Topps Tiles

Half Year Results 2020

Agenda

- Overview – Rob Parker
- Financial Performance – Andrew Wilkinson
- Strategy & Operations – Rob Parker

Overview

Rob Parker

Chief Executive Officer

HY20 Overview

Financial Performance	▪ Like-for-like sales -6.1%, -4.3% excluding wk 26 closures ▪ Adj profit before tax £1.2m (incl wk26 closure impact) ▪ Net debt at £17.3m (Mar '19 £18.0m, Sep '19 £11.3m) ▪ Dividend withdrawn due to CV19 trading impacts ▪ Additional £10m loan facility credit approved (CLBILS) with significant covenant relaxation for next 12 months
Covid-19	▪ Retail stores closed from 23 March to develop safe working practices and safeguard colleagues and customers ▪ Supplier relations key – flexible arrangements and continued supply, minimal stock issues ▪ Online sales performance strong - 3x previous level ▪ Now trading from 250 stores in some capacity ▪ Government schemes utilised – 90% of colleagues furloughed at peak
Group	▪ Core purpose to inspire customers through our love of tiles ▪ Competitive advantage from our specialist focus ▪ Flexible store estate with unexpired lease term of 3 years ▪ Entry to Commercial market has doubled the size of addressable market

Financial Performance

Andrew Wilkinson

Interim Chief Financial Officer

Income Statement Highlights - Adjusted measures

26 weeks ended 28 March 2020

Topps Tiles

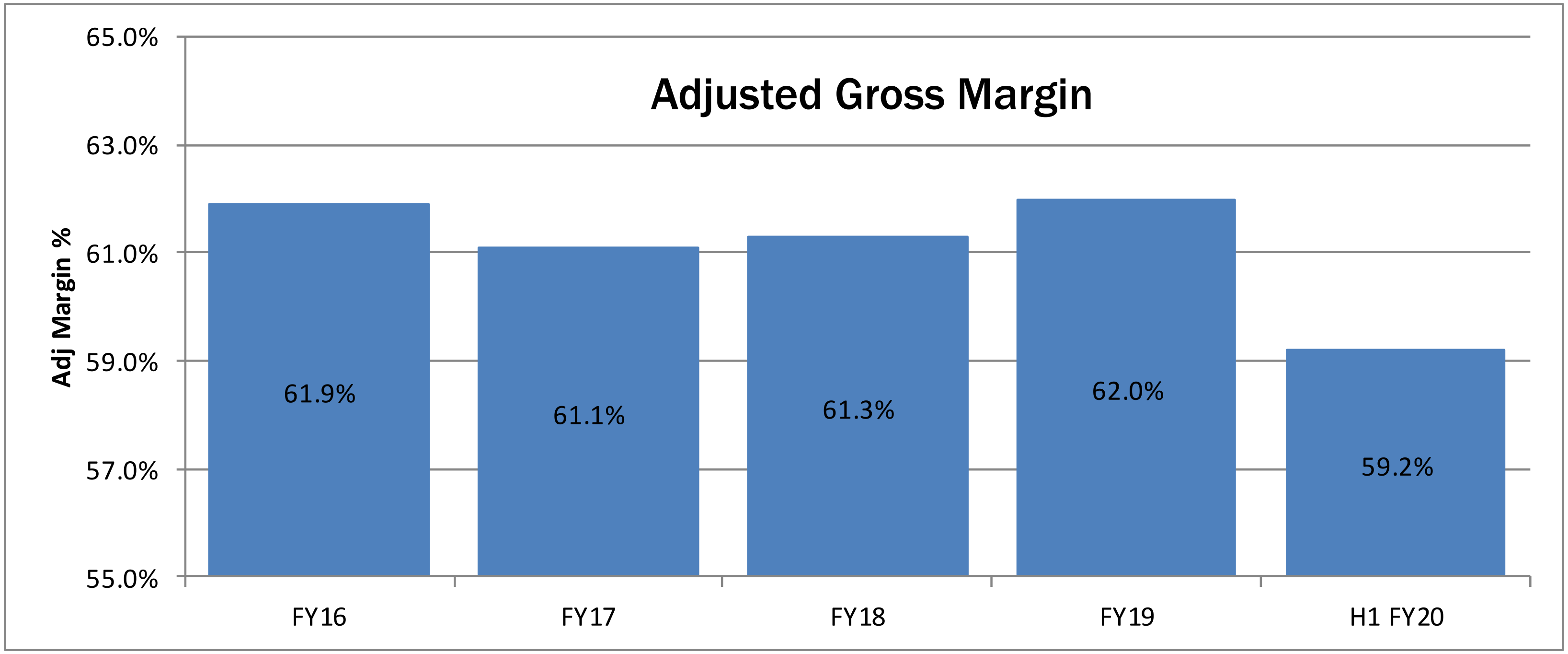
Note – HY19 as reported in the prior period and excludes Commercial	HY 20	HY 19	YoY
Sales - £m	106.2	109.0	(2.6)%
Gross Profit - £m	62.8	66.9	(6.1)%
Gross Margin %	59.2%	61.4%	(220)bps
Opex - £m	61.2	58.5	(4.6)%
Interest - £m	0.4	0.4	nil
PBT - £m	1.2	8.0	(85.0)%
Net Margin %	1.1%	7.3%	(620)bps
EPS - pence	0.60	3.15	(81.0)%

