

2 May 2019



**FULL YEAR RESULTS FOR THE 52 WEEKS ENDED 2 MARCH 2019**  
*Digital revenue growth, strong financial services performance and operational efficiency delivers increased adjusted EBITDA growth*

<b>£m</b>	<b>52 weeks to 2 March 2019</b>	52 weeks to 3 March 2018	Change
Group revenue	<b>914.4</b>	922.2	(0.8)%
<i>Product revenue</i>	<b>615.8</b>	652.6	(5.6)%
<i>Financial services revenue</i>	<b>298.6</b>	269.6	+10.8%
Adjusted EBITDA <sup>1</sup>	<b>128.0</b>	118.6	+7.9%
Adjusted profit before tax <sup>2</sup>	<b>83.6</b>	81.6	+2.5%
Statutory loss / profit before tax	<b>(57.5)</b>	16.2	(454.3)%
Adjusted EPS <sup>2</sup>	<b>21.38p</b>	23.06p	(7.3)%
Statutory EPS	<b>(20.50p)</b>	4.41p	(564.9)%
Full year dividend (p per share)	<b>7.1</b>	14.23	(50.1)%
Core net debt <sup>3</sup>	<b>77.7</b>	66.8	+16.3%
Overall net debt <sup>4</sup>	<b>467.9</b>	346.8	+34.9%

<sup>1</sup> Adjusted EBITDA is defined as operating profit, excluding exceptionals, with depreciation and amortisation added back. The directors believe that adjusted EBITDA represents the most appropriate measure of the Group's underlying trading performance.

<sup>2</sup> Defined as excluding exceptionals and fair value movement on financial instruments. <sup>3</sup> Excludes debt securitised against receivables (customer loan book) of £390.2m (2018: £280.0m). <sup>4</sup> Total liabilities from financing activities less cash.

### **Results Highlights**

#### **Transformation to a digital retailer continues with 80% of product revenue now digital**

- Simply Be digital revenue 93%, Jacamo 93%, JD Williams 76%

#### **Digital revenue growth**

- JD Williams up 8.8%, Simply Be up 8.7%, Jacamo up 5.1%

#### **Growth in adjusted EBITDA**

- Adjusted EBITDA increased 7.9% to £128.0m
- Statutory loss before tax reflects exceptional costs, largely relating to legacy issues

#### **Financial services revenue up 10.8%**

- Customer loan book grew by £34.6m to £682.2m (gross basis)

#### **Stable margin performance in challenging trading environment**

- Product gross margin flat at 52.1% and Financial services gross margin decreased to 59.2%, primarily as a result of impact of IFRS 9

#### **Improved operating efficiency**

- Reflecting targeted, data-driven promotional spend and embedded operational efficiencies

## **Refocused customer centric strategy to drive profitable, digital growth**

### **Focus on the UK market opportunity**

- Maximise the UK core market before leveraging our international opportunity

### **Simplify the business to improve the customer experience**

- A crisper, clearer brand proposition for our customers

### **Deliver better products for our customers**

- Increase the number of customers, purchase frequency and basket size

### **Trade smarter with data**

- Improve operating efficiency and customer targeting

### **Inspire our colleagues toward further delighting our customers**

- Better engaged colleagues delivering an improved customer experience

### **Steve Johnson, Chief Executive, said:**

*“We’re pleased to have delivered a solid trading performance for the year, driving a 7.9% increase in adjusted EBITDA, as we continue our transformation into a digital retailer. Encouragingly, we saw digital revenue growth across JD Williams, Simply Be and Jacamo, as we improve our customer offer whilst managing the decline of our legacy offline business. We also benefited from improved use of our promotional spend, a strong financial services performance and a drive to ensure we are operating as efficiently as possible across the business.”*

*“A re-focusing of our strategy on delighting our customers is now required. We will initially focus on our core UK market, simplifying our approach to ensure our brand and product proposition continues to improve and resonate with customers. We will also look to harness data and technology to offer customers more choice and flexibility when shopping with us.”*

*“All of this aims to return N Brown to sustainable profit growth, through a digital, retail-led, customer-centric strategy and at this stage in the new financial year our overall expectations are unchanged. We look forward to the future with confidence.”*

### **Meeting for analysts and investors:**

Management is hosting a presentation for analysts and investors at 9.30am. Please contact [Nbrown@mhpc.com](mailto:Nbrown@mhpc.com) for further information. A live webcast of the presentation will be available at: [www.nbrown.co.uk](http://www.nbrown.co.uk).

### **For further information:**

#### **N Brown Group**

Will MacLaren, Director of Investor  
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On the day: 07557 014 657

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**About N Brown Group:**

N Brown is a top 10 UK clothing & footwear digital retailer. We are size inclusive, focusing on the needs of underserved customer groups – size 20+ and age 50+. We offer an extensive range of products, predominantly clothing, footwear and homewares, and our Financial services proposition allows customers to spread the cost of shopping with us. We are headquartered in Manchester where we design, source and create our product offer and we employ over 2,400 people across the UK.

**Next reporting date**

The next reporting date is the Q1 trading statement on 20 June 2019.

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**REVIEW OF THE YEAR**

<b>£m</b>	<b>FY19</b>	<b>FY18</b>	<b>Change</b>
<b>Revenue</b>			
JD Williams	159.5	163.4	-2.4%
Simply Be <sup>1</sup>	131.5	125.9	4.4%
Jacamo <sup>1</sup>	64.0	61.6	3.9%
<b>Power Brands<sup>1</sup></b>	<b>355.0</b>	<b>350.9</b>	<b>1.2%</b>
Secondary Brands <sup>1</sup>	139.2	145.8	-4.6%
Traditional Segment	114.7	138.6	-17.2%
<b>Product total<sup>1</sup></b>	<b>608.9</b>	<b>635.3</b>	<b>-4.2%</b>
Stores	6.9	17.3	-60.3%
<b>Product total including stores</b>	<b>615.8</b>	<b>652.6</b>	<b>-5.6%</b>
<b>Financial Services</b>	<b>298.6</b>	<b>269.6</b>	<b>+10.8%</b>
<b>Group</b>	<b>914.4</b>	<b>922.2</b>	<b>-0.8%</b>
Product gross profit	320.8	340.5	(5.8)%
Product gross margin %	52.1%	52.2%	(0.1)ppts
Financial services gross profit	176.9	165.1	+7.1%
Financial services gross margin %	59.2%	61.2%	(2.0)ppts
<b>Group gross profit</b>	<b>497.7</b>	<b>505.6</b>	<b>(1.6)%</b>
<b>Group gross profit margin</b>	<b>54.4%</b>	<b>54.8%</b>	<b>(0.4)ppts</b>
<b>Total operating costs</b>	<b>(369.7)</b>	<b>(387.0)</b>	<b>(4.5)%</b>
<b>Adjusted EBITDA<sup>2</sup></b>	<b>128.0</b>	<b>118.6</b>	<b>+7.9%</b>
<b>Adjusted EBITDA margin %</b>	<b>14.0%</b>	<b>12.9%</b>	<b>+1.1ppts</b>
Deprecation & Amortisation	(30.1)	(28.1)	+7.1%
<b>Adjusted profit before tax</b>	<b>83.6</b>	<b>81.6</b>	<b>+2.5%</b>
<b>Exceptional items</b>	<b>(145.6)</b>	<b>(56.9)</b>	<b>+155.9%</b>
Unrealised FX movement	4.5	(8.5)	(152.9)%
<b>Statutory (loss)/profit before tax</b>	<b>(57.5)</b>	<b>16.2</b>	<b>(454.9)%</b>
Full year dividend	7.1	14.23	(50.1)%

<sup>1</sup> Revenue excluding stores

<sup>2</sup> Adjusted EBITDA is defined as operating profit, excluding exceptionals, with depreciation and amortisation added back. The directors believe that adjusted EBITDA represents the most appropriate measure of the Group's underlying trading performance.

Group revenue declined 0.8% to £914.4m, with Product revenue down 5.6% and Financial services revenue up 10.8%.

**JD Williams** revenue was down 2.4% during the year due to the drag from migrated Fifty Plus customers, one of our legacy offline brands. Excluding Fifty Plus, JD Williams revenue increased 6.8%. JD Williams also displayed strong growth in digital sales with an 8.8% increase in digital revenue compared to the previous year. **Simply Be** delivered another good performance, growing revenue by 4.4% during the period excluding stores. Simply Be also reported an 8.7% growth in digital revenue compared to the prior year. Within the second half of FY19 we increasingly moved to customer lifetime value modelling which will continue to impact Simply Be digital revenue growth in the first half of FY20. **Jacamo** product revenue was up 3.9% excluding stores. Jacamo digital revenue increased by 5.1% compared to the prior year.

**Secondary brands** revenue decreased by 4.6% excluding stores, reflecting our continued shift in marketing investment towards profitable, digital growth. Following the success of its Simply Be and JD Williams apps, the Group launched its third app in August, Fashion World. This is targeted at improving the digital experience for our Fashion World customers.

Revenue in the **Traditional** segment decreased by 17.2% as the Group continued to increase its focus on its digital business and scaled back its unprofitable offline marketing and recruitment. Within the Traditional segment we were pleased with the performance of Ambrose Wilson which delivered digital growth of 7.4% in the year. Given that this segment is more heavily weighted towards offline than the rest of the Group, as it typically serves more mature customers, this segment it is expected to experience the fastest rate of offline revenue decline going forward.

The Group's transformation to a leading digital retailer continues, with digital sales now accounting for 80% of product revenue<sup>1</sup> in the year. In FY19 digital revenue grew by 4.1% and was ahead by 8.0% for our Power Brands. Offline revenue decreased by 29.9% as the Group continued to shift its focus to its growing digital businesses. As the Group focuses more of its resources on growing its digital businesses, going forward it expects a continued double-digit decline in offline revenue.

International revenue declined 6.6% to £32.4m. Ireland delivered revenues of £18.5m, up 5.9% year on year (up 5.1% in constant currency terms) and continues to perform well. USA revenue was £13.9m, down 19.3% year on year (down 18.0% in constant currency terms).

During the year we undertook a review of our store estate. Given the continuation of very disappointing footfall, and despite significant cost efficiencies being achieved, we entered into a consultation with store colleagues to consider closing our 20 stores ahead of lease expiry. Following the consultation, we took the decision to close all 20 stores and at the end of the financial year the Group had no physical stores. In FY19 the Group's stores generated £6.9m revenue all within the first half of the financial year (FY18: Revenue of £17.3m).

Financial services delivered a strong performance during the year, driven by increased interest revenue and a continued strong management of arrears. Financial services revenue was up 10.8% year on year. Within this, interest payments were up 12.7% reflecting the increased level of receivables and the impact

of management initiatives such as risk-based pricing which was implemented in the year. This increase was offset by a 3.6% reduction in other fees and income reflecting general improvements in the early arrears profile.

In a challenging and highly promotional market we delivered a stable product gross margin at 52.1%, down 10bps for the year as a whole. As expected, Financial services gross margin decreased by 200bps to 59.2%. This was driven by the change in accounting methodology to provide for receivables under IFRS 9, which results in a provision being made against every customer account regardless of whether they are in arrears. As a result of this change, the impairment charge for the year was £19.5m higher than that charged in FY18 under the previous accounting standard IAS39. The increased level of provision also increased the level of profit generated from the sale of payment arrangement debtors, with total profits on debt sales of £10.7m, £4.9m higher than the prior year. These two factors contributed to a net £14.6m increase in bad debt charges during the year. Compared to the same period last year (restated on an IFRS 9 basis), the provision rate decreased by 370bps due to an underlying improvement in the quality of the loan book and the disposal of some high-risk payment debt which was sold at a better rate than the book value.

