

# LOUNGERS PLC

Results for the 24 weeks ended 6<sup>th</sup> October 2024



28<sup>th</sup> November 2024

LOUNGERS PLC

COSY CLUB

LOUNGE



# Recommended Acquisition of Loungers by Fortress

- Announced on 28 November 2024
- Detailed terms and conditions of and reasons for the Acquisition are contained within the Offer announcement
- Loungers is now in an Offer Period and any communication has to be in accordance with the Takeover Code
- Management will not be providing any material new information / opinions to those contained with the Offer announcement or the interim results announcement



# Key terms of the Acquisition

- Cash offer of 310 pence per Loungers Share
  - Outcome of a competitive sale process run during 2024
- Represents a premium of:
  - 30% per cent to the closing price on 27 November 2024 of 238 pence
  - 35% per cent to the one-month VWAP of 230.4 pence
- Unanimous recommendation of the Loungers board
- Shareholders will have an option to remain invested by electing to receive an alternative offer of unlisted securities in Fortresses' acquisition vehicle in respect of some or all of their Loungers shares
- Lion, the Founders and members of management have undertaken to elect for the Alternative Offer with regard to some or all of their Loungers shares
- The Acquisition is intended to be effected via a scheme of arrangement, with completion expected to occur in Q1 2025
- Certain shareholders, including Lion Capital, the Founders and members of management have given irrevocable undertakings to vote in favour of the scheme over, in aggregate, 40.2 per cent of the issued Loungers shares



Solento Lounge, Lymington



Fossato Lounge, Kenilworth

# Interim results highlights

- Consistently strong trading across the estate as a whole
- As ever continued innovation in all three brands is driving strong sales performance
- We continue to make excellent progress towards re-establishing pre-Covid levels of conversion
- The unexpected increase in Employers National Insurance contributions, in particular the reduction in the threshold, is frustrating, but we are confident we can absorb it
- Ritorno achieved record levels of daily and weekly sales for Lounge
- We have a strong pipeline of new sites, and performance across our estate continues to demonstrate our target of 665 sites across the UK is a conservative one
- Current trading remains strong and LFL bookings going into Christmas are encouraging



# Financial Review

Stephen Marshall - CFO

# Results summary H1 FY25 vs H1 FY24

- **Revenue of £178.3m up 19.2%**
  - Additional net 35 sites year on year
  - LFL sales performance +4.7%
- **Gross profit growth of 22.9%**
  - Margin ahead by 120bps
- **IFRS16 Adjusted EBITDA growth of 25.0%**
  - EBITDA margin improvement of 80bps
- **IAS17 EBITDA growth of 27.8%**
  - EBITDA margin improvement of 80bps
  - Positive impact of gross margin offset by effect of full year effect of central cost investment
- **Profit before tax growth of 51.3%**

	H1 FY25 £m	H1 FY24 £m	Var
Revenue	178.3	149.6	19.2%
Gross profit	72.9	59.3	22.9%
	40.8%	39.6%	120bps
Adjusted EBITDA IFRS16	29.8	23.9	25.0%
	16.7%	15.9%	80bps
Adjusted EBITDA IAS17	22.1	17.3	27.8%
	12.4%	11.6%	80bps
Adjusted operating profit IFRS16	14.5	11.3	28.3%
	8.1%	7.6%	50bps
PBT IFRS16	6.0	3.9	51.3%