- **Sales decrease of 6.1% on a LFL basis (4.3% decline excluding week 26 when stores were closed) in a challenging trading environment, Commercial £4.5m vs £1.3m in PY.**
- **Gross margin decrease of 220bps. Commercial business results in 90bps dilution, Retail margin down 130bps from trade mix and increased competitiveness on pricing**
- **Adjusted operating expenses increase due to £2.8m of costs in for Commercial**
- **Adjusted PBT of £1.2m, includes £1.0m loss for Commercial (excluded in prior year)**

Note - Adjusted measures exclude several items which are either one off in nature or fluctuate significantly from year to year (such as some property related items), and are pre-IFRS 16 adjustments.

Adjusted Gross Margin Performance

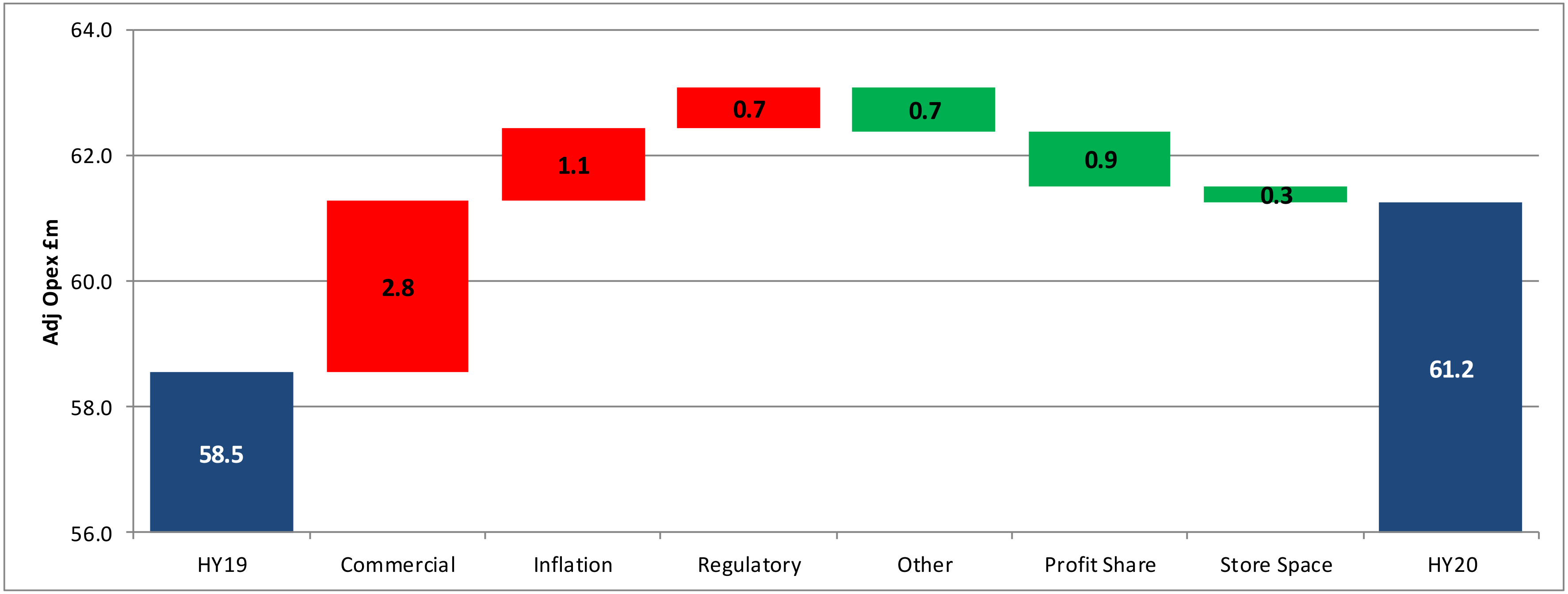
26 weeks ended 28 March 2020



- Prior year gross margin excluded Commercial
  Group reported margins (including Commercial) - FY 18 61.1%, FY19 61.6%, HY 19 61.2%
- Margin at 59.2%, compared to adjusted margin of 61.4% in HY19
- 90 bps dilution from inclusion of Commercial business in current period
- Dilution of 130bps in retail margin from increased competitiveness on pricing and greater share of trade sales

Adjusted Operating Expenditure Bridge

26 weeks ended 28 March 2020



- £2.8m additional cost due to inclusion of Commercial business in Adjusted measures in current period
- Inflation of c.1.9% = £1.1m (payroll £0.4m, property £0.4m, supply chain & central functions £0.3m)
- Regulatory cost of £0.7m from national living wage and pension changes
- Other £0.7m saving largely driven by strong control of store labour costs
- Employee profit share decrease by £0.9m, due to challenging trading in the current year
- Average of 360 stores vs 362 in the prior year generating £0.3m reduction in costs