Operating expenses excluding exceptional costs continue to be tightly controlled, decreasing by 4.5% for the year. Admin & Payroll and Marketing expenses were the primary drivers. Admin & Payroll expenses as a percentage of Group revenue declined from 14.9% to 14.0%, driven both by the actions taken to close our store estate during FY18 and FY19 as well as increased Head Office efficiencies. Marketing costs improved as a percentage of Group revenue from 17.8% to 17.3% as a result of our continued focus on shifting our marketing expenditure to drive digital growth. Warehouse and fulfilment costs as a ratio of Group revenue declined from 9.3% to 9.2% driven by lower volumes and operational efficiencies.

Depreciation and Amortisation increased by 7.1% to £30.1m due to historical and ongoing investment in IT systems.

Adjusted EBITDA increased by 7.9% to £128.0m and adjusted EBITDA margin increased from 12.9% to 14.0%. Adjusted profit before tax was £83.6m, up 2.5% year on year as a result of a strong financial services performance and the delivery of marketing and other operational efficiencies. The statutory loss for the year of £57.5m was wholly driven by exceptional costs of £145.6m which in the main relate to legacy issues and our decision to close the store portfolio.

In October, the Board took the decision to rebase the dividend to a more sustainable level from which we will seek to grow as its earnings progress. As a result, we are proposing a full year dividend of 7.1p per share.

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## **REFOCUSING CUSTOMER CENTRIC STRATEGY TO DRIVE PROFITABLE, DIGITAL GROWTH**

The rapidly changing shopping habits of our customers, coupled with a continually challenging consumer environment, emphasises the need for a retail-led strategy which is robustly focused on profitable digital revenue growth.

To this end, we have assessed the business to ensure that N Brown is well placed to take advantage of the opportunities in its markets and remains resilient to present and future challenges.

N Brown is a business with a clearly differentiated position and areas of market-leading innovation, underpinned by a strong enabler of customer choice and loyalty from our financial services proposition. From this core, we believe that we have a real opportunity to delight our customers more consistently – customers who understandably expect more and demand continued relevance and personalisation in their N Brown shopping experience.

We have a solid foundation from which to build, with 80%, or around £500m, of our product revenue now digital, meaning we are a top 10 UK Clothing & Footwear retailer by digital revenue. We also have industry leading expertise in fit, and a financial services business which continues to perform well. Whilst we have made solid progress in growing our online market, we know that there is more to do to improve our digital retail model, and our proposition is not yet well enough developed. A re-focusing of our strategy on delighting our customers is now required.

The past year has seen a marked acceleration in the business's transition as we continue to target profitable, digital growth by focusing on our digital customers and managing the decline of our offline business. We have increased our profitability despite this significant change and against a backdrop of an ongoing challenging retail climate and decline in consumer confidence. This represents the start of a material shift for N Brown as it further strengthens its digital offering.

Our assessment of the business has identified a number of core focus areas around which we are aligning our operational planning and delivery. We will focus on the UK and target a simplification of our customer brand proposition; continue to enhance our product offering; and accelerate our use of data and analytics to enhance operational efficiency. Underpinning all of this will be improvements in our colleague engagement, as we inspire our colleagues to further delight our customers.

Our vision is to be the leading inclusive fashion retailer and we will pursue this vision by executing on our purpose of responsibly improving people's lives by making our customers look and feel amazing.

### **1. We will focus on the UK**

*Strategic Objective:* Maximise the UK core market before leveraging our international opportunity

*What we are doing:* The UK is our core market and we can do much more to enhance our offering to UK customers every day before focusing time and resource elsewhere. In the UK, the online clothing & footwear market is forecast to grow by 7% per year for the next five years. We currently have online

market shares of 4.0% and 3.2% respectively in our addressable womenswear and menswear markets, giving us plenty of headroom to grow in the UK.

We remain confident that the international opportunity continues to exist following a detailed review of the potential for our brands - but the way in which we go to market in the USA will mean an immediate step back from solely driving direct customer business in that market. We will continue to explore international territories through selected, targeted partnerships. To this end, we have recently closed JD Williams in the USA and, for now, will only focus on servicing our existing Simply Be USA customers. Our Irish business, Oxendales, continues to perform well and the strategy there remains unchanged.

## **2. We will simplify the business to improve the customer experience**

*Strategic Objective:* A crisper, clearer brand proposition for our customers

*What we are doing:* We will start by simplifying our customer brand proposition. Our brands will be 'fashion' led and there will be an increased focus on the older customer. We currently trade through 11 brands and categorise them under Power Brands, Traditional and Secondary; from FY20 onwards we will not be using these descriptions and will move to 'Womenswear' and 'Menswear'. Within Womenswear our brands will be Simply Be, for fashionable size 12-32 women; JD Williams, for 45-60-year-old women; and Ambrose Wilson for women 60 and over. Menswear will be the Jacamo brand. Our other brands will remain complementary to Womenswear and Menswear while we finalise our plans and we will provide an update in due course.

To support this, we are continuing to invest in our core technology platforms to streamline digital user experience in both our product and financial services areas. At the same time, we expect to accelerate the pace of simplification in our IT estate to increase efficiency but optimise further investment for innovation. This will make us more agile and we will be able to develop new customer propositions more quickly. We anticipate the migration of our brands to an enhanced technology infrastructure in the medium term which will deliver a better customer experience.

We are focused on further improving our customer proposition. Recent improvements include an enhanced Mobile Web experience bridging the gap between desktop and mobile functionality; the launch of Mobile Apps on our in-house Mobile App framework for iOS & Android with a 4.8\* rating; and a simplified account registration process which has reduced dropout by a substantive degree. We have also recently opened Europe's largest Hyphen Interactive Live Photo (HILP) technology for our new in-house photo studio, which will transform our ecommerce photography capabilities and deliver cost efficiencies. Our plans incorporate ongoing investment and innovation in our supply chain. These already include the commencement of a new returns automation facility at our distribution centre in Shaw.

Finally, financial services remains an integral part of the N Brown proposition and we will focus on both increasing customer loyalty through our credit offer as well as continuing to improve the experience for those currently using our personal account.



### **3. We will deliver better products for our customers**

*Strategic Objective:* Increase the number of customers, purchase frequency and basket size

*What we are doing:* We will drive further innovation through our market-leading body scanning technology and pioneering 3D design & product development to deliver continued fit improvements in quality products at affordable prices. In addition, we will continue to evolve from design influenced by seasonal trends to key product 'shouts' dropped cohesively in three weekly cycles and thus allow substantially reduced lead times. Our experience of recent peak trading periods gives us confidence in our ability to buy more promotional product to complement our core ranges and maintain a freshness in our offering. In our Home and Gift proposition, we anticipate a tightened curation, built on a strong central range with more brand specific product.

The purpose of the Group is to be as customer-inclusive as possible which ensures we remain focused on our product truly resonating with our customers' needs. Here, our fit-focus expertise remains an essential part of our DNA. The strongest customer feedback we receive is the emotional response that a good or poorly fitting piece of clothing elicits. Harnessing this feedback ever more quickly and channeling it into agile product re-orders or improvements in quality is essential.

We will invest further in design and sourcing. All these areas will be underpinned with a renewed and enhanced sustainability and ethical sourcing investment plan to build upon strong foundations in this area.

Finally, we will continue to evolve the way we engage with our customers, improving the quality and breadth of our brand and influencer reach, and substantively better targeted marketing and promotional activity to ensure a more personalised experience.

### **4. We will trade smarter with Data**

*Strategic Objective:* Improve operating efficiency and customer targeting

*What we are doing:* Enhanced use of our rich data has already unlocked operational efficiencies and improved customer insight in our business, but our strategy is underpinned by a further step change in how we harness and use this data. Substantive investment in new skills and technology platforms, established partnerships with third-party analytics leaders and a "test-and-learn" data culture embedded throughout the organisation are progressing, and there remains significant opportunity to develop these much further.

Through a mix of tactical quick wins and longer-term initiatives, we will enhance personalisation and use data to optimise fit for our customers to ensure we create the right product for them. We have used Artificial Intelligence modelling, which predicts size profiles and return rates, along with the effectiveness of product attribution and image data in predication. Early results from this have been successful and will be further developed in this financial year.

In addition, specific opportunities have been identified targeting a more optimised product range in terms of breadth, frequency of newness/lifecycle analysis, and price using historical data of product

performance, customer journeys and price architecture. Recent positive peak-season success with newly implemented promotional tools in merchandising will now be more widely embedded. This will be complemented by improvements in the targeting of discount codes to each customer, as well as a further unification of all promotional planning in the business to ensure enhanced forecasting of marketing promotions.

Data and analytics initiatives are also driving innovation to ensure we appeal to more customers who value a flexible credit offering. During FY19, we significantly reduced our headline interest rates and launched an introductory six-month interest free offer for new credit accounts. Analytics has also supported a new arrears management strategy which has led to an improved level of balances in arrears at our year end. We will also launch an initiative to enhance new customers' credit assessment in the account opening process.

## **5. We will inspire colleagues toward further delighting our customers**

*Strategic Objective:* Better engaged colleagues will deliver an improved customer experience

*What we are doing:* Our people strategy is focused on creating the right culture and environment which attracts, retains and inspires colleagues to thrive and deliver a great experience for our customers. As our customers' shopping habits have rapidly changed, we are supporting colleagues to be more customer focused. Changes to our internal reward and performance management processes will reflect this – notably to ensure a more nimble, real-time feedback and appraisal approach.

We have already made changes to a variety of commercial teams to increase pace and customer ownership, whilst at the same time, we are also investing further in critical skills in data science and user experience. Engaging our colleagues in the new strategy and more closely aligning their roles to delight our customers, we believe fundamentally underpins the business in delivering sustainable profit growth.

### **Strategy summary**

There is a substantial amount of activity already underway at N Brown but a refocusing of our strategy on delighting our customers is fundamental to successful delivery of the Group's potential. Decisions taken in the previous financial year are in the short-term likely to marginally hold back Group revenue growth. Notwithstanding this, our strategy is expected to maintain short-term profitability. Going forward, our strategy is very much focused on driving sustainable digital revenue, profit and free cash flow growth to deliver improved shareholder value.

On behalf of the Board, I would like to thank all of our colleagues for their very significant contributions in what has been a challenging but developmental year for the business. This commitment, together with our recent progress in a number of our focus areas, has embedded momentum for N Brown to now measurably deliver upon its digital retail proposition for customers.

### **Outlook**

We have made solid progress focusing on profitable, digital growth in the second half of the year despite the challenging external environment. Whilst mindful of the continued challenging macro-economic environment and uncertainties surrounding Brexit, we are focused on driving sustainable digital revenue,

profit and free cashflow growth to deliver improved shareholder value.

