

Shop Direct Limited

Q3 FY18 YTD Results

Nine months ended 31 March 2018

23 May 2018

SHOP DIRECT

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Continued progress during Quarter 3 FY18

Quarter 3 FY18 YTD¹ Highlights versus prior year

- Group revenue grew 1.6% to £1,510.4m (Q3 FY17 YTD: £1,486.8m)
 - Very revenue up 10.6% to £1,065.4m (Q3 FY17 YTD: £963.0m)
 - Littlewoods revenue down 15.0% to £445.0m (Q3 FY17 YTD: £523.8m)
- Interest income as a percentage of the debtor book increased 0.3%pts to 17.0% (Q3 FY17 YTD: 16.7%)
- Bad debt as a percentage of the debtor book in line with prior year at 5.6% (Q3 FY17 YTD: 5.5%)
- Gross margin down 2.2%pts to 38.8% (Q3 FY17 YTD: 41.0%) driven by switch to Very from Littlewoods and increased contribution from the lower retail margin Electrical division
- Reported EBITDA down 1.8% to £167.8m (Q3 FY17 YTD: £170.9m)
- Additional provision of £100m to cover future customer redress payments
- Underlying free cash flow² of £58.8m (Q3 FY17 YTD: £37.5m)

Notes

1. Q3 FY18 YTD is the 9 months ended 31 March 2018. Q3 FY17 YTD is the 9 months ended 31 March 2017.
2. Underlying free cash flow calculated as Adjusted EBITDA (post securitisation interest) as adjusted for movement in inventories, movement in trade and other receivables (excluding amounts owed by group undertakings), movement in trade and other payables, proceeds from drawdowns under the existing securitisation facility, adjustment for pensions (comprising contributions paid to pension scheme and pension administrative costs), and the acquisition of property, plant, and equipment and intangible assets.

Continued revenue growth and cost discipline

Income statement

Highlights

<i>(£ millions)</i>	Q3 FY18 YTD	Q3 FY17 YTD	Variance %
Very	1,065.4	963.0	10.6 %
Littlewoods	445.0	523.8	(15.0)%
Group Revenue	1,510.4	1,486.8	1.6 %
Gross margin	585.8	609.1	(3.8)%
<i>% Margin</i>	38.8%	41.0%	(2.2)%pts
Distribution expenses	(162.1)	(168.1)	
Administrative expenses	(257.1)	(271.0)	
Other operating income	1.2	0.9	
Reported EBITDA	167.8	170.9	(1.8)%
<i>% Margin</i>	11.1%	11.5%	(0.4)%pts

- **Group revenue** grew 1.6% to £1,510.4m driven by Very (+10.6%) partially offset by Littlewoods managed decline (-15.0%)
- **Gross margin** down 2.2%pts to 38.8% driven by switch to Very from Littlewoods and increased contribution from the lower retail margin Electrical division
- **Costs as a percentage of group revenue** reduced 1.8%pts to 27.7% reflecting lower marketing spend and operational efficiencies

Notes

1. Q3 FY18 YTD is the 9 months ended 31 March 2018. Q3 FY17 YTD is the 9 months ended 31 March 2017.

Adjusted EBITDA post securitisation interest reconciliation

Reconciliation of EBITDA to adjusted EBITDA post securitisation interest

Highlights

<i>(£ millions)</i>	Q3 FY18 YTD	Q3 FY17 YTD	Variance %
Reported EBITDA	167.8	170.9	(1.8)%
Adjusted for:			
Fair value adjustments to financial instruments	7.8	5.1	
Foreign exchange translation movements on trade creditors	(1.0)	3.0	
IAS19 and IFRIC 14 pension adjustments	(0.1)	-	
Management EBITDA	174.5	179.0	(2.5)%
Adjusted for:			
Management fee	3.8	3.8	
Costs associated with new brand launches	-	5.0	
Consultancy costs	1.8	2.6	
Securitisation interest	(26.6)	(26.3)	
Adjusted EBITDA post securitisation interest	153.5	164.1	(6.5)%