Balance Sheet Highlights (Statutory – post IFRS 16)
28 March 2020

	HY 2020	HY 2019	YoY	HY 2020 (pre-IFRS 16)
Goodwill/Intangibles - £m	5.8	2.0	+3.8	5.8
Freehold Property - £m	13.6	14.1	(0.5)	13.6
Fixed Assets - £m	31.9	34.0	(2.1)	31.9
Right-of-use & Sub Let Assets - £m	116.3	-	+116.3	-
Inventory - £m	30.6	33.2	(2.6)	30.6
Debtors & Creditors - £m	(37.8)	(39.2)	+1.4	(40.1)
Borrowings - £m	(39.0)	(30.0)	(9.0)	(39.0)
Lease liabilities - £m	(118.7)	-	(118.7)	-
Cash - £m	21.7	12.0	+9.7	21.7
Net Debt - £m (pre-IFRS 16)	(17.3)	(18.0)	+0.7	(17.3)
Net Assets - £m	24.4	26.3	(1.9)	24.5

- Goodwill and intangibles increase relates to purchase of Strata
- The Group holds six freehold properties with a book value of £13.6m
- Fixed assets reduction largely due to fewer stores vs year end and impairment due to closures
- Right-of-use assets of £112.8m, Sub Lease asset £3.5m brought on balance sheet due IFRS 16
- Inventory decrease in H1 YoY due to additional stock held in the prior period in the event of supply chain disruption immediately post the UK leaving the EU. Inventory days at 132 days (2019: 154)
- Lease liabilities of £118.7m brought on balance sheet from the implementation of IFRS 16
- Net debt position reduced by £0.7m H1 YoY

Cash Flow Highlights (Pre-IFRS 16)

26 weeks ended 28 March 2020

Topps Tiles

	HY 20 (pre-IFRS 16)		HY 19		YoY	
	£m	£m	£m	£m	£m	£m
Cash flows from operating activities (EBITDA)	+5.0		+10.2		(5.2)	
Change in working capital	(2.0)		(1.7)		(0.3)	
Interest	(0.5)		(0.4)		(0.1)	
Tax	(1.0)		(1.8)		+0.8	
Operations		**+1.5**		**+6.3**		**(4.8)**
Capital expenditure	(3.1)		(3.6)		+0.5	
Investments		**(3.1)**		**(3.6)**		**+0.5**
Free Cashflow		**(1.6)**		**+2.7**		**(4.3)**
Dividends	(4.5)		(4.5)		-	
Reduction/(increase) in net debt		**(6.1)**		**(1.8)**		**(4.3)**

- **Free cash flow was a £1.6m outflow on a pre-IFRS 16 basis.**
- **Increase in pre-IFRS 16 net debt over H1 of £6.1m, but a £0.7m reduction in pre-IFRS 16 net debt H1 YoY.**
- **Key drivers for the increase in net debt over H1 were lower levels of trading, partially offset by low tax payments and lower levels of capital expenditure.**