Steve Johnson, CEO

2 May 2019

## KPI PERFORMANCE

	FY19	FY18	% change
<b>Digital</b>			
Digital penetration <sup>1</sup>	80%	73%	+7ppts
Digital penetration of new customers	91%	81%	+10ppts
Conversion rate	4.9%	5.3%	-40bps
% traffic from mobile devices	78%	76%	+2ppts
<b>Customers</b>			
Customer satisfaction rating*	86.3%	85.8%	+50bps
Active customer accounts	3.90m	4.45m	-12.4%
Power Brand active customer accounts	2.15m	2.22m	-3.2%
% Growth of our most loyal customers**	-2.6%	-0.2%	-240bps
<b>Product</b>			
Ladieswear market share, size 16+	5.8%	5.6%	+20bps
Menswear market share, chest 44"+	2.5%	2.7%	-20bps
Group returns rate (rolling 12 months)	28.0%	27.1%	+90bps
<b>Financial services</b>			
Customer account arrears rate (>28 days)	8.9%	8.7%	+20bps
Provision rate***	14.2%	17.9%	-370bps
New credit recruits (Rollers)****	111k	122k	-8.9%

<sup>1</sup> Revenue excluding stores

\*UK Institute of Customer Service survey (UKICS)

\*\* Defined as customers who have ordered in each of the last four seasons

\*\*\* FY18 restated for IFRS 9

\*\*\*\* Rollers are those customers who roll a credit balance. Figures represent last 6 months.

Market shares are estimated using internal and Kantar data, 52 weeks ended 11th February 2019 compared to 52 weeks ended 12th February 2018.

Digital accounted for 80% of our product revenue<sup>1</sup> during the year, up 7ppts and 91% of sales from new customers were generated digitally, up 10ppts. By brand, Ambrose Wilson saw the most significant increase in new customer digital penetration, from 31% to 61%. Mobile devices (smartphones and tablets) accounted for 78% of digital traffic in the year, up 4ppts. Within this, smartphones remain the device of choice for customers, with web sessions here increasing 8ppts to account for 61% of all traffic. The conversion rate declined 40bps in the year. The ongoing increase in mobile devices, both smartphone and tablet, as a proportion of traffic represents a natural drag on overall conversion rates however at 4.9% our conversion rate remains above the industry standard.

Our most recent customer satisfaction score from the UK Institute of Customer Service was 86.3%, an improvement of 50bps on the prior year rating. Our active customer file decreased by 12.4% to 3.90m, primarily driven by a focus on digital growth and a managed decline of our offline recruitment. Our most loyal customers, being those who have ordered in each of the last four seasons, was down 2.6% year on year. This again is as a result of the managed decline of our offline business.

In the 52 weeks to 12 February we gained 20bps of market share in Ladieswear (size 16+) to 5.8%. Menswear (chest 44"+) declined 20bps to 2.5%. We saw a slight increase in our returns rate, up 90bps to 28.0%. As a digital retailer, we expect our returns rate to slightly increase due to the nature of the higher returns rate of a digital customer.

Credit arrears (>28 days) were broadly flat at 8.9% (vs 8.7% LY). In the last 6 months we recruited 111k new credit customers who rolled a balance, down from 122k in the prior year, albeit an improvement from the 90k recruited in the first half of the financial year. The reduction was largely driven by tighter control around lending decisions.

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## **FINANCIAL RESULTS**

### **Revenue**

Group revenue declined 0.8% to £914.4m with product revenue declining 5.6% offset by a 10.8% increase in Financial services revenue. Product revenue was £615.8m, reflecting a continued shift in focus from our legacy offline business to digital growth, the ongoing challenging market conditions for fashion retail and the closure of our store portfolio. Excluding stores, which are all now closed, Product revenue was down 4.2%. Financial services revenue was £298.6m as we benefited from increased interest received from the Group's growing customer loan book.

Revenue performance by quarter was as follows:

<b>% yoy growth</b>	<b>Q1 (13wks)</b>	<b>Q2 (13wks)</b>	<b>Q3 (18wks)</b>	<b>Q4 (8wks)</b>
Product	(2.8)%	(4.6)%	(8.4)%	(4.8)%
Financial services	+9.0%	+16.0%	+9.7%	+7.5%
Group Revenue	+0.4%	+1.5%	(3.5)%	(0.3)%

Revenue by category was as follows:

<b>£m</b>	<b>FY19</b>	<b>FY18</b>	<b>Change</b>
Ladieswear	256.5	267.6	(4.1)%
Menswear	85.0	89.2	(4.7)%
Footwear & Accessories	70.8	74.9	(5.5)%
Home & Gift	203.5	220.9	(7.9)%
Product total	615.8	652.6	(5.6)%

Product category performance was impacted by the managed decline of the offline business and the closure of stores in the year. Ladieswear declined as a result of lower sales in branded ladies clothing. Both Menswear and Footwear & Accessories declined largely due to Premier Man. Home & Gifts performance was principally due to lower revenue at House of Bath.

### **Gross margin**

The Group's gross margin was 54.4%, down 40bps compared to FY18. This decline was as a result of a 10bps decline in the product gross margin to 52.1% and a 200bps decline in the financial services margin to 59.2%.

The product gross margin represented a solid performance in a highly promotional retail environment. The decline in the financial services gross margin was driven by the requirement under IFRS 9 to make a provision against every new credit customer, including those that are trading normally.

## Operating performance

£m	FY19	FY18	Change
Product revenue	615.8	652.6	(5.6)%
Financial services revenue	298.6	269.6	+10.8%
<b>Group revenue</b>	<b>914.4</b>	<b>922.2</b>	<b>(0.8)%</b>
Product gross profit	320.8	340.5	(5.8)%
<i>Product gross margin %</i>	<i>52.1%</i>	<i>52.2%</i>	<i>(0.1)ppts</i>
Financial services gross profit	176.9	165.1	+7.1%
<i>Financial services gross margin %</i>	<i>59.2%</i>	<i>61.2%</i>	<i>(2.0)ppts</i>
<b>Group Gross Profit</b>	<b>497.7</b>	<b>505.6</b>	<b>(1.6)%</b>
<b>Group Gross Profit margin %</b>	<b>54.4%</b>	<b>54.8%</b>	<b>(0.4)%</b>
Warehouse & fulfilment	(84.0)	(85.8)	(2.1)%
Marketing & production	(157.8)	(164.0)	(3.8)%
Admin & payroll	(127.9)	(137.2)	(6.8)%
Total operating costs	(369.7)	(387.0)	(4.5)%
<b>Adjusted EBITDA</b>	<b>128.0</b>	<b>118.6</b>	<b>+7.9%</b>
<i>Adjusted EBITDA margin %</i>	<i>14.0%</i>	<i>12.9%</i>	<i>+1.1ppts</i>
Depreciation & amortisation	(30.1)	(28.1)	+7.1%
<b>Adjusted Operating Profit</b>	<b>97.9</b>	<b>90.5</b>	<b>+8.2%</b>
<i>Adjusted Operating margin %</i>	<i>10.7%</i>	<i>9.8%</i>	<i>+0.9ppts</i>
Operating loss / profit	(47.7)	33.6	(242.0)%
Net Finance costs	(14.3)	(8.9)	+60.7%
<b>Adjusted PBT</b>	<b>83.6</b>	<b>81.6</b>	<b>+2.5%</b>
Exceptional items	(145.6)	(56.9)	+155.9%
Unrealised FX movement	4.5	(8.5)	(152.9)%
<b>Statutory Loss / Profit before Tax</b>	<b>(57.5)</b>	<b>16.2</b>	<b>(454.9)%</b>
Core net debt <sup>3</sup>	77.7	66.8	16.3%
Overall net debt <sup>4</sup>	467.9	346.8	34.9%

<sup>1</sup> Adjusted EBITDA is defined as operating profit, excluding exceptionals, with depreciation and amortisation added back. The directors believe that adjusted EBITDA represents the most appropriate measure of the Group's underlying trading performance.

<sup>2</sup> Defined as excluding exceptionals and fair value movement on financial instruments. <sup>3</sup> Excludes debt securitised against receivables (customer loan book) of £390.2m (2018: £280.0m). <sup>4</sup> Total liabilities from financing activities less cash.

## Operating Costs before exceptionals

Warehouse and fulfilment costs decreased by 2.1% to £84.0m. This was driven by lower volumes and continued efficiencies. The decrease in Warehouse and fulfilment was greater during the second half, with 3.7%, compared to the first half decrease of 0.3%.

Marketing costs were down 3.8% year on year, as the Group continued to scale back offline marketing and recruitment, consistent with the strategy of focusing on digital growth and improving marketing efficiency.

Admin and payroll costs decreased by 6.8%, driven both by the actions taken to close our store estate during FY18 and FY19 as well as increased Head Office efficiencies.

Adjusted EBITDA increased by 7.9% to £128.0m, with Adjusted EBITDA margin increasing by 1.1ppts to 14.0% (FY18: 12.9%). Depreciation and Amortisation increased by 7.1% reflecting historical and ongoing investments in IT systems. Overall, operating profit before exceptional items was £97.9m, up 8.2% year on year, with operating margin increasing by 0.9ppts to 10.7%. Adjusted profit before tax was £83.6m, up 2.5% year on year as a result of a good margin performance, strong financial services and the delivery of marketing and other operational efficiencies. Statutory loss before tax was (£57.5m), as a result of the exceptional costs incurred during the year.

## Net finance costs

Net finance costs were £14.3m, up 60.7% compared to FY18, due to the increase in net debt driven by growth in our customer loan book.

## Financial services and IFRS 9

IFRS 9 has replaced the IAS39 standard and came into effect in FY19, therefore this is the first full year in which we are reporting under IFRS 9. IFRS 9 significantly increases our provision for receivables. Importantly, it has no cash flow impact and neither does it materially change how we operate our Financial services business. As a result of IFRS 9 our gross bad debt charge increased by 19.6% to £119.0m (FY18: £99.5m).

Compared to the same period last year (restated on an IFRS 9 basis), the provision rate decreased by 370bps due to an underlying improvement in the quality of the loan book and the disposal of some high-risk payment debt which was sold at a better rate than the book value.

£m	2 Mar 2019	3 Mar 2018	Change
Gross customer loan balances	682.2	647.6	5.3%
IFRS 9 bad debt provision	(97.1)	(116.0)*	-16.3%
IFRS 9 provision ratio	14.2%	17.9%*	-370bps
Net customer loan balances	585.1	531.6*	10.1%

\* restated for IFRS 9. The bad debt provision previously reported under IAS39 was £48.8m (provision ratio of 7.5%).



## Exceptional items

Exceptional costs of £65.4m were incurred during the first half, as previously announced. In the second half we incurred £80.2m primarily relating to an impairment charge on the Group's VAT debtor asset, legacy customer redress payments and costs associated with the closure of the store estate. Of the £22.7m additional provision made for customer redress in the second half of the financial year, £14.1m has already been paid out in cash.

<b>£m</b>	<b>FY19</b>	<b>FY18</b>
Customer redress	45.0	40.0
Closure costs	22.0	13.8
Impairment of tangible, intangible assets and brands	20.0	-
VAT Debtor impairment	49.4	-
GMP equalisation adjustment	0.3	-
Other VAT matters inc associated legal & professional fees	8.9	3.1
<b>Total exceptional costs</b>	<b>145.6</b>	<b>56.9</b>

See Note 5 for more details

## Taxation

The effective underlying rate of corporation tax is 26.9% (FY18: 23.3%). The overall tax charge is £0.8m (FY18: £3.7m charge).

## VAT partial exemption

The Group has been in a long running dispute with HMRC with respect to the VAT treatment of certain marketing and non-marketing costs and the allocation of those costs between our retail and credit business. The case in respect of marketing costs was heard in a first tier VAT tribunal in May 2018 with a draft decision being issued in November 2018 which was published in March 2019.