# LFL sales performance

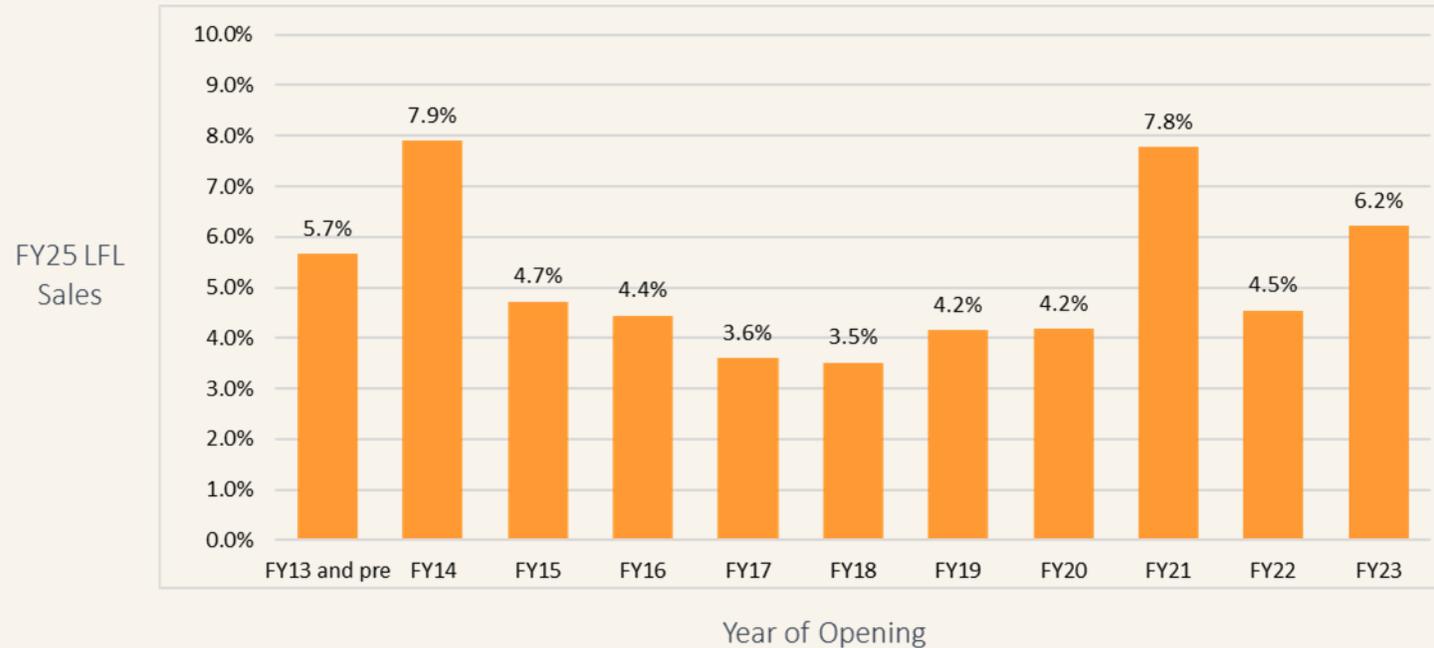
- **One-year LFL of +4.7%**
  - Continued strong growth
  - H1 excluding the four weeks of Euro 2024 football +5.7% LFL

	FY25 H1 24wks	FY25 31wks YTD
LFL sales	4.7%	4.5%

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- **Last 7 weeks' LFL of +3.9%**
    - Covers seven weeks to 24 November
    - LFL of +5.1% over the first six weeks to 17<sup>th</sup> November, which excludes last week's trading which was impacted by Storm Bert

	FY25 7wks
LFL sales	3.9%

# Consistent LFL performance across site age cohorts



- Continue to deliver consistent performance across the various age cohorts
- The 55 sites in the FY15 and earlier cohorts continue to deliver strong overall year on year growth

# Underlying margin H1 FY25 vs H1 FY24

- **IAS17 Adjusted EBITDA margin up 80bps vs H1 FY24**
- **Cost of sales (inc. site labour) positive 120bps**
  - CGS margin growth of 130bps
  - Offsets labour ratio increase of 10bps
- **Site variable costs positive 40bps**
  - Driven by efficiency in energy, cleaning, consumables and other variable costs
  - Unwind of May 2020 energy hedge in H2
- **Site fixed costs negative 20bps**
  - Rent to revenue ratio improved to 4.3% from 4.4%
  - Offset by business rate and service charge increases
- **Central costs negative 60bps**
  - Full year effect of central cost investment to support growth
- **IAS17 H1 FY25 Adjusted EBITDA margin of 12.4%**



# Margin outlook – inflation remains muted

- **Food inflation**

- Top 20 food inflation 3.2% in October 2025 vs October 2024
- Offset by lower inflation in 35% of food outside Top 20
- Overall inflation 2.6% and expected to stay in that range for the remainder of the year
- CGA reported food inflation to August of 2.5%

- **Drink inflation**

- Top 20 drink inflation of 2.3% to October FY25 v October FY24
- Higher inflation in 32% of drink outside Top 20
- Overall inflation 3.2% and expected to stay in that range for the remainder of the year
- CGA reported drinks inflation to August of 5.8%