Strategy & Operations

Rob Parker

Chief Executive Officer

Group Strategy

Topps Tiles

Retail

Commercial

Leading Product

Leading People

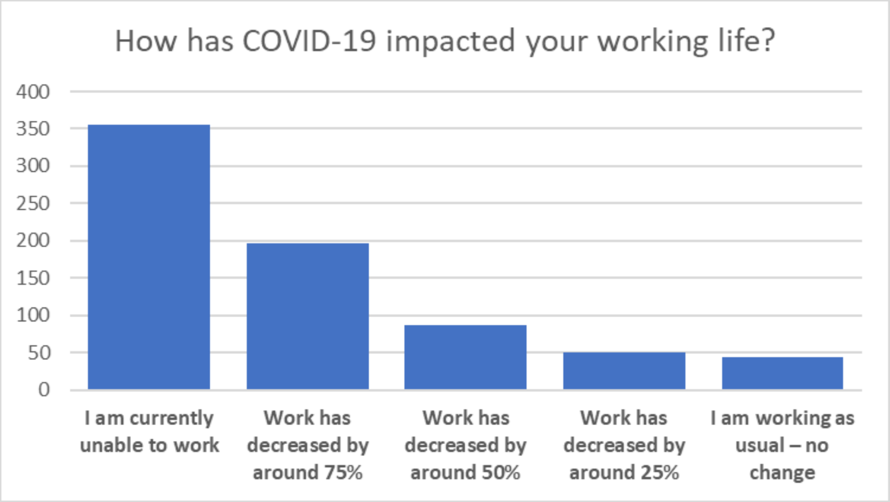
Retail
Topps Tiles

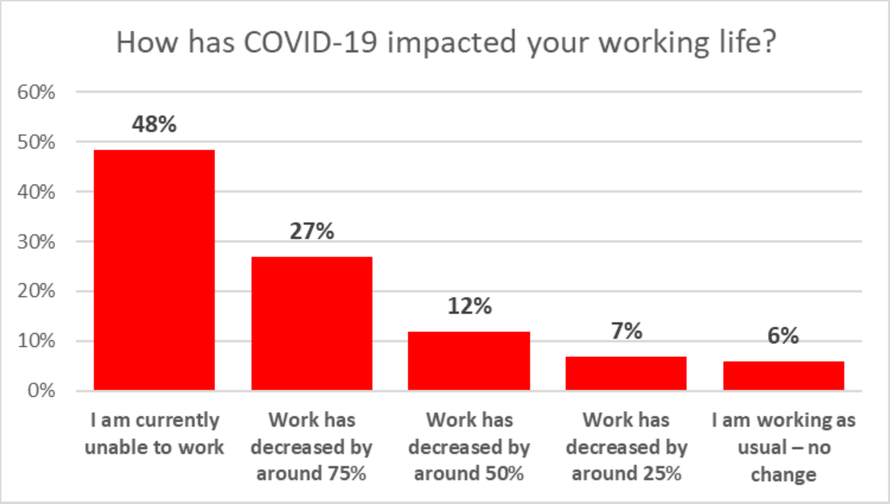
CV19 - Closure Impact

- Retail operation permitted to trade under “Home & Hardware” dispensation
- Stores ceased trading to address colleague concerns and to allow time to develop safe ways of working
- Online sales have performed very well following recent site refresh - up around 3x on pre crisis levels, but overall retail sales down 80% during April
- Mix of business has shifted towards retail – increased DIY activity
- Competition - online players have benefitted short term, specialist chains vary based on specific response, independents most acutely impacted (generally no online capability)

CV19 – Trade Customers

- Trader survey in April indicated activity levels down around 75%
- Half were not working and the remainder were at c.50% capacity
- Traders bought forward stock pre close down
- Trader feedback indicates we remain #1 choice over this period
- Recent weeks shows trade activity is increasing – support by Government stance on construction
- Strong digital engagement & interaction BUT convenience remains key for trade – the role of the store remains central

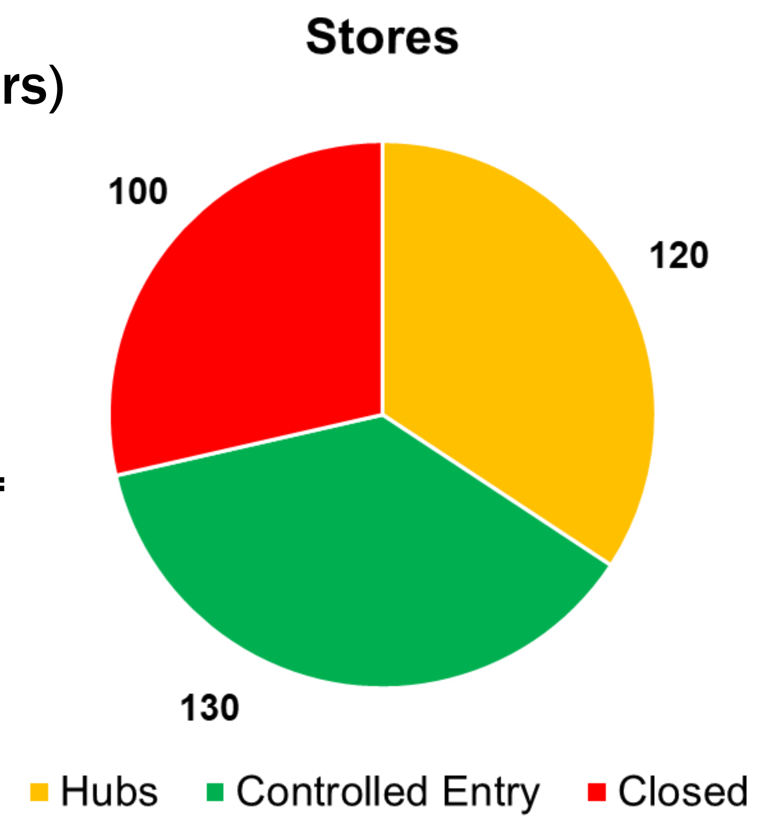




Survey results based on a survey of 733 traders from 21 April

Recovery Plan – Stores

- 250 stores now operating – 130 on "Controlled Entry" basis and 120 as "Collection Hubs" (some on reduced hours)
- "Collection Hub" evolves to "Controlled Entry" model – all 250 by end of May
- Remaining c.100 stores to open during June
- Low footfall is a strength – historic avg = 80 visitors per day in 5,000 sq ft
- Very strong response from colleagues to return to work
- Trade comms a key focus – all local traders being called to explain service
- Positive customer response and initial trading encouraging



Collection Hub – Click and collect only, contactless experience
Controlled Entry – open to browse, manager controls customer flow into store and social distancing