The case has two key aspects, those being attribution which is in respect of whether marketing costs can be directly attributed to product revenue or financial services income and secondly apportionment which is surrounding the allocation of marketing costs between the retail and financial services business. With respect to attribution, the judge agreed with HMRC, finding that when the Group is marketing goods it is also in effect marketing financial services, even if there is no reference to this in its marketing materials.

The judge however ruled against HMRC's standard method of apportionment of costs (which is based upon the proportion of total UK revenue which is generated from product sales).

Whilst discussions are on-going with HMRC and a final outcome not yet achieved, following the ruling management have reviewed the likelihood of recovering the carrying value of the asset held as at

February 2018 of £43.8m and as a result of this review have written down the value by £37.9m.

As the Group has not yet been assessed by HMRC for the period June 2017 to March 2019 this has also resulted in an additional charge of £11.5m. This results in a total exceptional charge of £49.4m and a VAT creditor at year end of £6.6m (2018: £43.8m asset).

### **Earnings per share**

Loss per share from continuing operations was (20.50)p (FY18 earnings per share: 4.41p). Adjusted earnings per share from continuing operations were 21.38p (FY18: 23.06p).

### **Dividends**

In October, the Board took the decision to rebase the dividend to a more sustainable level from which we will seek to grow as earnings progress. As a result, we are proposing a full year dividend of 7.1p per share.

### **Balance Sheet and Cash Flow**

Capital expenditure was £36.3m (FY18: £39.2m). Inventory levels at the period end were down 9.8%, to £99.8m (FY18: £110.6m) as a result of tighter stock management.

Gross trade receivables increased by 5.3% to £682.2m (FY18: £647.6m) as a result of the growth in the loan book.

Net cash used in operations (excluding taxation) was £35.0m compared to £44.3m generated last year, principally driven by a cash outflow of £84.6m related to exceptional items. After funding capital expenditure, finance costs, taxation and dividends, net debt increased from £346.8m to £467.9m, in line with guidance. The £585.1m net customer loan book significantly exceeds this net debt figure.

The Group has an available financing facility totalling £625m, made up of a securitisation facility of £500m and an RCF of £125m, both secured until 2021.

The Group's balance sheet is underpinned by its customer loan book, which at 2 March 2019 was £682.2m on a gross basis and £585.1m on a net basis, calculated under IFRS 9.

Compared to 3 March 2018 the Group's overall net debt increased by £121.1m to £467.9m, in line with guidance, principally due to exceptional cash outflows of £84.6m and the growth in the loan book of £34.6m.

Core debt, which is defined as the amount drawn on the Group's RCF less cash was £77.7m. On this basis, the Group's leverage is 0.6x on a net debt/EBITDA basis.

The group's defined benefit pension scheme has a surplus of £23.9m (FY18: £19.3m surplus). The increase in the surplus is as a result of general market changes in asset returns during the year.

## **FX sensitivity**

For FY20 we have hedged 100% of our net purchases at a blended rate of \$/£1.34. At a rate of \$/£1.30, and before any mitigating actions or changes in annual requirements, this would result in a c.£0.3m PBT tailwind compared to FY19 (hedged rate \$/£1.33).

For FY21 we have, to date, hedged 60% of our net purchases at a blended rate of \$/£1.32. At a rate of \$/£1.30, and before any mitigating actions or changes in annual requirements, this would result in a c.£2.0m PBT headwind compared to FY20. Every 5 cents move from this rate in our unhedged position would result in a PBT sensitivity of c.£2m.

## **FY20 Guidance**

We are providing the following guidance for FY20:

- Product gross margin flat to –100bps
- Financial services gross margin flat to –100bps
- Group operating costs -2.5% to -4.5%
- Depreciation & Amortisation £31m to £33m
- Net interest £17m to £18m
- Tax rate 20-21%
- Capex c.£ 35-40m
- FY20 Year-end net debt £440m to £460m, although half year net debt will be in the range £475m to £500m given continued customer redress and tax settlement payments

**Unaudited consolidated income statement  
for the 52 weeks ended 2 March 2019**

	52 weeks to 02-Mar-19 Before exceptional Items £m	52 weeks to 02-Mar-19 Exceptional items (Note 5) £m	52 weeks to 02-Mar-19 Total £m	52 weeks to 03-Mar-18 Before exceptional Items £m	52 weeks to 03-Mar-18 Exceptional items (Note 5) £m	52 weeks to 03-Mar-18 Total £m
<b>Note</b>						
Revenue	647.2	-	647.2	685.2	-	685.2
Credit account interest	4 <u>267.2</u>	-	<u>267.2</u>	<u>237.0</u>	-	<u>237.0</u>
<b>Total revenue (including credit account interest)</b>	4 <b>914.4</b>	-	<b>914.4</b>	922.2	-	922.2
Cost of sales	(308.4)	-	(308.4)	(322.9)	-	(322.9)
Impairment losses on customer receivables	4 <u>(119.0)</u>	-	<u>(119.0)</u>	<u>(99.5)</u>	-	<u>(99.5)</u>
Profit on sale of customer receivables	4 <u>10.7</u>	-	<u>10.7</u>	<u>5.8</u>	-	<u>5.8</u>
<b>Gross profit</b>	4 <b>497.7</b>	-	<b>497.7</b>	505.6	-	505.6
<b>Operating (loss)/profit</b>	4 <b>97.9</b>	<b>(145.6)</b>	<b>(47.7)</b>	90.5	(56.9)	33.6
Finance costs	<u>(14.3)</u>	-	<u>(14.3)</u>	<u>(8.9)</u>	-	<u>(8.9)</u>
<b>(Loss)/Profit before fair value adjustments to financial instruments</b>	<b>83.6</b>	<b>(145.6)</b>	<b>(62.0)</b>	81.6	(56.9)	24.7
Fair value adjustments to financial instruments	6 <u>4.5</u>	-	<u>4.5</u>	<u>(8.5)</u>	-	<u>(8.5)</u>
<b>(Loss)/Profit before taxation</b>	<b>88.1</b>	<b>(145.6)</b>	<b>(57.5)</b>	73.1	(56.9)	16.2
Taxation	7 <u>(23.7)</u>	<u>22.9</u>	<u>(0.8)</u>	<u>(14.6)</u>	<u>10.9</u>	<u>(3.7)</u>
<b>(Loss)/Profit for the period</b>	<b>64.4</b>	<b>(12.7)</b>	<b>(58.3)</b>	58.5	(46.0)	12.5
<b>(Loss)/Profit attributable to equity holders of the parent</b>	<b>64.4</b>	<b>(122.7)</b>	<b>(58.3)</b>	58.5	(46.0)	12.5
<b>(Loss)/Earnings per share from continuing operations</b>	8					
Basic			<b>(20.50) p</b>			4.41 p
Diluted			<b>(20.50) p</b>			4.40 p

**Unaudited consolidated statement of comprehensive income  
for the 52 weeks ended 2 March 2019**

	<b>52 weeks to 02-Mar-19 £m</b>	52 weeks to 03-Mar-18 £m
<b>(Loss)/Profit for the period</b>	<b>(58.3)</b>	12.5
<b>Items that will not be reclassified subsequently to profit or loss</b>		
Actuarial gains on defined benefit pension schemes	<b>3.9</b>	10.5
Tax relating to items not reclassified	<b>(4.9)</b>	(1.8)
	<u><b>(1.0)</b></u>	<u>8.7</u>
<b>Items that may be reclassified subsequently to profit or loss</b>		
Exchange differences on translation of foreign operations	<b>0.7</b>	(0.2)
<b>Total comprehensive (expense)/income for the period attributable to equity holders of the parent</b>	<u><b>(58.6)</b></u>	<u>21.0</u>

**Unaudited consolidated balance sheet**  
**As at 2 March 2019**

		As at 2 March 2019	As at 3 March 2018
	Note	£m	£m
<b>Non-current assets</b>			
Intangible assets	9	145.2	156.0
Property, plant & equipment	10	59.4	67.4
Retirement benefit surplus		23.9	19.3
Deferred tax assets		18.8	2.8
		<u>247.3</u>	<u>245.5</u>
<b>Current assets</b>			
Inventories		99.8	110.6
Trade and other receivables	11	621.0	652.7
Cash and cash equivalents		43.7	58.2
		<u>764.5</u>	<u>821.5</u>
<b>Total assets</b>		<u>1,011.8</u>	<u>1,067.0</u>
<b>Current liabilities</b>			
Bank overdraft		(11.4)	-
Provisions	13	(24.8)	(43.8)
Trade and other payables	12	(140.9)	(131.7)
Derivative financial instruments	6	(1.5)	(6.0)
Current tax liability		(7.1)	(3.3)
		<u>(185.7)</u>	<u>(184.8)</u>
<b>Net current assets</b>		<u>578.8</u>	636.7
<b>Non-current liabilities</b>			
Bank loans		(500.2)	(405.0)
Provisions	13	-	(5.4)
Deferred tax liabilities		(14.5)	(12.2)
		<u>(514.7)</u>	<u>(422.6)</u>
<b>Total liabilities</b>		<u>(700.4)</u>	<u>(607.4)</u>
<b>Net assets</b>		<u>311.4</u>	<u>459.6</u>
<b>Equity</b>			
Share capital		31.4	31.4
Share premium account		11.0	11.0
Own shares		(0.3)	(0.2)
Foreign currency translation reserve		2.8	2.1
Retained earnings		266.5	415.3
<b>Total equity</b>		<u>311.4</u>	<u>459.6</u>

## Unaudited consolidated cash flow statement for the 52 weeks ended 2 March 2019

	52 weeks to 02-Mar-19 £m	52 weeks to 03-Mar-18 £m
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(37.1)</b>	32.2
<b>Investing activities</b>		
Purchases of property, plant and equipment	(3.4)	(2.6)
Purchases of intangible assets	(32.9)	(36.6)
<b>Net cash used in investing activities</b>	<b>(36.3)</b>	<b>(39.2)</b>
<b>Financing activities</b>		
Interest paid	(15.4)	(8.6)
Dividends paid	(32.2)	(40.3)
Increase in bank loans	95.2	50.0
Purchase of shares by ESOT	-	0.1
Proceeds on issue of shares held by ESOT	(0.1)	(0.1)
<b>Net cash from financing activities</b>	<b>47.5</b>	<b>1.1</b>
Net decrease in cash and cash equivalents and bank overdraft	(25.9)	(5.9)
Opening cash and cash equivalents and bank overdraft	58.2	64.1
<b>Closing cash and cash equivalents and bank overdrafts</b>	<b>32.3</b>	<b>58.2</b>