- **NLW April 2024**

- Mitigating the hourly rate NLW increase of 9.8%

- **Utilities**

- Exited our original May 2020 hedge in September 2024

	FY July Expectation	FY November Expectation	Update
Selling Price	4-5%	5-6%	No price taken in Autumn/Winter menu
CGS Food	2%	2-3%	Ongoing supplier negotiations
CGS Drink	3%	3-4%	Coffee price increases H2
Labour	6.5%	6.5%	NLW impact
Utilities	12%	12%	Supply hedged on existing sites

# Cash flow IAS17 – continuing strong cash generation

- **Cash generated from operations of £22.1m**
- **Represents 100% of Adjusted IAS17 EBITDA**
- **Working capital inflow of £1.2m**
  - Reflects new site roll out and positive LFL sales
- **Maintenance capex includes all non-new site capex**
- **Free cash flow of £16.5m largely funds:**
  - New site capex cash outflow of £16.9m
  - Purchase of freehold property totalling £0.9m
- **Closing cash of £7.8m**

	H1 FY25 £m	H1 FY24 £m
Adjusted EBITDA IAS17	22.1	17.3
Pre-opening costs	(2.2)	(2.1)
Corporation tax	1.2	-
Changes in working capital	1.0	(0.3)
<b>Cash generated from operations</b>	<b>22.1</b>	<b>14.9</b>
Maintenance capex	(4.8)	(4.0)
Interest paid	(0.8)	(0.8)
Employee share awards	(0.2)	(0.2)
<b>Free cash flow</b>	<b>16.5</b>	<b>11.7</b>
New site capex	(16.9)	(17.1)
Freehold purchase	(0.9)	-
Term loan repayment	-	(12.8)
Purchase of own shares/ cash settle awards	(1.4)	(0.7)
<b>Cash outflow</b>	<b>(2.5)</b>	<b>(20.7)</b>
Cash b/f	10.3	26.4
<b>Cash c/f</b>	<b>7.8</b>	<b>5.7</b>

# Capital expenditure – continued roll out of new sites

- **Net new site capex of £17.7m**
  - Includes £15.0m spend re 17 new sites built and opened in the period; 16 new sites opened in FY24
  - Includes £1.6m lease premiums for Ritorno Lounge and Cosy Club Sheffield
- **Maintenance capex of £2.4m**
  - Represents 1.3% of revenue (H1 FY24 1.5%)
  - P&L maintenance spend was 2.1% of revenue (H1 FY24 1.8%)
- **Freehold purchase**
  - Purchase of a freehold site in Billericay
- **Splash and dash/external areas**
  - We completed 5 refurbishments at an average cost of £114k where we saw opportunity to drive further sales
  - We are improving outdoor space where possible to add covers
  - Sites maintained in good condition through scheduled maintenance and minor works

	H1 FY25 £m	H1 FY24 £m
New site	19.9	20.1
Landlord contributions	(2.2)	(2.0)
<b>Net new site spend</b>	<b>17.7</b>	<b>18.1</b>
Maintenance	2.4	2.3
Splash and dash / external area	1.4	0.6
Kitchen works	0.6	0.6
Advance purchases	0.1	0.3
Central	0.3	0.2
Freehold purchase	0.9	-
<b>Net spend</b>	<b>23.4</b>	<b>22.1</b>
Capex creditor movement	(0.8)	(1.0)
<b>Cash out flow</b>	<b>22.6</b>	<b>21.1</b>

# Non-property net debt

- **Net debt £12.2m (FY24 £14.3m)**
- **Year on year £2.1m reduction in underlying net debt after**
  - £47.7m capex outflow
- **Strong balance sheet and funding position**
  - No change in term loan or RCF, with full RCF available at H1 FY25
  - No change in total liquidity
  - No change in covenants
  - Facility to June 2026

	H1 FY25 £m	FY24 £m	H1 FY24 £m
Cash	7.8	10.3	5.7
Term Loan	(20.0)	(20.0)	(20.0)
Net debt	(12.2)	(9.7)	(14.3)

# Strategy & Operations review

Nick Collins - CEO

# Confidence in the trading environment

- Customer behaviour across the brands is consistent and we haven't seen any notable change in sales mix or trading patterns
- Volumes were relatively flat in the first half - we aspire to volume growth in the second half
- Budget was frustrating - we will need to take more price in H2 than we had anticipated, but we take some reassurance in knowing this will be replicated across the sector
- We are used for many different occasions across the week and many of these are habitual - our value for money offer and broad appeal provide resilience across the brands