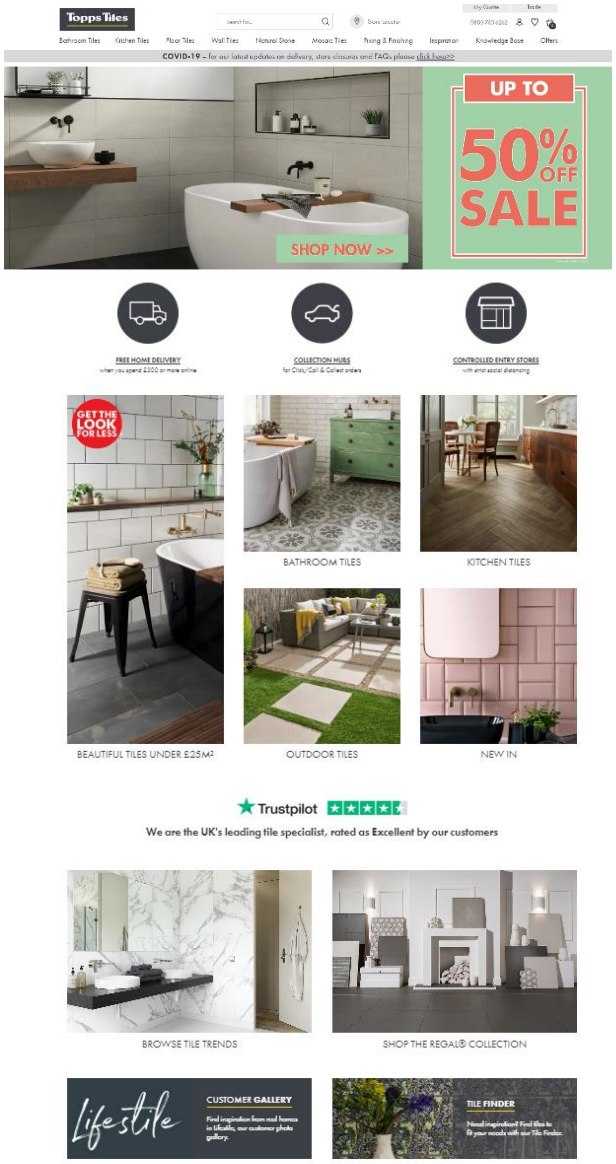
Recovery Plan – Hot Start

- Plan is to drive the recovery through a compelling customer offer
- Promotion – up to 50% off now live (including focus on clearance)
- Get The Look For Less now relaunched with a range of tiles under £25/m2 - featured on landing page of website and POS in store
- Trade incentives and promotions in place combined with active communication through direct comms (email, SMS, etc) and leveraging relationships with store teams (e.g. high spending local traders)

Digital

- New website launched in Oct 2019
- Rapid acceleration of existing trend into digital
- Online sales increased 3x from previous levels – principally driven by conversion
- Trade interaction online at record levels visits to the trade website up over 1,000%, with new accounts opened online up over 400%

- Key considerations:
  - Well positioned for a structural shift from physical to digital
  - Flexibility of store portfolio remains vital – average unexpired lease length of 3 years
  - Plan for 25 store closures in FY20 agreed before onset of COVID-19



Commercial
Parkside & Strata

Commercial - Strategic Rationale

COMMERCIAL

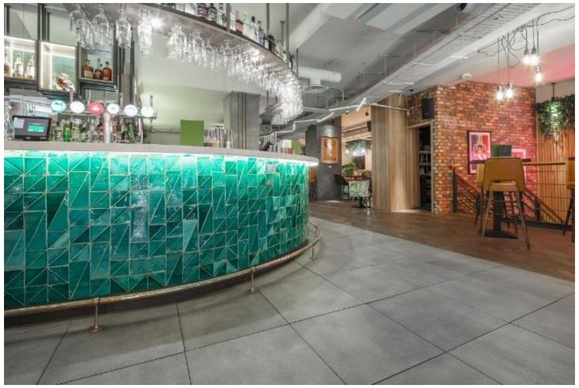
- Commercial market is approximately the same size as domestic
- Entry into Commercial allows us to double our addressable market whilst maintaining our specialism in tiles
- Market fragmented – no major scale player - our ambition is to be the market leader
- Commercial operation started in August 2017 with acquisition of Parkside – specialism in casual dining, hospitality and leisure
- Strata acquired April 2019 –specialism in retail and travel

PARKSIDE
ARCHITECTURAL TILES

strata
tiles

Strategic Progress

- Parkside has grown rapidly – over £3m of sales in H1 – more than x2 PY
- Strata saw a slower start to the period but recent trading (pre CV19) much improved with more robust order book
- Overall sales of £4.5m, +246% year on year
- Target of breakeven in FY20 now considered unachievable - due to level of uncertainty in outlook and H1 performance
- FY21 breakeven considered a possibility subject to market recovery
- CV19 impact likely to create short and possibly medium term disruption



CV19 Impact

- Business has responded well to the CV19 challenge - continued to trade and service customers
- Stock availability has been a key advantage – very fast response to immediate requests
- Material reduction in sales but focus on building relationships and market share with good success on both
- Level of disruption less acute than retail but potential for medium term impact remains
- In general projects delayed not cancelled BUT impact on new projects is uncertain – possible impact in 6-18 months time
- Teams working with clients to understand possible disruption and how to tailor our approach

Leading Product & Supply Chain

Leading Product & Supply Chain

Topps Tiles

- Our scale and strategic relations with suppliers are key, strong supplier support includes:
  - Holding products at factory while we assessed implications of reduced trading
  - Agreeing new payment schedules to allow us to deal with unwinding of working capital – around £14m of cash outflow
  - Supporting our business with continued supply whilst working through their own specific issues (noting international supply base)
- Stock is non-seasonal and minimal expiry considerations
- Market leading range means new product development can be slowed for a period of time while we focus on stabilising operations
- Warehouse operations have undergone a rapid period of significant change – going from a bulk pick to store operation to a customer picking operation – much smaller orders but much larger volumes