## Reconciliation of operating profit to net cash from operating activities

	52 weeks to 02-Mar-19 £m	52 weeks to 03-Mar-18 £m
<b>(Loss)/profit for the year</b>	<b>(58.3)</b>	12.5
Adjustments for:		
Taxation charge	0.8	3.7
Fair value adjustments to financial instruments	(4.5)	8.5
Finance costs	14.3	8.9
Depreciation of property, plant and equipment	4.9	5.7
Loss on disposal of property, plant and equipment	5.0	2.7
Loss on disposal of intangible assets	0.7	-
Impairment of intangible assets	17.8	-
Impairment of property, plant and equipment	1.5	-
Amortisation of intangible assets	25.2	22.4
Share option charge	0.1	0.6
<b>Operating cash flows before movements in working capital</b>	<b>7.5</b>	<b>65.0</b>
Decrease/(Increase) in inventories	10.8	(5.1)
Increase in trade and other receivables	(34.0)	(77.6)
Increase in trade and other payables	5.6	33.0
(Decrease)/Increase in provisions	(24.4)	29.3
Pension obligation adjustment	(0.5)	(0.3)
<b>Cash (used in) / generated by operations</b>	<b>(35.0)</b>	<b>44.3</b>
Taxation paid	(2.1)	(12.1)
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(37.1)</b>	<b>32.2</b>
<b>Changes in liabilities from financing activities</b>		
<b>Loans &amp; Borrowings</b>		
<b>Balance brought forward</b>	<b>405.0</b>	<b>355.0</b>
<b>Changes from financing cashflows</b>		
Net proceeds from loans and borrowings	94.1	50.0
Increase in loans and borrowings due to interest	1.1	-
<b>Balance carried forward</b>	<b>500.2</b>	<b>405.0</b>

**Unaudited consolidated statement of changes in equity  
for the 52 weeks ended 2 March 2019**

	Share capital £m	Share premium £m	Own shares £m	Foreign currency translation reserve £m	Retained earnings £m	Total £m
<b>Changes in equity for the 52 weeks to 2 March 2019</b>						
<b>Balance as at 4 March 2017</b>	<b>31.3</b>	<b>11.0</b>	<b>(0.1)</b>	<b>2.3</b>	<b>433.7</b>	<b>478.2</b>
<b>Total comprehensive income for the period</b>						
Profit for the period	-	-	-	-	12.5	12.5
Other items of comprehensive income for the period	-	-	-	(0.2)	8.7	8.5
Total comprehensive income for the period	-	-	-	(0.2)	21.2	21.0
<b>Transactions with owners recorded directly in equity</b>						
Equity dividends	-	-	-	-	(40.3)	(40.3)
Issue of ordinary share capital	0.1	-	-	-	-	0.1
Issue of own shares by ESOT	-	-	(0.1)	-	-	(0.1)
Share option charge	-	-	-	-	0.6	0.6
Tax on items recognised directly in equity	-	-	-	-	0.1	0.1
Total contributions by and distributions to the owners	0.1	-	(0.1)	-	(39.6)	(39.6)
<b>Balance as at 3 March 2018</b>	<b>31.4</b>	<b>11.0</b>	<b>(0.2)</b>	<b>2.1</b>	<b>415.3</b>	<b>459.6</b>
Adjustment on initial application of IFRS9 (net of tax)	-	-	-	-	(55.5)	(55.5)
Adjustment on initial application of IFRS15 (net of tax)	-	-	-	-	(1.5)	(1.5)
<b>Balance at 3 March 2018</b>	<b>31.4</b>	<b>11.0</b>	<b>(0.2)</b>	<b>2.1</b>	<b>358.3</b>	<b>402.6</b>
<b>Total comprehensive income for the period</b>						
Loss for the period	-	-	-	-	(58.3)	(58.3)
Other items of comprehensive income for the period	-	-	-	0.7	(1.0)	(0.3)
Total comprehensive loss for the period	-	-	-	0.7	(59.3)	(58.6)
<b>Transactions with owners recorded directly in equity</b>						
Equity dividends	-	-	-	-	(32.2)	(32.2)
Issue of own shares by ESOT	-	-	(0.1)	-	-	(0.1)
Share option charge	-	-	-	-	0.1	0.1
Tax on items recognised directly in equity	-	-	-	-	(0.4)	(0.4)
Total contributions by and distributions to the owners	-	-	(0.1)	-	(32.5)	(32.6)
<b>Balance as at 2 March 2019</b>	<b>31.4</b>	<b>11.0</b>	<b>(0.3)</b>	<b>2.8</b>	<b>266.5</b>	<b>311.4</b>



# Notes to the unaudited consolidated financial statements for the 52 weeks ended 2 March 2019

## 1. Basis of preparation

The Group's financial statements for the 52 weeks ended 2 March 2019 will be prepared in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the EU.

Whilst the financial information included in this preliminary announcement has been prepared in accordance with IFRS, this announcement does not itself contain sufficient information to comply with IFRS. As such, these financial statements do not constitute the Group's statutory accounts and the Group expects to publish full financial statements that comply with IFRS in May 2019.

The accounting policies and presentation adopted in the preparation of these consolidated financial statements are consistent with those disclosed in the published annual report & accounts for the 52 weeks ended 3 March 2018.

There have been no significant new or revised accounting standards applied in the 52 weeks ended 2 March 2019 except for as follows.

### New accounting standards, interpretations and amendments adopted by the Group

#### IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognised when a customer obtained control of the goods or services.

The standard introduces a new revenue recognition model that recognises revenue either at a point in time or over time. The model features a contract-based five step analysis of transactions to determine whether, how much and when revenue is recognised. The Group have performed a comprehensive review of all revenue streams, focusing on those most likely to be impacted by IFRS 15. From this review, it was determined that no changes are required to our current revenue recognition methods.

#### Product revenue

Product revenue is for the sale of a product which generally includes one performance obligation. The Group has concluded that revenue from product sales should be recognised when a customer obtains control of the goods, i.e. on delivery of the product. For product sales, this is recognised upon delivery to the customer premises, as detailed in our accounting policy. This is the point in time at which the customer accepts the risks and rewards of ownership transfer and the control passes to the customer. The impact upon transition to IFRS 15 is immaterial.

Also under IFRS 15, the Group estimates the value of goods that will be returned. Under the old standard, IAS 8, expected returns were estimated using a similar approach and therefore no adjustment was required upon transition to IFRS 15.

Based on its assessment above, the application of IFRS15 has not had a significant impact on the Group's consolidated financial statements.

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). As a result, the Group will not apply the requirements of IFRS 15 to the comparative period presented.

#### IFRS 16 Leases

The Group is required to adopt IFRS 16 *Leases* from 1 January 2019, therefore it will be applicable to the Group for the year ending 29 February 2020 and has not been early adopted by the Group. IFRS 16 will affect the presentation of the Group consolidated financial statements introducing a single, on-balance sheet lease accounting model for lessees.

A lessee recognises a right-use asset representing its right to use the underlying asset and a corresponding lease liability representing its obligation to make lease payments. There are recognition exemptions available for short term leases and leases of low-value items, which the Group plans to adopt.

Through the work performed by the Group to date to assess the impact on transition, the Group have sought professional advice and held accounting workshops to evaluate the impact on the Group's results, financial position and budgets.

This will affect the Balance Sheet, Income Statement and disclosures to the financial statements, however through the work performed by the Group to date to assess the impact on transition, the net impact on all of the above Primary Financial Statements is estimated to be immaterial.

The Group plans to apply IFRS 16 for the year ending 29 February 2020 using the modified retrospective approach.

#### IFRIC 23 Uncertainty over Income Tax Treatments

The Group is required to adopt IFRIC 23 *Uncertainty over Income Tax Treatments* from 1 January 2019, therefore it will be applicable to the Group for the year ending 29 February 2020. This has not been early adopted by the Group.

The Group have not yet finalised their assessment of IFRIC 23 and expect the Group's open uncertain tax treatments to have progressed by the year ending 29 February 2020. However, through the draft assessment completed to date, the Group expect the impact on the Group's financial statements to be immaterial.

## **IFRS 9 Financial Instruments**

The Group has initially applied IFRS9 from 4 March 2018. Due to the transition methods chosen by the Group in applying this standard, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standard. The effect of initially applying this standard has been an increase in impairment losses recognised in financial assets.

### **Transition**

Changes in accounting policies resulting from the adoption of IFRS9 have been applied retrospectively except the group has used an exemption not to restate comparative information for prior periods with respect to classification and measurement including impairment requirements. Differences in the carrying amounts of financial assets and liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 4 March 2018. Accordingly, the information presented for the period to 3 March 2018 reflects the requirements of IAS 39 rather than IFRS 9.

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS1 Presentation of Financial Statements, which require separate presentation in the Consolidated Income Statement of interest revenue calculated using the effective interest rate method. Previously, the Group disclosed this amount in the notes to the financial statements.

### **i) Classification – financial assets**

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit and loss ("FVTPL"). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. A financial asset is measured at amortised cost if both the following conditions are met and it has not been designated as at FVTPL:

- the asset is held within a business model whose objective is to hold the asset to collect its contractual cash flows; and
- the contractual terms of the financial asset give rise to cash flows on specified dates that represent payments of solely principal and interest on the outstanding principal amount.

Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. An increase of £67.2m in the allowance for impairment over these receivables was recognised in the opening retained earnings at 4 March 2018 on transition to IFRS 9.

The Group held financial instruments that would be classified as FVTPL at 2 March 2019. The profit/(loss) on fair value adjustments was £4.5m (FY18: (£8.5m)).

### **ii) Impairment**

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. As the Group has determined there is a significant financing component the ECL model introduces the concept of staging.

Stage 1 – assets which have not demonstrated any significant increase in credit risk since origination

Stage 2 – assets which have demonstrated a significant increase in credit risk since origination

Stage 3 – assets which are credit impaired

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

12 month ECLs are calculated for assets in Stage 1 and lifetime ECLs are calculated for assets in Stages 2 and 3. Assets can move from Stage 1 to Stage 2 if there is evidence of a significant increase in credit risk since origination.

The ECL is calculated using inputs relating to the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

The Probability of Default is an estimate of the likelihood of default over 12 months and the expected lifetime of the debt.

The Exposure at Default is an estimate of the exposure at the date of default, taking into account expected changes in the exposure after the reporting date such as interest accrued.

The Loss Given Default is an estimate of the loss arising on default, including an estimation of recoveries.

### **Definition of default**

At each reporting date, the Group will assess whether financial assets carried at amortised cost are in default. Evidence that a financial asset is in default includes the following observable data: The account has been placed on a non-interest bearing payment arrangement (as part of forbearance measures); notification of bereavement has been received; or the receivable is 56 or more days past due for new customers and 84 days past due for established customers.

### **Definition of write off**

The Group considers that an asset should be written off when it is more than 124 days past due for new customers and 152 days past due for established customers and all arrears activity has been exhausted.

### **Significant increase in credit risk**

The credit risk of a financial asset will be considered to have experienced a significant increase in credit risk since initial recognition where there has been a significant increase in the remaining lifetime probability of default of the asset.

As a general indicator, credit risk is deemed to have increased significantly since initial recognition if based on the Group's quantitative modelling the remaining lifetime probability of default is determined to have increased by more than 250% of the corresponding amount estimated on initial recognition.

As a backstop, the Group considers that a significant increase in credit risk occurs no later than when an asset is more than 28 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which the minimum payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The credit risk of a financial asset may improve such that it is no longer considered to have experienced a significant increase in credit risk if there has been a significant decrease in the remaining lifetime probability of default of the asset.

### **Incorporation of forward looking data**

The Group incorporates forward looking information into its measurement of expected credit loss. This is achieved by developing a number of potential economic scenarios and modelling expected credit losses for each scenario. The outputs from each scenario are combined; using the estimated likelihood of each scenario occurring to derive a probability weighted expected credit loss.

### **Impact of the new impairment model**

The Group has determined that the application of IFRS 9's impairment requirements at 4 March 2018 results in an additional impairment allowance as set out in note 11. Exposures were segmented based on common credit risk characteristics such as behavioural score and age of relationship.