Livro Lounge, Nailsea



Porto Lounge, Bristol

# Innovation and development in Lounge

- Whilst the Lounge roll-out continues at pace, we remain as focused on menu development now, as we were five years ago. Our spring /summer menu launch saw:
  - More emphasis on Smash Burgers - they are really capturing the consumers' attention; and
  - Successful introduction of lamb kofte across a couple of dishes
- New crockery range introduced across the estate:
  - Smaller serve, as delivered in most 'better coffee' offers
  - New coffee blend being introduced in January
  - UK consumer coffee tastes are changing, we want to stay ahead of this
- Integrated PDQ machines trialled and soon to be rolled out across the estate, reducing cash variance costs



# Lounge Investing in the Community

- Community engagement and outreach are at the heart of the Lounge business - each Lounge has to earn its place on the high street, and play a significant role in the community
- This financial year we are targeting providing over £1m of support for our local communities through:
  - Loungeaid campaigns, twice a year where each site raises money for a local charity chosen by the site team
  - New site opening campaigns
  - MacMillan coffee mornings
  - Charity quiz nights
  - Our community fund where sites are urged to volunteer their time (paid by the company), give fund donations or provide food or drink to local causes
  - Our random acts of kindness campaign where our teams are encouraged to give food and drink away



# Elevating the food menu in Cosy Club

- We have previously talked about the opportunity to increase average spend and sales by elevating the food offer in the brand
- Cosy Club is more occasion-driven, our customers want a more aspirational experience, we needed to differentiate further from Lounge
- Following a summer trial, a new menu was launched across the brand in October. Represented one of the most exciting and significant pieces of development we have undertaken. We have introduced 10 new Small Plates and 9 new Main dishes. Some of the main themes have been:
  - Remaining mainstream but ensuring both visually and in terms of taste the dishes reflect our identity
  - Introducing ‘foodier’ ingredients into the menu - nduja, burrata, ox cheek, pakchoi
  - More emphasis on discipline in the kitchen around achieving excellence
- This was the first stage. We will deliver further evolution in 2025, both in terms of dish development, kitchen processes and standards



# Brightside continues to build sales, and we have opened a fourth site

- The first three sites are experiencing great sales momentum with double digit LFL growth over the last seven weeks
- We are shifting a bigger proportion of marketing towards roadside signage and cross-marketing in Lounge and Cosy Club, vs digital spend
- We have just launched a new menu, with a degree more emphasis on speed and convenience
- Our fourth Brightside opened on Friday on the A1 in Rutland and initial sales have been very encouraging
- We have no current plans to open more Brightsides:
  - We need these four sites to bed-in and see how the sales grow
  - We remain excited by the opportunity



# Case Study - Fossato Lounge

- Opened in Kenilworth on 29th June 2024
- 15-year lease
- Rent £62,500 pa
- Landlord package 21 months
- Gross AWS £45,069
- Net capex £937k
- Forecast CROCI 34.0%
- Nearest sites: Paramo 13 miles, Desco 14 miles



# Case Study - Pescado Lounge

- Opened in Whitby on 30th May 2024
- 15-year lease
- Rent £75,000 pa
- No Landlord package
- Gross AWS £45,266
- Net capex £1,091k
- Forecast CROCI 32.9%
- Nearest sites: Marisco 20 miles, Ontano 45 miles