- **Reported EBITDA** reduced 1.8 % to £167.8m (Q3 FY17 YTD: £170.9m) reflecting lower gross margin rate which more than offset revenue growth and cost reduction
- **Management EBITDA** reduced 2.5% to £174.5m (Q3 FY17 YTD: £179.0m)
- **Adjusted EBITDA post securitisation interest** reduced to £153.5m (Q3 FY17 YTD: £164.1m)

Notes

1. Q3 FY18 YTD is the 9 months ended 31 March 2018. Q3 FY17 YTD is the 9 months ended 31 March 2017.

Group revenue progression

Retail revenue

£m	Q3 FY18 YTD	Q3 FY17 YTD	Variance %
Retail revenue (sale of goods)	1,188.6	1,174.9	1.2%

C&F



YoY % **+0.6%**

Mix % **33%**

Electrical



YoY % **+7.7%**

Mix % **40%**

Seasonal



YoY % **+2.0%**

Mix % **15%**

Furniture & Homeware



YoY % **(9.4)%**

Mix % **12%**

Highlights

- **Clothing & Footwear** revenue growth of 0.6% driven by Childrenswear and Sportswear
- **Electrical** revenue grew 7.7% driven by Technology including consoles, mobiles and smart technology products
- **Seasonal** revenue grew 2.0% driven by Gifting and Beauty including cosmetics and fragrances
- **Furniture & Homeware** revenue declined by 9.4% reflecting pressure on products with a higher price point as Very does not currently have a comparable interest free credit product to compete with leading furniture retailers

Financial Services revenue

£m	Q3 FY18 YTD	Q3 FY17 YTD	Variance %
Interest Income	282.3	266.5	5.9%
Other	39.5	45.4	(13.0)%
FS revenue (rendering of services)	321.8	311.9	3.2%

- **Interest income** up 5.9% to £282.3m driven by Very. As a percentage of the debtor book, interest income increased by 0.3%pts to 17.0%
- **Other** financial services revenue reduction reflects lower administration fees
- **Average debtor book** grew 4.3% to £1,661.6m driven by revenue growth

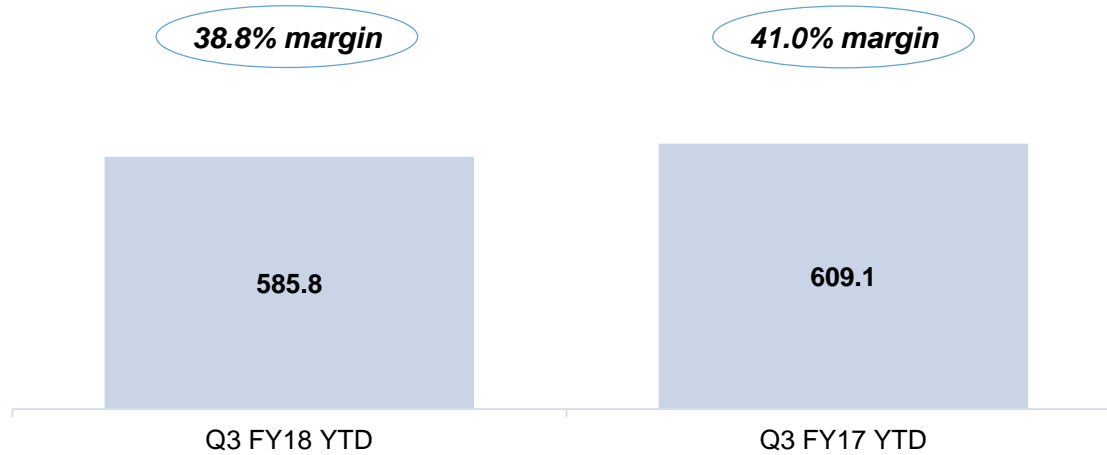
Notes

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Gross margin reflecting brand and product mix