## 2. Key risks and uncertainties

Several potential risks and uncertainties may impact on the Group's performance over the next twelve months or longer term. The directors routinely monitor all risks and uncertainties, taking appropriate actions to mitigate where necessary. Whilst further detail is included in the Group's 2019 Annual Report, the risks which have been identified as potentially having a material impact on the performance of the Group are as follows: Consumer Confidence; Business Change; Regulatory Environment; Cyber-Security; IT Systems; Business Interruption; Competition, Bad Debt Risk and Brexit.

Consumer confidence in the retail and financial services sectors has been impacted by the uncertainty of Brexit. The threat of interest rate rises and increasing consumer debt levels may further squeeze customer spending. To mitigate this, the Group continues to seek to understand and meet customer expectations for both product quality and customer service.

The Group continues to drive change and improvements in technology, culture and business processes as key pillars of the Growth Strategy. The accelerating pace of competition in digital retail and the headwinds arising from Brexit mean that stability and adaptability are key focus points for the change program over the next twelve months.

The Regulatory Environment remains a key consideration for the Group and continued importance is placed on meeting the expectations of the regulators in key areas such as GDPR and Financial Services. The introduction of the Senior Managers Regime in December 2019 is a key focus for the short term as is the maintenance of the embedded GDPR processes and controls put in place over the previous year.

Competing effectively across the key areas of Product, Financial Services and Customer Services remains a key driver of customer recruitment and retention. Potential consequences of the increasingly competitive market include; loss of market share, erosion of margins and a fall in customer satisfaction. Given the uncertain commercial climate as Brexit approaches, remaining competitive across all three areas is necessary to deliver anticipated growth plans.

Cyber Security remains a key risk area for the Group as it continues to focus on online growth. The successful completion of the Group's GDPR program has strengthened the Group's Cyber Security position and the continuous change improvement programmes ensure greater security over both new and existing cyber threats.

The Group continues to mitigate the risks associated with the use of remaining legacy IT systems as well as data security risk through outsourcing IT services to a specialist IT service provider. The replacement of the Groups legacy architecture is a key focus of the continuous change program and tactical solutions continue to be implemented to mitigate risks to agility arising from older systems.

Business interruption events remain a possibility for the Group and the Crisis Management Plan has been successfully tested in real world events since being implemented. Further stress testing through potential impact scenarios ensures that plans remain relevant and up to date.

Brexit is one of the most significant economic events for the UK and at the time of this report, its effects are subject to significant levels of uncertainty as to outcome. The full range of potential economic, regulatory and business environment impacts are therefore unknown.

The uncertainty around the impact of Brexit and potentially reduced consumer confidence give rise to the risk of increased bad debts from a potential deterioration in customer discretionary spending capacity. In addition, the sensitivity of the Group's IFRS 9 model to adverse shifts in arrears rates increases this risk. The Group has continued to mitigate this risk through a focus on maintaining and improving the quality of the debt book.

The retail sector experienced a number of business failures in 2018 and trading conditions are expected to remain challenging for at least the next 12 months. The impact of Brexit on the Group remains a key consideration with a wide range of potential risks including increases in cost prices, impact on our Irish operations, decreased customer spending power to potential loss of personnel. Management are proactively planning in respect of Brexit and a Brexit Impact Steering Committee has been created to identify risks and drive mitigating actions against Brexit risks, although Brexit is likely to compound challenges identified in the sector. However, the high level of uncertainty in both the financial and political implications of Brexit makes the success of mitigation activities very difficult to predict.

## 3. Going concern

In determining whether the Group's accounts can be prepared on a going concern basis, the directors considered the Group's business activities together with factors likely to affect its future development, performance and financial position including cash flows, liquidity position, borrowing facilities and the principal risks and uncertainties relating to its business activities.

The Group has £125m RCF and a £500m Securitisation which are committed to September 2021 and £27m overdraft facility.

The directors have considered carefully its cash flows and banking covenants for the next twelve months from the date of approval of the Group's preliminary results. These have been appraised in light of the current economic climate by applying a series of stress tests. The stress tests apply a range of sensitivities to group revenue, cash collections and arrears levels; reflecting the principal risks of the business, primarily through potential trading restrictions and penalties arising from the impact of a cyberattack, negative outcomes from delays to the Group's IT development programme and an adverse outcome in respect of the legacy tax cases which are ongoing. In addition, the uncertainty around the impact of Brexit and the reduced consumer confidence has also been incorporated into these sensitivities.

After making appropriate enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence. Accordingly, they continue to adopt the going concern basis in the preparation of these financial statements.

#### 4. Business segment

	52 weeks to 02-Mar-19 £m	52 weeks to 03-Mar-18 £m
<b>Analysis of revenue - Home shopping</b>		
Product - total revenue	<u>615.8</u>	<u>652.6</u>
Other financial services revenue	31.4	32.6
Credit account interest	<u>267.2</u>	<u>237.0</u>
Financial services - total revenue	<u>298.6</u>	<u>269.6</u>
<b>Revenue - Home Shopping Total</b>	<u><b>914.4</b></u>	<u><b>922.2</b></u>
<b>Impairment losses on customer and other receivables</b>		
Product - total cost of sales	<u>(295.0)</u>	<u>(312.1)</u>
Impairment losses on customer receivables	(119.0)	(99.5)
Profit on sale of customer receivables	10.7	5.8
Other financial services cost of sales	<u>(13.4)</u>	<u>(10.8)</u>
Financial services - total cost of sales	<u>(121.7)</u>	<u>(104.5)</u>
<b>Cost of sales - Home Shopping Total</b>	<u><b>(416.7)</b></u>	<u><b>(416.6)</b></u>
Gross profit	497.7	505.6
Gross margin - Product	52.1%	52.2%
Gross margin - Financial Services	59.2%	61.2%
Warehouse & fulfilment	(84.0)	(85.8)
Marketing & production	(157.8)	(164.0)
Depreciation & amortisation	(30.1)	(28.1)
Other admin & payroll	<u>(127.9)</u>	<u>(137.2)</u>
Segment result & operating profit before exceptional items	97.9	90.5
Exceptional items (see note 5)	<u>(145.6)</u>	<u>(56.9)</u>
Segment result & operating (loss)/profit - Home shopping	(47.7)	33.6
Finance costs	(14.3)	(8.9)
Fair value adjustments to financial instruments	4.5	(8.5)
(Loss)/profit before taxation	<u>(57.5)</u>	<u>16.2</u>

The Group has one reportable segment in accordance with IFRS8 - Operating Segments which is the Home Shopping segment.

The Group's board receives monthly financial information at this level and uses this information to monitor the performance of the Home Shopping segment, allocate resources and make operational decisions. Internal reporting focuses on the Group as a whole and does not identify individual segments.

To increase transparency, the Group has decided to include an additional voluntary disclosure analysing product revenue within the reportable segment, by brand categorisation and product type categorisation.

	52 weeks to 02-Mar-19 £m	52 weeks to 03-Mar-18 £m
<b>Analysis of product revenue by brand</b>		
JD Williams	159.5	163.4
Simply Be	134.2	132.8
Jacamo	<u>66.7</u>	<u>68.6</u>
<b>Power brands</b>	<u>360.4</u>	<u>364.8</u>
Traditional segment	114.7	138.6
Secondary brands	<u>140.7</u>	<u>149.2</u>
<b>Total product revenue - Home shopping</b>	<u><b>615.8</b></u>	<u><b>652.6</b></u>
<b>Analysis of product revenue by category</b>		
Ladieswear	256.5	267.6
Menswear	85.0	89.2
Footwear & accessories	70.8	74.9
Home & gift	203.5	220.9
<b>Total product revenue - Home shopping</b>	<u><b>615.8</b></u>	<u><b>652.6</b></u>

The Group has one significant geographical segment, which is the United Kingdom.

Revenue derived from international markets amounted to £37.1m (FY18, £38.8m).

Operating results from international markets amounted to £1.9m loss (FY18, £1.2m profit). All segment assets are located in the UK, Ireland and US.

#### 5. Exceptional items

52 weeks to

52 weeks to

	02-Mar-19 £m	03-Mar-18 £m
Customer redress	45.0	40.0
Closure costs	22.0	13.8
Impairment of tangible, intangible assets and brands	20.0	-
VAT Debtor Impairment	49.4	-
Other VAT matters including associated legal and professional fees	8.9	3.1
GMP equalisation adjustment	0.3	-
Items charged to (loss) / profit before tax	<u>145.6</u>	<u>56.9</u>
Taxation provision (see note 7, included within exceptional tax charge of £22.9m)	<u>3.0</u>	<u>-</u>

#### Customer Redress

Following an industry wide request from the FCA that firms ensure that general insurance products and add-ons offered value for their customers, during the previous year the Group identified flaws in certain insurance products which were provided by a third party insurance underwriter and following an assessment of the cost of potential customer redress an exceptional charge of £40.0m was recognised.

During the year, this element of the customer redress programme has been completed and as a result of upheld rates being materially higher than that expected the total cost of redress was £56.5m. A charge of £16.5m has therefore been made to reflect this additional expense.

The Plevin court ruling was made in November 2017, which meant that if more than 50% of a customers PPI payment were paid as commissions and this was not explained to them at the time, they could claim back payments plus interest. This, combined with an increase in marketing activity by the FCA to raise awareness of the August 2019 deadline appears to have had the effect of increasing the volume of claims across the industry. As at 2 March 2019, a charge of £28.5m has been recognised to reflect an updated estimate following an increase in the volume of claims and the latest assessment of the expected uphold rate and average redress per claim.

#### Closure Costs

In line with our strategy of reshaping our retail offering, following a period of consultation with all staff involved in our store estate, the decision was made to close all remaining retail outlets at end of August 2018. This review resulted in an exceptional cost of £22.0m in respect of onerous lease provisions, other related store closure costs and asset write offs of £5.7m.

#### Impairment of Tangible, Intangible assets and brands

In accordance with the requirements of IAS36 management have assessed the carrying value of the intangible and tangible assets held in respect of Fingleaves and following this review have written down the value of goodwill (£7.1m) and tangible fixed assets (£1.5m) in full.

In addition following this review the directors have also written off in full the remaining deferred tax asset of £3m in relation to future unutilised tax losses. This has been presented as an exceptional item.

During the period the Group also terminated an agreement with a third-party IT Financial Services provider, Welcom Digital Limited ("WDL"). Following a detailed review of Capitalised Development spend held in respect of this item a non-cash impairment charge of £11.4m was made.

#### VAT Debtor

The Group has been in a long running dispute with HMRC with respect to the VAT treatment of certain marketing and non-marketing costs and the allocation of those costs between our retail and credit businesses. The case in respect of marketing costs was heard in a first tier VAT tribunal in May 2018 with a draft decision being issued in November 2018 which was made public in March 2019. The case has two key aspects, those being attribution and apportionment. With respect to attribution, the judge agreed with HMRC, finding that when the Group is marketing goods it is also in effect marketing financial services, even if there is no reference to this in its marketing materials. The judge however ruled against HMRC and directed that in apportioning costs via a turnover ratio, vatable product turnover should be included in full, but VAT exempt financial services income should in part be excluded to the extent that it did not relate to the original marketing activities.

As at 3 March 2018, the Group had an asset of £43.8m which had arisen as a result of cash payments made under protective assessments raised by HMRC.