Leading People

Leading People

- Our success is underpinned by industry leading levels of customer service
- Capability and engagement are crucial – especially now
- Approximately 90% of colleagues furloughed during April – understanding and agreement was key to smooth process
- Board and senior management have agreed voluntary 20% reduction in base pay
- Focus on social isolation and mental health awareness – encouraging peer support networks and identification of vulnerable individuals
- Active communication throughout with all colleagues
- Colleague safety paramount – processes adapted and PPE provided
- Teams have responded brilliantly with outstanding levels of commitment to the business

Group Outlook

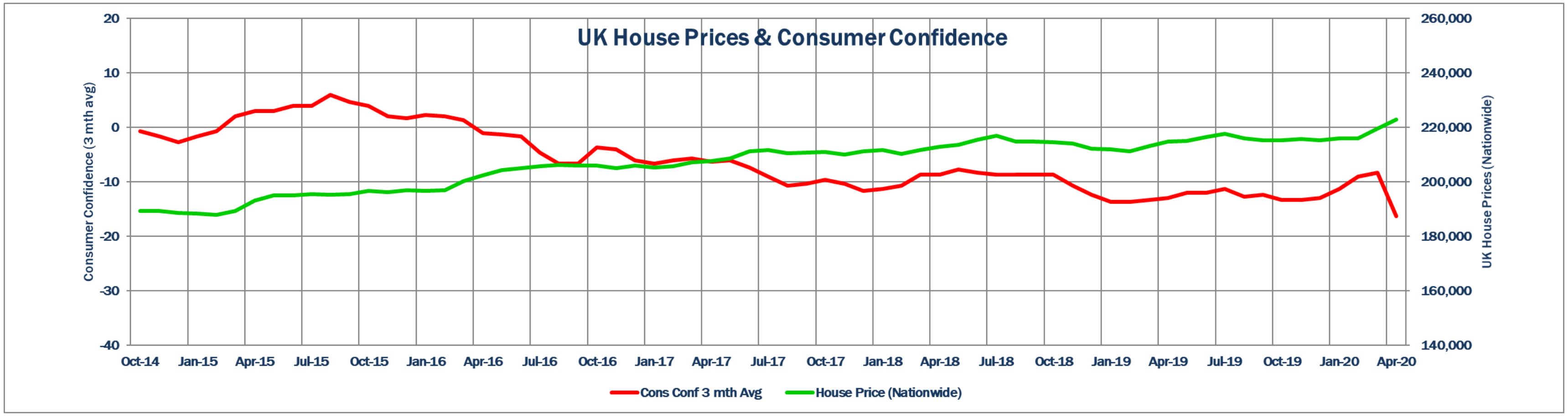
- **Current trading & Outlook**
  - Navigating the current crisis and ensuring we emerge in the strongest possible position is our primary focus
  - Material trading impact during April but re-opening of stores is generating an improving trend
  - Robust liquidity with additional lender support credit approved and option for further funding through asset sales in event of extended disruption
  - Interim dividend withdrawn and full year unlikely, Board is keen to reinstate as soon as is practicable

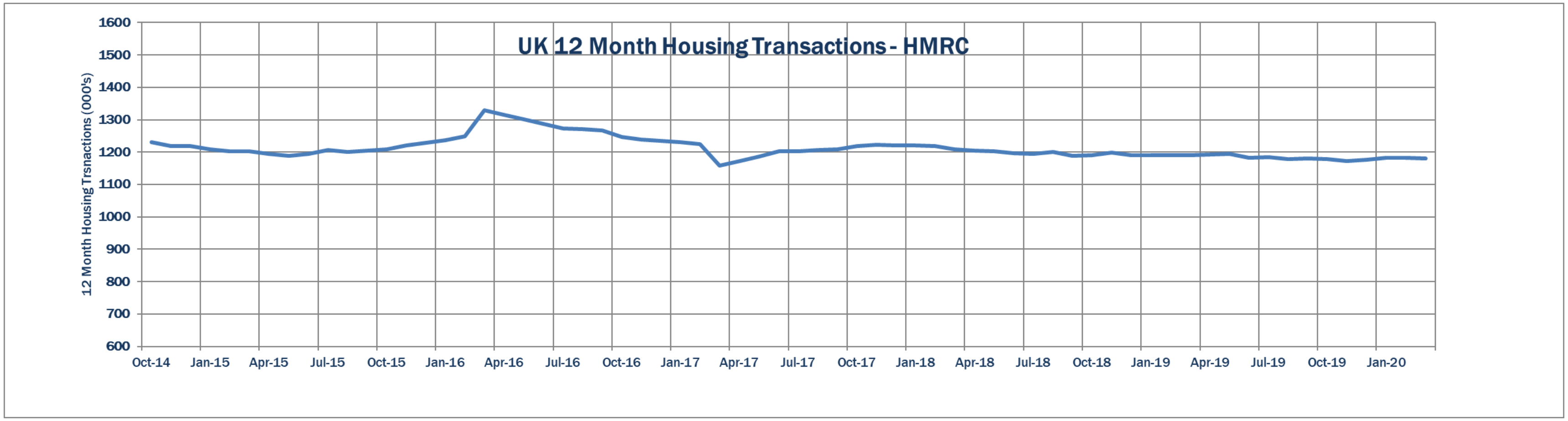
We remain confident about the positioning of our business as a market leader and believe that our longer term prospects remain attractive