Gross Profit and Gross Margin Rate

£m



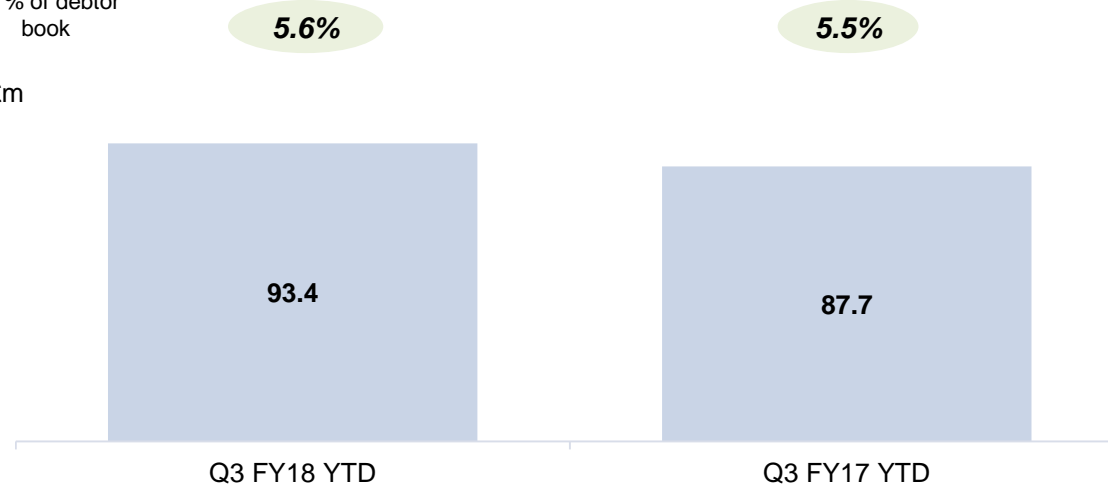
Highlights

- Q3 FY18 YTD **Gross margin rate** decreased 2.2%pts to 38.8% (Q3 FY18 YTD: 41.0%) driven by switch to Very from Littlewoods and increased contribution from the lower retail margin Electrical division

Bad Debt and as % of Debtor Book

As % of debtor book

£m



- Q3 FY18 YTD **Bad debt as a percentage of the debtor book** in line with prior year at 5.6% (Q3 FY17 YTD: 5.5%)