Whilst discussions are on-going with HMRC and a final outcome has not yet been achieved, following the final ruling management have reviewed the likelihood of recovering this asset and as a result of this review have written down the value by £37.9m. In addition, a further £11.5m has been accrued in respect of the period June 2017 to 2 March 2019 as protective assessments have not yet been raised in respect of this period. This results in a total exceptional charge of £49.4m. For further information see note 12.

#### Other VAT matters including associated legal and professional fees

The Group is currently in discussions with HMRC regarding historic underestimation of VAT and has consequently charged £3.3m in respect of settlement of this item, in addition these costs also relate to on-going legal and professional fees which have been incurred as a result of the Group's on-going disputes with HMRC regarding a number of historical VAT matters and tax positions. Of the amount charged in the period the Group has made related cash payments of £2.8m and accrued costs of £1.5m (FY18, £1.2m).

#### GMP equalisation adjustment

An exceptional pension cost arose in the year as a result of the High Court ruling in the case of Lloyds Bank in relation to Guaranteed Minimum Pension ("GMP") equalisation. Whilst this may still be subject to appeal, we have made an exceptional provision of £0.3m for the expected one-off impact of GMP equalisation on the reported liabilities of the Company's defined benefit pension scheme.

## 6. Derivative financial instruments

At the balance sheet date, details of outstanding forward foreign exchange contracts that the Group has committed to are as follows:

	52 weeks to 02-Mar-19 £m	52 weeks to 03-Mar-18 £m
Notional Amount - Sterling contract value	<u>271.4</u>	<u>113.9</u>
Fair value of asset recognised	<u>-</u>	<u>-</u>
Fair value of liability recognised	<u>(1.5)</u>	<u>(6.0)</u>

The fair value of foreign currency derivatives contracts is their market value at the balance sheet date. Market values are based on the duration of the derivative instrument together with the observable market data including interest rates, foreign exchange rates and market volatility at the balance sheet date.

The financial instruments that are measured subsequent to initial recognition at fair value are all grouped into Level 2 (FY18, same).

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). There were no transfers between Level 1 and Level 2 during the period (FY18, same).

## **7. Taxation**

The taxation charge for the 52 weeks ended 2 March 2019 is based on the underlying estimated effective tax rate for the full year of 26.9%, which includes a provision for potential future corporation tax charges in respect of historic positions. The total statutory effective tax rate for the 12 months period is (1.4)% (FY18, 23.3%). The negative statutory effective tax rate is a result of additional provisions made in respect of historic positions, non-deductible exceptional costs and a write off of a deferred tax asset of £3.0m (note 5) relating to tax losses of the Figleaves business. The write off of the deferred tax asset has been presented as an exceptional item.

The Group is in on-going discussions with HMRC in respect of a number of Corporation tax positions. The calculation of the Group's potential liabilities or assets in respect of these involves a degree of estimation and judgement in respect of items whose tax treatment cannot be finally determined until resolution has been reached with HMRC or, as appropriate, through legal processes. Issues can, and often do, take a number of years to resolve.

In respect of Corporation tax, as at 2 March 2019 the Group has provided a total of £13.9m (FY18: £3.8m) for potential corporation tax future charges based upon the Group's best estimation and judgement.

The inherent uncertainty regarding the outcome of these positions means the eventual realisation could differ from the accounting estimates and therefore impact the Group's future results and cash flows. Based upon the amounts reflected in the balance sheet as at 2 March 2019, the Directors estimate that the unfavourable settlement of these cases could result in a net cash tax payment of up to £13.9m with no further charge to the income statement.

The favourable settlement of these cases would result in a repayment of tax of up to £19.8m and an associated credit to the income statement of £27.2m.

## 8. Earnings per share

The calculation of earnings per ordinary share is based on earnings after tax and the weighted average number of ordinary shares in issue during the period.

The adjusted earnings per share figures have also been calculated based on earnings before items that are one-off in nature, material by size and are considered to be distortive of the true underlying performance of the business (see note 5) and certain other fair value adjustments. These have been incorporated to allow shareholders to gain an understanding of the underlying trading performance of the Group. For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares.

<b>Earnings</b>	<b>52 weeks to 02-Mar-19 £m</b>	<b>52 weeks to 03-Mar-18 £m</b>
Total net (loss)/profit attributable to equity holders of the parent for the purpose of basic and diluted earnings per share	<b>(58.3)</b>	12.5
Total net (loss)/ profit attributable to equity holders of the parent for the purpose of basic and diluted earnings per share	<b>(58.3)</b>	12.5
Fair value adjustment to financial instruments (net of tax)	<b>(3.6)</b>	6.9
Exceptional items (net of tax)	<b>122.7</b>	46.0
Total net profit attributable to equity holders of the parent for the purpose of basic and diluted adjusted earnings per share	<b>60.8</b>	65.4
<b>Number of shares</b>	<b>52 weeks to 02-Mar-19 No. ('000s)</b>	<b>52 weeks to 03-Mar-18 No. ('000s)</b>
Weighted average number of shares in issue for the purpose of basic earnings per share	<b>284,379</b>	283,614
Effect of dilutive potential ordinary shares:		
Share options	<b>409</b>	542
Weighted average number of shares in issue for the purpose of diluted earnings per share	<b>284,788</b>	284,156
<b>(Loss)/Earnings per share</b>		
Basic	<b>(20.50) p</b>	4.41 p
Diluted	<b>(20.50) p</b>	4.40 p
<b>Adjusted earnings per share</b>		
Basic	<b>21.38 p</b>	23.06 p
Diluted	<b>21.35 p</b>	23.02 p

## 9. Intangible assets

	Brands £m	Software £m	Customer database £m	Total £m
<b>Cost</b>				
As at 4 March 2017	16.9	294.4	1.9	313.2
Additions	-	36.5	-	36.5
As at 3 March 2018	16.9	330.9	1.9	349.7
Additions	-	32.9	-	32.9
Disposals	-	(2.4)	-	(2.4)
<b>As at 2 March 2019</b>	<b>16.9</b>	<b>361.4</b>	<b>1.9</b>	<b>380.2</b>
<b>Amortisation</b>				
As at 4 March 2017	8.0	161.4	1.9	171.3
Charge for the period	-	22.4	-	22.4
As at 3 March 2018	8.0	183.8	1.9	193.7
Charge for the period	-	25.2	-	25.2
Impairment	7.1	10.7	-	17.8
Disposals	-	(1.7)	-	(1.7)
<b>As at 2 March 2019</b>	<b>15.1</b>	<b>218.0</b>	<b>1.9</b>	<b>235.0</b>
<b>Carrying amounts</b>				
<b>As at 2 March 2019</b>	<b>1.8</b>	<b>143.4</b>	<b>-</b>	<b>145.2</b>
As at 3 March 2018	8.9	147.1	-	156.0
As at 4 March 2017	8.9	133.0	-	141.9

Assets in the course of construction included in intangible assets at the year end total £35.4m (FY18, £14.6m).

No amortisation is charged on these assets.

Borrowing costs of £nil (FY18, £0.1m) have been capitalised in the period using the weighted average bank loan interest rate applied to the capitalised spend on technological developments included within software.

As at 2 March 2019, the Group had entered into contractual commitments for the further development of intangible assets of £4.7m (FY18: £2.0m) of which £1.5m (FY18, £1.0m) is due to be paid within 1 year.

### Impairment testing of software intangible assets

The Group is undertaking a systems transformation project. Some elements of the project are not yet available for use and are not therefore being amortised.

Where intangible assets are not being amortised, management have tested for impairment with the recoverable amount being determined from the value in use calculations.

The value in use calculations use cash flows based on budgets prepared by management covering a three year period. These budgets have regard to historic performance and knowledge of the current market, together with managements views on the future achievable growth and impact of technological developments. Cash flows beyond this three year period are extrapolated using a long term growth rate to 5 years at which point a terminal value has been calculated based upon the long term growth rate and the Group's risk adjusted pre-tax discount rate.

The Group's 3 year cash flow projections are based upon the Group's approved 3 year plan. The detailed forecast assumes continued growth during the course of the next three years, driven by new media campaigns, exploitation of the Group's data assets and further investments in the core technology underpinning the Group's key channels to market.

Other than the detailed budgets, the key assumptions in the value in use calculations are the long-term growth rate and the risk adjusted pre-tax discount rate. The long-term growth rate has been determined with reference to forecast GDP growth which management believe is the most appropriate indicator of long-term growth rates that is available. The long-term growth rate used is purely for the impairment testing of intangible assets and brands under IAS 36 'Impairment of Assets' and does not reflect long-term planning assumptions used by the Group for investment proposals or for any other assessments. The pre-tax discount rate is based on the Group's weighted average cost of capital, taking into account the cost of capital and borrowings, to which specific market-related premium adjustments are made.

The assumptions are as follows:

- Long term growth rate: 1.5% (FY18, 2.0%)
- Pre tax discount rate: 10.7% (FY18, 13.9%)

The analysis performed indicates that no impairment is required other than the specific impairment of the Welcom asset spend (see note 5). A sensitivity analysis has been performed on each of these key assumptions with other variables held constant. Management have concluded that there are no reasonably possible changes in these key assumptions that would cause the carrying value to exceed the value in use.

### Impairment testing of brand intangibles

The brand names arising from the acquisitions of High and Mighty, Slimma, Fingleaves, Diva and Dannimac are deemed to have indefinite lives as there are no foreseeable limits to the periods over which they are expected to generate cash inflows and are therefore subject to annual impairment tests with the recoverable amount being determined from the value in use calculations.

The value in use calculations use cash flows based on budgets prepared by management covering a three year period and approved by the Board. These budgets have regard to historic performance and knowledge of the current market, together with managements views on the future achievable growth. Cash flows beyond this three year period are extrapolated using a long term growth rate into perpetuity.

Other than the detailed budgets, the key assumptions in the value in use calculations are the long-term growth rate and the risk adjusted pre-tax discount rate which management have assumed to be 1.5% (FY18, 2.0%) and 12.9% (FY18, 11.9%) respectively.

The analysis performed indicates that impairment of the full carrying value of Fingleaves (£7.1m) is required and has been disclosed in note 5.

Should there be a downturn in future or forecasted cash flows, then there is a risk of impairment to the remaining High and Mighty (£1.0m) brand name however our current best estimate is that there is no material risk of impairment.



Notes to the unaudited consolidated financial statements  
for the 52 weeks ended 2 March 2019

10. Property, plant and equipment

	Land and buildings £m	Fixtures and equipment £m	Total £m
<b>Cost</b>			
As at 4 March 2017	59.1	132.7	191.8
Additions	-	2.3	2.3
Disposal	-	(4.1)	(4.1)
As at 3 March 2018	59.1	130.9	190.0
Additions	-	3.4	3.4
Disposal	-	(11.6)	(11.6)
<b>As at 2 March 2019</b>	<b>59.1</b>	<b>122.7</b>	<b>181.8</b>
<b>Accumulated depreciation and impairment</b>			
As at 4 March 2017	14.2	104.1	118.3
Charge for the period	1.2	4.5	5.7
Disposal	-	(1.4)	(1.4)
As at 3 March 2018	15.4	107.2	122.6
Charge for the period	1.2	3.7	4.9
Impairment	-	1.5	1.5
Disposal	-	(6.6)	(6.6)
<b>As at 2 March 2019</b>	<b>16.6</b>	<b>105.8</b>	<b>122.4</b>
<b>Carrying amounts</b>			
<b>As at 2 March 2019</b>	<b>42.5</b>	<b>16.9</b>	<b>59.4</b>
As at 3 March 2018	43.7	23.7	67.4
As at 4 March 2017	44.9	28.6	73.5

Assets in the course of construction included in fixtures and equipment at the yearend total £2.3m (FY18, £1.6m), and in land and buildings

total £nil (FY18, £nil). No depreciation is charged on these assets.