Appendix

Retail Market Backdrop

Topps Tiles

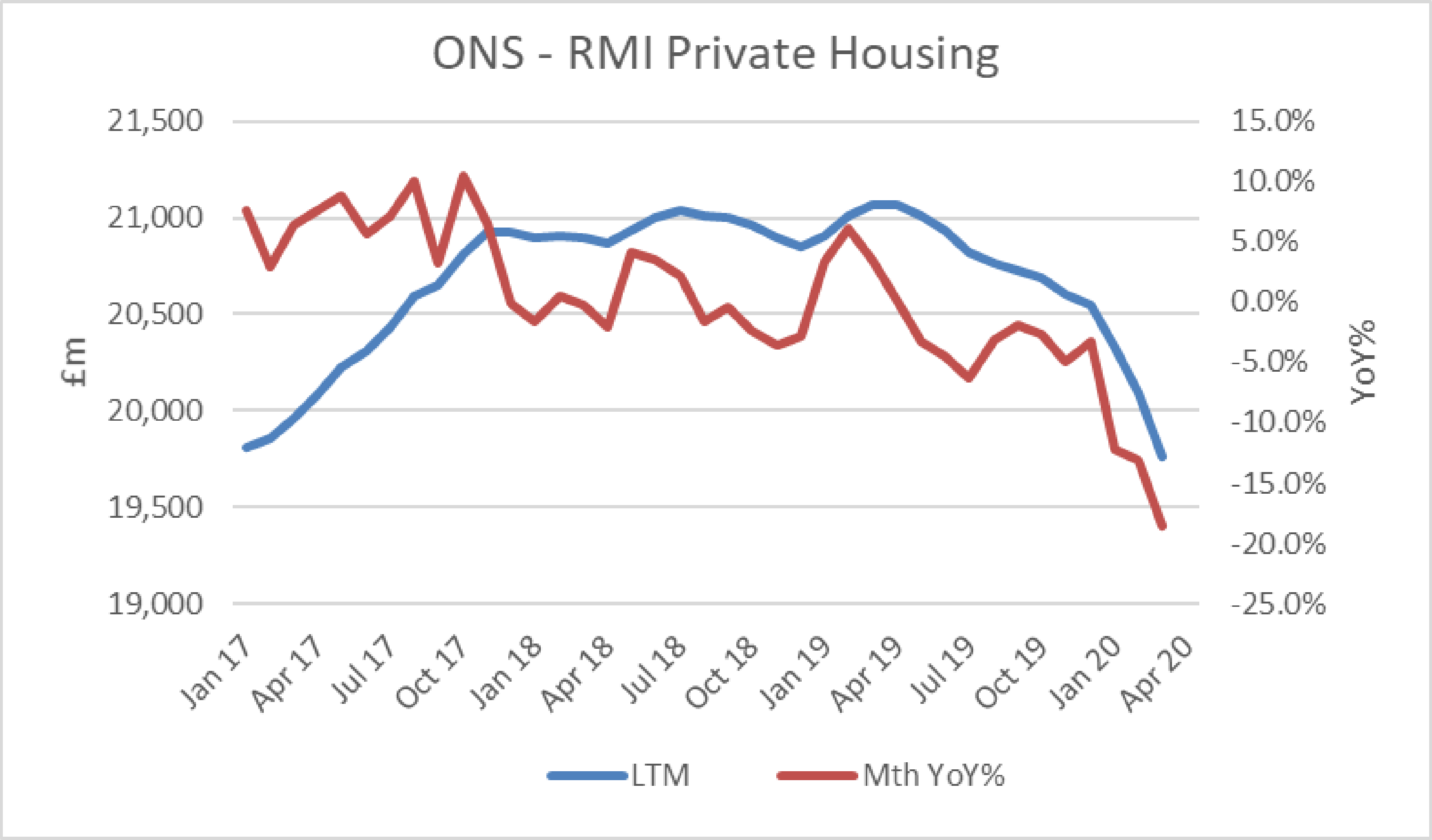




Macro environment remains challenging

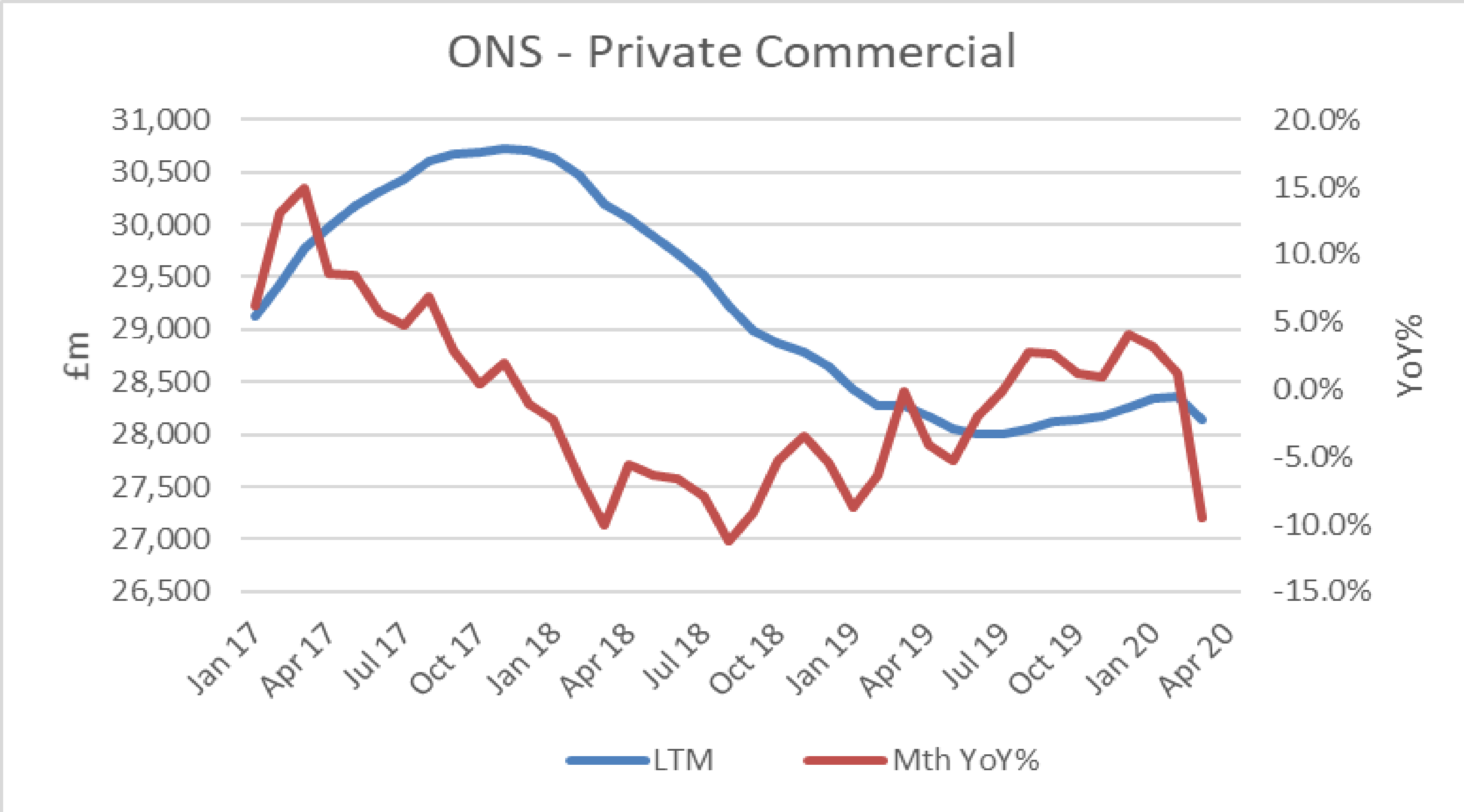
Source – Consumer confidence = GFK, UK house price = Nationwide, Housing transactions = HMRC

ONS – Private Housing RMI



- Market in decline from April 2019 – now down 6.2% since peak
- Average decline of 9.1% over the first half

ONS – Private Commercial



- Improving trend since summer 2018, pre Mar 20 average H1 growth of 2%
- March 20 indicated 9.5% YoY fall

IFRS 16 - Leases

- IFRS 16 has been adopted by the Group in H1 FY20.
- As at the transition date of 29 September 2019, the Group has recognised a right-of-use asset of £124.6m, and a lease liability of £128.2m.
- For the period ending 28 March 2020, the implementation of IFRS 16 has resulted in a net P&L impact of £3.6m (reduction in profit), which includes £2.7m of impairment.
- Illustration of the impact on the P&L is as follows:

	26 weeks ended 28 March 2020		