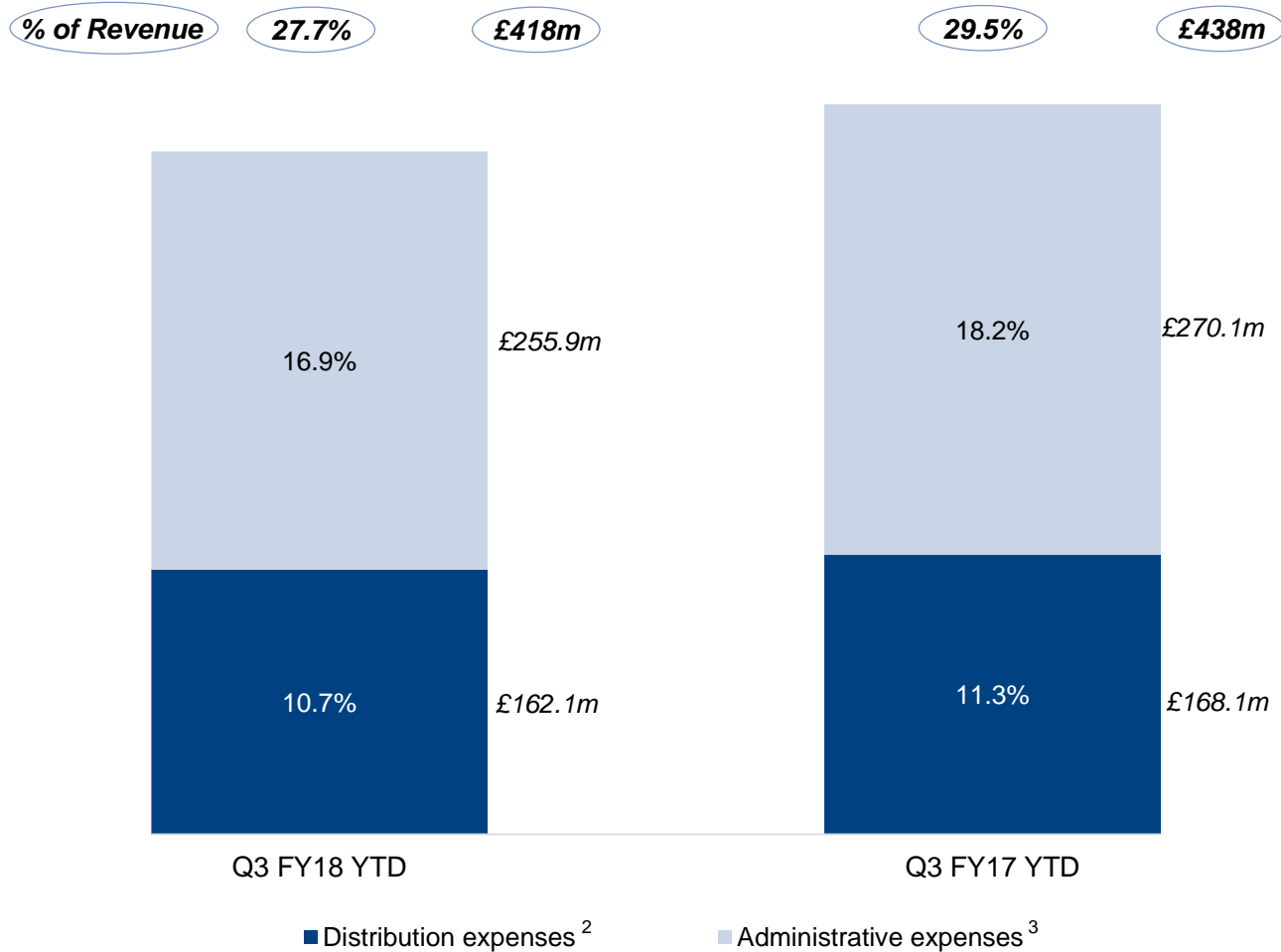
Notes

1. Q3 FY18 YTD is the 9 months ended 31 March 2018. Q3 FY17 YTD is the 9 months ended 31 March 2017.

Cost control continues

Operating costs

Highlights



- Total costs as a percentage of revenue reduced by 1.8%pts to 27.7% reflecting:
 - **Administrative costs** as a % of revenue decreased by 1.3%pts to 16.9% driven by more efficient marketing spend
 - **Distribution costs** as a % of revenue decreased by 0.6%pts to 10.7% reflecting a combination of efficiencies and impact of product mix

Notes

1. Q3 FY18 YTD is the 9 months ended 31 March 2018. Q3 FY17 YTD is the 9 months ended 31 March 2017.
2. Distribution expenses comprise distribution and fulfilment costs.
3. Administrative expenses comprise marketing, contact centres and head office costs, and other operating income.

Q3 YTD underlying free cash flow of £59m

Cash Flows		Highlights	
(£ millions)	Q3 FY18 YTD	Q3 FY17 YTD	
Adjusted EBITDA (post securitisation interest)²	153.5	164.1	<ul style="list-style-type: none"> • Net working capital movement (post securitisation funding) driven by seasonal quarter 3 YTD trade receivables movement plus impacts from: <ul style="list-style-type: none"> – Lower inventory build than prior year; – Prepayments / other receivables reflecting timing of payments plus prepayment of transaction fees on senior secured notes; – Trade and other payables through revenue growth and extension of payment terms • Draw down of securitisation facility includes current year benefit from the additional 'C' notes of £65m • Capital expenditure increase over prior year driven by the continuation of build and system integration testing for our New Customer Experience programme which is on track to roll-out in 2018
Net working capital movement:			
Movement in inventories	(9.9)	(37.6)	
Movement in trade receivables ³	(93.3)	(100.7)	
Movement in prepayments and other receivables ³	(62.1)	(12.7)	
Movement in trade and other payables ⁴	22.5	11.7	
Draw downs of securitisation facility	133.1	70.5	
Net working capital movement (post securitisation funding)	(9.7)	(68.8)	
Pension contributions	(16.3)	(15.5)	
Underlying operating free cash flow	127.5	79.8	
Capital expenditure	(68.7)	(42.3)	
Underlying free cash flow	58.8	37.5	