Disposals relate to the assets written off as a result of store closures. A loss of £5.0m (FY18 £2.7m) was recorded as per note 5.

At 2 March 2019, the Group had not entered into any contractual commitments for the acquisition of property, plant and equipment (FY18, £nil).

**Notes to the unaudited consolidated financial statements  
for the 52 weeks ended 2 March 2019**

**11. Trade and other receivables**

	<b>As at 2 March 2019</b>	As at 3 March 2018
	<b>£m</b>	£m
Amount receivable for the sale of goods and services	<b>682.2</b>	647.6
Allowance for doubtful debts	<b>(97.1)</b>	(48.8)
Other debtors and prepayments	<b>585.1</b>	598.8
	<b>621.0</b>	652.7

Trade receivables are measured at amortised cost. A weighted average APR of 59.2% (2018: 57.9%) is charged on the outstanding balance.

Provision for impairment of receivables is calculated using an 'expected credit loss' (ECL) model. For customers who find themselves in financial difficulties, the Group may offer revised payment terms to support the customer, encouraging customer rehabilitation and thereby maximising long term returns. These revised terms may also include suspension of interest for a period of time.

Before accepting any new customer, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Credit limits and scores attributed to customers are reviewed every 28 days. The credit quality of trade receivables that are neither past due nor impaired, with regard to the historical default rate, has remained stable.

The following table provides information about the exposure to credit risk and ECL's for trade receivables and contract assets from individual customers as at 2 March 2019.

The carrying amount of trade receivables whose terms have been renegotiated but would otherwise be past due totalled £19.9m at 2 March 2019 (2018: £30.8m).

Interest income recognised on trade receivables which were impaired at 2 March 2019 was £16.2m (2018: £15.2m).

The amounts written off in the period of £137.9m (2018: £115.4m) include the sale of impaired assets with a net book value of £14.7m (2018: £20.5m).

This sale has also been a material driver in the reduction in trade receivables on payments arrangements, from £42.7m to £26.8m as at 2 March 2019.

Ageing of trade receivables	As at 2 March 2019			Trade receivables	As at 3 March 2018	
	Trade receivables	Trade receivables on payment arrangements	Total trade receivables		Trade receivables on payment arrangements	Total trade receivables
	£m	£m	£m	£m	£m	£m
Current – not past due	558.5	19.9	578.4	520.1	30.8	550.9
0 – 28 days – past due	35.4	3.3	38.7	35.6	4.7	40.3
29 – 56 days – past due	20.7	1.3	22.0	19.3	1.6	20.9
57 – 84 days – past due	14.7	0.9	15.6	12.9	2.3	15.2
85 – 112 days – past due	10.3	0.6	10.9	9.0	1.6	10.6
Over 112 days – past due	15.8	0.8	16.6	8.0	1.7	9.7
Gross trade receivables	655.4	26.8	682.2	604.9	42.7	647.6
Allowance for doubtful debts	(83.5)	(13.6)	(97.1)	(28.2)	(20.6)	(48.8)
Net trade receivables	571.9	13.2	585.1	576.7	22.1	598.8

	<b>As at 2 March 2019</b>	As at 3 March 2018
<b>Movement in the allowance for doubtful debts</b>		
Balance at the beginning of the period	<b>48.8</b>	64.7
IFRS 9 adjustment to opening balance	<b>67.2</b>	-
Amounts charged to the income statement	<b>119.0</b>	99.5
Amounts written off	<b>(137.9)</b>	(115.4)
Balance at the end of the period	<b>97.1</b>	48.8

The concentration of credit risk is limited due to the large and diverse customer base comprising of 1.1 million (2018, 1.1 million) customers.

**Other debtors and prepayments**

'Other debtors and prepayments' last year includes a net VAT debtor, comprising the VAT liability which arises from day to day trading, together with amounts in relation to matters which are in dispute with HMRC. This year the balance comprises a net creditor see note 12.

**Notes to the unaudited consolidated financial statements  
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**12. Trade and other payables**

	<b>52 weeks to 02-Mar-19 £m</b>	52 weeks to 03-Mar-18 £m
Trade payables	<b>81.0</b>	89.2
Other creditors	<b>14.0</b>	0.1
Accruals and deferred income	<b>45.9</b>	42.4
	<b>140.9</b>	131.7

'Other creditors' include a net VAT creditor, comprising the VAT debtor which arises from day to day trading together with amounts in relation to matters which are in dispute with HMRC. The Group has ongoing discussions with HMRC in respect of a number of VAT positions. The calculation of the Group's potential liabilities or assets in respect of these involves a degree of estimation and judgement in respect of items whose tax treatment cannot be finally determined until resolution has been reached with HMRC or, as appropriate, through legal processes. Issues can, and often do, take a number of years to resolve.

In respect of VAT, and excluding the issue mentioned below, the Group has provided a total of £6.6m (2018: £3.1m) in respect of future payments which the Directors have a reasonable expectation of making in settlement of these historical positions.

In addition, and separate to the above positions, the Group has been in a long running dispute with HMRC with respect to the VAT treatment of certain marketing costs and the allocation of those costs between our retail and credit businesses. The case was heard in a first tier VAT tribunal in May 2018 with a draft decision being issued in November 2018 which was made public in March 2019.

The case has two key aspects, being attribution which is in respect of whether marketing costs can be directly attributed to product revenue or financial services income and secondly apportionment which is surrounding the allocation of marketing costs between the retail and financial services business.

With respect to attribution, the judge agreed with HMRC, finding that when the Group is marketing goods it is also in effect marketing financial services, even if there is no reference to this in its marketing materials.

The judge however ruled against HMRC's standard method of apportionment of costs (which is based upon the proportion of total UK revenue which is generated from product sales).

As at 3 March 2018, the Group had an asset of £43.8m which had arisen as a result of cash payments made under protective assessments raised by HMRC.

Whilst discussions are on-going with HMRC and a final outcome not yet achieved, following the final ruling management have reviewed the likelihood of recovering the carrying value of the asset held as at March 2018 of £43.8m and as a result of this review have written down the value by £37.9m.

As the Group has not yet been assessed by HMRC for the period June 2017 to March 2019 this has also resulted in an additional charge of £11.5m. This results in a total exceptional charge of £49.4m and a VAT creditor at year end of £6.6m (2018: £43.8m asset).

As the judge did not fully conclude on the apportionment issue, inherent uncertainty regarding the outcome of this position remains which means the eventual realisation could differ from the accounting estimates and therefore impact the Group's future results and cash flows. Discussions with HMRC are ongoing and if no agreement is reached, there will be a second tribunal hearing on this issue.

Based upon the details of the ruling and further external advice received by management, the Directors estimate that a favourable outcome could result in a cash receipt of up to £12.1m and an associated credit to the income statement of £18.7m, whilst an unfavourable outcome which would be based upon HMRC's stated position (which therefore would require HMRC successfully appealing the ruling) could result in a further cash outflow of £18.6m and an associated charge to the income statement of £12.0m.

**Notes to the unaudited consolidated financial statements  
for the 52 weeks ended 2 March 2019**

**13. Provisions**

Customer Redress	Customer Redress	Store Closures	Total
	£m	£m	£m
Balance at 3 March 2018	42.8	6.4	49.2
Provisions made during the period	45.0	16.3	61.3
Provisions used during the period	(70.4)	(15.3)	(85.7)
Provisions reversed during period	-	-	-
<b>Balance at 2 March 2019</b>	<b>17.4</b>	<b>7.4</b>	<b>24.8</b>
Non Current	-	-	-
Current	17.4	7.4	24.8
<b>Balance at 2 March 2019</b>	<b>17.4</b>	<b>7.4</b>	<b>24.8</b>

**Store Closures**

At the end of H1 FY19, the decision was made to close all stores and these were subsequently closed in August 2018.

The costs have been treated as an exceptional item and detailed separately on the income statement as per note 5. The provision is made in respect of onerous lease obligations and other related store closure costs. The majority of these costs have been settled before the year end other than the onerous lease provision which will run to the earlier of the break clause or lease expiry for all stores. The provision is net of an estimate of potential sub-letting income.

**Customer redress**

The provision relates to the Group's liabilities in respect of costs expected to be incurred in respect of payments for historic financial services customer redress, which represents the best estimate of the known regulatory obligations, taking into account factors including risk and uncertainty.

As at 2 March 2019 the Group holds a provision of £17.4m (FY18, £42.8m) in respect of the anticipated costs of historic financial services customer redress. Of this amount £2.6m relates to certain insurance products where management have identified flaws in the product design, the remaining £14.8m relates to historical customer redress. These amounts include a provision of £0.1m (FY18, £1.4m) in relation to administration expenses.

The Plevin court ruling was made in November 2017, which meant that if more than 50% of a consumer's PPI payments were paid as commission they could claim back payments plus interest. This, combined with an increase in marketing activity by the FCA, to raise awareness of the August 2019 PPI deadline, appears to have had the effect of increasing the volume of claims across the industry. In the period to 2 March 2019, a charge of £45.0m has been recognised to reflect the increased cost incurred in the period and an updated estimate following an increase in the volume of claims experienced and the latest assessment of the expected uphold rate and average redress per claim.

This estimate remains subject to significant uncertainty, in particular the level of customer claims that may be received in the period to August 2019. It is possible the eventual outcome may differ from the current estimate.

The provision is calculated using a number of key assumptions which continue to involve significant management judgement:

- Customer claims volumes - claims received but not yet processed plus an estimate of future claims by customers
- Upheld rate - the proportion of claims received which the Group settles
- Average claim redress - the expected average payment to customers for upheld claims

These assumptions remain subjective, mainly due to the uncertainty associated with future claims levels, which include complaints driven by claims management company activity and the FCA advertising campaign.

The principal sensitivities in the redress calculation are: volumes of policies affected; claim rate; uphold rate and average redress amount.

	52 weeks to 2 March 2019 Customer Redress £m	52 weeks to 3 March 2018 Customer Redress £m
+/- 10% in claims volumes	+/- 1.3	+/- 9.9
+/- 10% in uphold rate	+/- 1.1	+/- 4.4
+/- 10% in average redress amount	+/- 1.3	+/- 9.9

**Notes to the unaudited consolidated financial statements  
for the 52 weeks ended 3 March 2018**

**14. Dividends**

The final proposed dividend of 4.27 pence per share, subject to approval by shareholders, will be paid on 2 August 2019 to shareholders on the register at the close of business on 5 July 2019.

**15. Non-statutory financial statements**

The financial information set out above does not constitute the company's statutory accounts for the 52 weeks ended 2 March 2019 or the 52 weeks ended 3 March 2018. The financial information for the 52 weeks ended 3 March 2018 is derived from the statutory accounts for 3 March 2018 which have been delivered to the Registrar of Companies. The auditor has reported on the 3 March 2018 accounts; their report was i) unqualified, ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and iii) did not contain a statement under s498(2) or (3) of the Companies Act 2006. The statutory accounts for the 52 weeks ended 2 March 2019 will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the Registrar of Companies in due course.

This report was approved by the Board of Directors on 30 April 2019.