# A great period of new openings



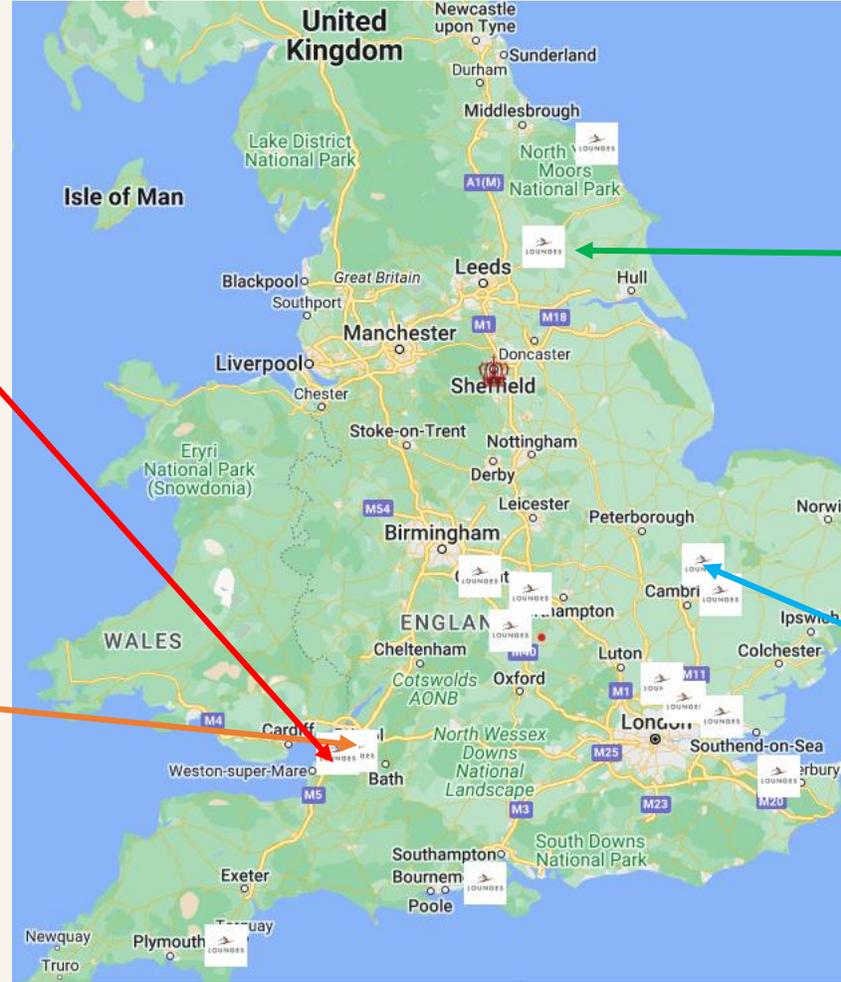
## Livro Lounge

- Town Centre
- Gross average weekly sales £45,963



## Ritorno Lounge, Bristol

- Harbourside/Waterfront
- Gross average weekly sales £94,853



## Vallado Lounge, York

- Retail/Leisure Scheme
- Gross average weekly sales £31,691



## Piccolo Lounge, Ely

- Town Centre
- Gross average weekly sales £48,246

# Investment in Learning and Development

- Launch of our First ever 'Future Ops' Programme for more than 20 future Operations Managers and Operations Chefs
- Over 100 aspiring General Managers through our 'Step Up' Programme, as well as more than 30 aspiring Head Chefs
- Launched 10 bitesize training modules and invested in training our Ops team to deliver
- Continued to invest in 122 new managers to help them understand the DNA of Loungers by running our successful HQ induction days in Bristol
- Expanded our investment into our Female Leaders by taking 10 head office and operational leaders through a targeted development programme with a 3rd party

## Quick Stats

- Salaried manager turnover continued to fall and is now below pre-COVID levels
- 2 new internal Regional Ops Manager appointments and more than 10 internal Operations Manager appointments



# Good Stuff Strategy

## Community



### Bring joy to local places

- On track to give back more than £1m to local communities and good causes in FY25
- Spent more than £250k on 'Random Acts of Kindness' – at the heart of Loungers DNA
- Continue to deliver on our target of 10,000 community events PA

## People



### We care about our teams

- Created >1,000 jobs over 12 months through investment in new sites
- Awarded more than 1,000 of our team members over £1m in shares vesting in April 2025
- More than 10 Operations Managers/Chefs appointed internally in the last 6 months

## Customers



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

- Maintained an average of 18 vegan and 36 gluten free dishes
- Engaged an industry expert to help improve the nutritional profile of our menu

## Planet



### Deliver hospitality sustainably

- A partnership with Zero Carbon Forum ("ZCF") to drive down energy and usage
- New approach to recycling
- New energy-saving equipment being included in all new sites

## Suppliers



### Work with our partners to raise standards

- Continue to request all suppliers are externally validated on ethics and sustainability
- Committed to the better chicken commitment for 100% of chicken by 2026

# Conclusions

Alex Reilley – Executive Chairman

# Conclusion

- Delighted to be announcing another set of strong results
- Loungers has consistently delivered throughout the last 5½ years since our IPO (excluding Covid)
- We are hugely proud of the jobs we continue to create and our positive impact on UK's high streets
- We believe the recommended Acquisition of Loungers by Fortress represents a compelling proposition for all of our stakeholders