Notes

1. Q3 FY18 YTD is the 9 months ended 31 March 2018. Q3 FY17 YTD is the 9 months ended 31 March 2017.
2. See page 5 for reported EBITDA to adjusted EBITDA post securitisation interest reconciliation.
3. Shown in aggregate as (Increase)/decrease in trade and other receivables in the Condensed Consolidated Interim Financial Statements. Difference against aggregate position reflects cash paid to parent company of £123.4m in Q3 FY18 YTD and £115.1m in Q3 FY17 YTD.
4. Difference against Condensed Consolidated Interim Financial Statements of £1.0m in Q3 FY18 YTD and -£2.9m in Q3 FY17 YTD reflects the exclusion of certain non-cash charges primarily relating to the foreign exchange impact on translation of trade creditors.

Customer redress update

- In March 2017 the Financial Conduct Authority announced a final PPI claims deadline of 29 August 2019 with a two year awareness campaign leading up to the deadline
- During the financial year ended 30 June 2017, the Group recognised cumulative regulatory charges of £112.3m
- Provision of £88.0m at 30 June 2017 to cover expected customer redress payments and associated administrative expenses
- In the 9 months to 31 March 2018, £79.3m had been paid out
- As a result, a further £100.0m has been recognised during Quarter 3 FY18 in order to cover customer redress claims in relation to historic shopping insurance sales up and until the deadline for the bringing of claims in August 2019

Fulfilment update

- As announced on 11th April, new site at East Midlands Gateway in the centre of the UK which will incorporate best-in-class automation
- To continue to meet customer demand, Shop Direct now needs a new, purpose-built and automated facility in a central, well-connected location, that can accommodate all one-man fulfilment and returns operations on one site, and that provides room for continued expansion
- 500,000 square foot distribution and returns centre with development of site due to start in May 2018
- Plan to begin exiting existing sites in Shaw, Little Hulton and Raven from mid-2020
- Expected to be fully operational for peak trading period in 2021
- Total investment, including cost of acquiring new site, fit-out of site, lease agreement and decommissioning activities at current sites expected to be c.£200m
- Project being financed primarily from outside the Group, with the remainder from operating cash flow

Summary

Quarter 3 FY18 YTD Summary

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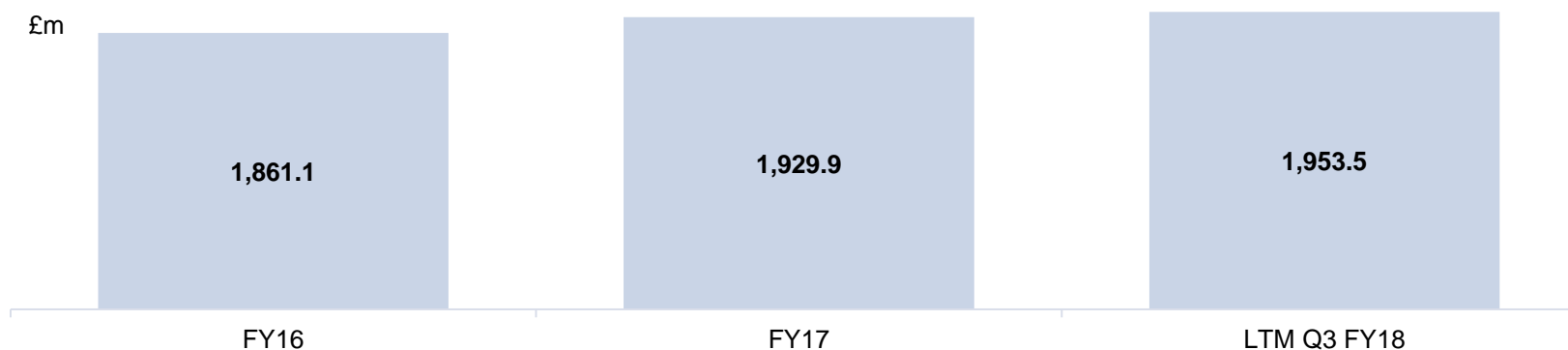
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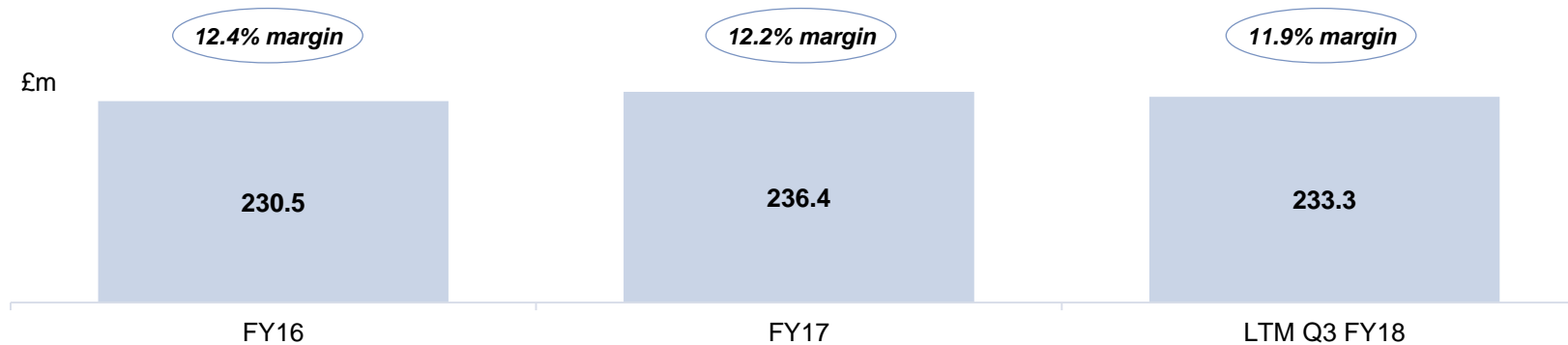
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Appendix A: LTM KPIs