	Presented under IAS 17 £m	Impact of IFRS 16 £m	Presented under IFRS 16 £m
Group revenue	106.2	-	106.2
Cost of sales	(43.4)	-	(43.4)
Gross profit	62.8	-	62.8
Operating costs	(62.8)	(2.1)	(64.9)
Group operating loss	-	**(2.1)**	**(2.1)**
Net finance costs	(0.4)	(1.5)	(1.9)
Loss before taxation	**(0.4)**	**(3.6)**	**(4.0)**

Income Statement Highlights – Statutory
26 weeks ended 28 March 2020

Topps Tiles

	HY 20 (post IFRS 16)	HY 20 (pre IFRS 16)	HY 19	YoY (pre-IFRS 16)
Adjusted PBT - £m	1.2	1.2	8.0	(85.0)%
Adjusting Items - £m	(1.6)	(1.6)	(2.8)	+1.2m
IFRS 16 - £m	(3.6)	-	-	n/a
PBT - £m	(4.0)	(0.4)	5.2	(107.7)%
Net Margin %	(3.8)%	(0.4)%	4.7%	(510)bps
Tax %	8.5%	8.9%	23.6%	+1470bps
PAT - £m	(3.6)	(0.3)	3.9	(107.7)%
EPS – pence	(1.86)	(0.18)	2.03	(108.9)%
Dividend – pence	nil	nil	1.10	(100.0)%

- Adjusting items include non-recurring property provision movements of £0.9m, vacant property costs of £0.7m. IFRS 16 adjustments for the period are £3.6m.
- Post-IFRS 16 statutory PBT of £(4.0)m. Pre-IFRS statutory PBT of £(0.4)m, (107.7)% decrease YoY.