £8.1m
- RCF Terms
  - 18m term
  - Margin 3%
  - Covenants waived at 12 July and 4 October 2020 and amended through to 3 October 2022
- Allowing for a £9m working capital unwind additional liquidity allowed for a fully funded (assuming rent paid as it fell due) lockdown period of 44 weeks
- The phased re-opening commenced on 4 July at which time the Group retained liquidity of £22.2m
  - Working capital unwind stood at £6.1m at the time of re-opening

Trading post re-opening

LFL Sales	
Underlying L4L sales	**(1.1%)**
EOTHO Impact	18.2%
VAT Reduction Impact	12.8%
Reported net L4L Sales	**29.9%**

Re-opening phasing	
4 July	24
w/e 12 July	43
w/e 19 July	27
w/e 26 July	21
w/e 2 Aug	26
w/e 9 Aug	24
Estate	**165**

- Net L4L sales growth between 4 July and 13 September of 29.9%
  - Includes all LFL sites from the day of re-opening
  - Reflects positive impact of EOTHO and VAT reduction
- Underlying L4L sales from 4 July -1.1%
- Underlying L4L sales positive for the 9 weeks from 13 July to 13 September
- Consistent improvement in underlying L4L sales over the period



Net debt post re-opening

- Net debt at 6 September £24.5m
  - Adjusted to treat remaining deferred Covid-19 liabilities (for example deferred VAT and rents) as if paid
- Compares to:
  - £28.8m at 22 March 2020 (start of lockdown)
  - £26.5m at 8 September 2019 (corresponding day last year)
- Reduction in net debt reflects:
  - Impact of strong L4L sales performance post re-opening
  - Retention of pre Covid-19 credit terms (all deferred supplier balances now paid)
  - Benefit of government support measures – EOTHO, VAT reduction, business rates holiday
  - £8.1m net proceeds from the equity raise
- Restoration of balance sheet strength enables the Group to resume new site roll out at a measured pace

Strategy and Operations Review

Nick Collins - CEO

Life before lockdown

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- ◆ Continuation of the roll-out, we were on track to open 25 sites in FY20
  - ➢ 21 Sites opened, 16 Lounges and 5 Cosy Clubs
  - ➢ Strong openings reinforcing our confidence in the potential scale of the brands
  - ➢ Benefiting from a softening property market, further improvement in the rent to revenue ratio of 5.3%
- ◆ Further evolution
  - ➢ SKU rationalisation delivering greater consistency and efficiency
  - ➢ Increased stretch on the food menu allowing innovation whilst driving higher average spend
  - ➢ Value for money price points maintained on core dishes
  - ➢ Introduction of more relevant/premium draught range
  - ➢ Focus on evening sales through drinks offer and investment in look and feel
- ◆ People culture enhanced & continued investment in team for future growth
  - ➢ 480 employee shareholders following IPO/share schemes improving tenure and buy-in
  - ➢ New Property Director and Purchasing Manager
  - ➢ Revised regional operations structure further reducing site to ops team ratio
  - ➢ Introduction of dual brand food development structure

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How we used lockdown

- Regular and honest team engagement enhanced the culture and trust in the business
- Engaging with our communities, ensuring we played a part in lockdown
- Evolved a detailed and considered approach to Covid measures with two core objectives:
  - To ensure the safety of our teams and customers in the Lounges and Cosy Clubs, and
  - To protect the customer experience in terms of hospitality and atmosphere
- Opening 27 sites for takeaway allowed us to:
  - Understand operating in a Covid environment ahead of full re-opening
  - Engage our team and supply chain
- Development of our order at table app
- Maintenance audit and essential works
- Challenging our menus and ingredients, reducing the number of dishes

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Re-opening

- Considerable emphasis on team training, supply chain and environment
- Learnings from operating take-out allowed us to hit the ground running
- Phased re-opening with all sites open by 7 August, typically sales built up to pre-Covid levels over two or three weeks
- Decision taken not to re-open Banco Lounge and Allegro Lounge
- Introduction of our order at table app – now representing 42% of sales in Lounge – hospitality has not been sacrificed
- Reassuring customers – introducing test and trace and Covid measures, whilst ensuring our hospitality is better than ever
- Under considerable demand, our operational performance during EOTHO was excellent
- Post lockdown, our customers have returned quickly because they missed us

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Factors influencing sales

- Our hospitality is better than ever – we have not let Covid get in the way
- Predominantly suburban and market town locations – no exposure to Central London and transport hubs
- Staycationing, particularly in coastal locations
- Home-working
- Reduction in supply, closure of pubs, cafes, and restaurants (some of which is temporary)
- EOTHO introduced new customers to Lounge & Cosy Club
- 10% - 15% Cover reduction – has not really had a negative impact
- The App and reduced menus mean quicker delivery / additional sales
- Nervous / older customers – we are still seeing people return for the first time
- Regional tightening of rules – not had a dramatic impact in Manchester

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The roll-out and outlook

- **The roll-out**
  - Post Covid will represent a fantastic opportunity in terms of property and pipeline
  - 5.3% rent to revenue ratio means that there is no need to restructure / reinvent how we do things
  - Change in planning laws further benefits Loungers
  - Cautiously hope to open six sites in FY21 (of which Cosy Club Brindleyplace and Ponto Lounge in Hull are already open)
  - We will start rebuilding the pipeline with a view to returning to a run rate of 25 sites per annum at some stage in FY22
- **Outlook**
  - We anticipate further interruptions to trade – potentially curfews and more widespread regional lockdowns
  - Our balance sheet and liquidity are sufficient to withstand these
  - Our post lockdown trading has demonstrated our brands are thriving, and will continue to thrive post Covid
  - The pandemic has highlighted the strength of our management team
  - The potential scale of both brands has been reinforced

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Thank you