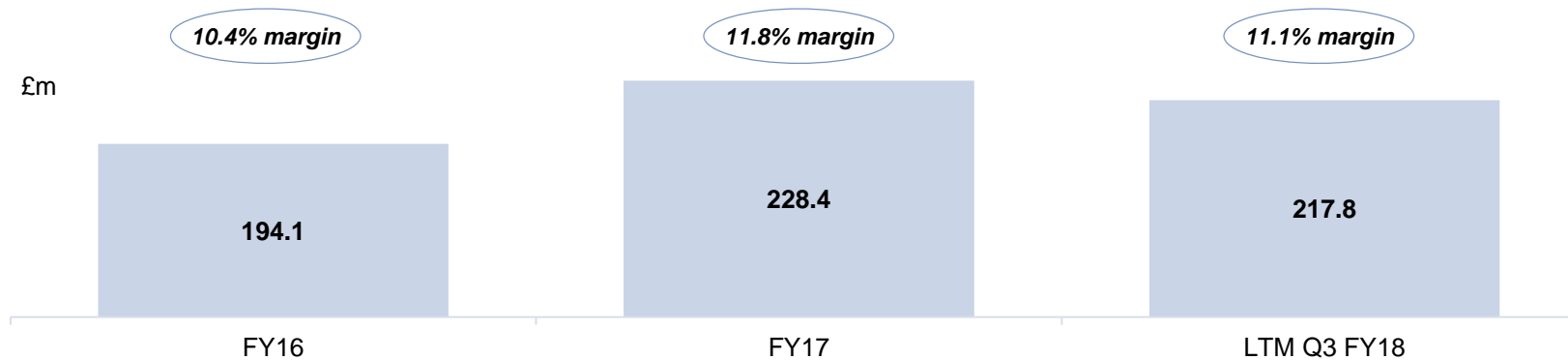
LTM Revenue



LTM Reported EBITDA



LTM Adjusted EBITDA post securitisation interest



Appendix B: Cash Flow Statement

Cash Flow Statement

<i>(£ millions)</i>	Q3 FY18 YTD	Q3 FY17 YTD
Adjusted EBITDA (post securitisation interest)²	153.5	164.1
Net working capital movement:		
Movement in inventories	(9.9)	(37.6)
Movement in trade receivables ³	(93.3)	(100.7)
Movement in prepayments and other receivables ³	(62.1)	(12.7)
Movement in trade and other payables ⁴	22.5	11.7
Draw downs of securitisation facility	133.1	70.5
Net working capital movement (post securitisation funding)	(9.7)	(68.8)
Pension contributions	(16.3)	(15.5)
Underlying operating free cash flow	127.5	79.8
Capital expenditure	(68.7)	(42.3)
Underlying free cash flow	58.8	37.5
Interest paid (excluding securitisation interest)	(38.4)	(16.6)
Income taxes paid	-	(3.9)
Cash impact of exceptional items	(88.7)	(31.8)
Management fees	(3.8)	(3.8)
Consultancy costs	(1.8)	(2.6)
Costs associated with new brand launches	-	(5.0)
Cash paid to the parent company	(123.4)	(115.1)
Proceeds from finance lease draw downs	0.3	0.8
(Repayments of)/draw downs from bank borrowings	(500.0)	142.5
Proceeds from issue of senior secured notes	550.0	-
Net (decrease) / increase in cash and cash equivalents	(147.0)	2.0

Notes

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Appendix C: Net Leverage

Net Leverage

<i>(£ millions)</i>	Q3 FY18	Q2 FY18	Q1 FY18	FY17
Cash & Cash Equivalents	12.3	103.2	51.5	116.9
Fixed Rate Notes	(550.0)	(550.0)	-	-
Term Facilities	-	-	(500.0)	(500.0)
Revolving Credit Facility	(100.0)	(35.0)	(60.0)	(60.0)
Other debt	(13.5)	(8.4)	(12.8)	(10.8)
Total Gross Debt (excluding Securitisation)	(663.5)	(593.4)	(572.8)	(570.8)
Total Net Debt (excluding Securitisation)	(651.2)	(490.2)	(521.3)	(453.9)
Pro Forma adjustment to Net Debt (excluding Securitisation) ¹	-	-	(8.1)	(8.1)
Pro Forma Total Net Debt (excluding Securitisation)	(651.2)	(490.2)	(529.4)	(462.0)
LTM Adjusted EBITDA (post securitisation interest)	217.8	225.8	227.4	228.4
Q3 & Q2 FY18 Actual / Q1 FY18 & FY17 Pro Forma Net Leverage	3.0x	2.2x	2.3x	2.0x

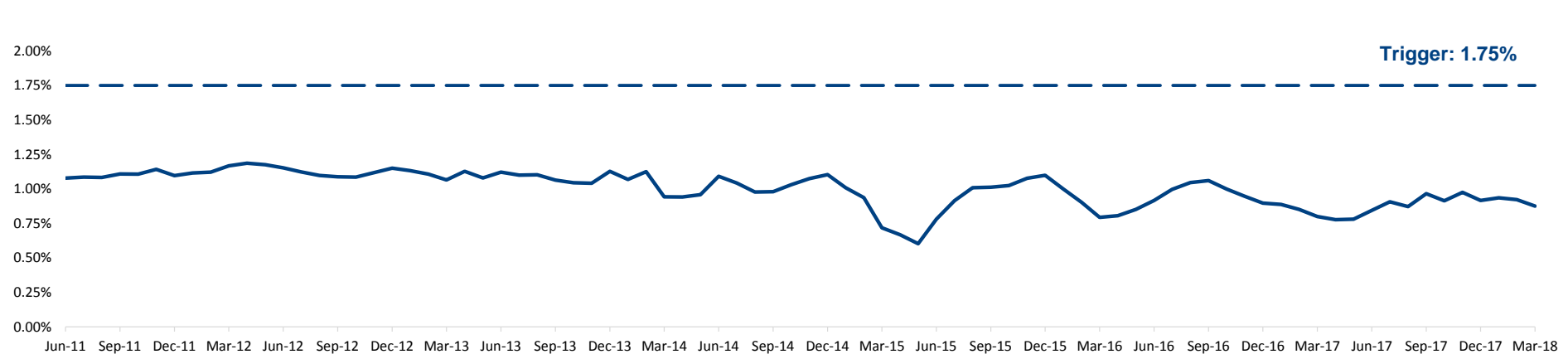
Notes

1. Reflects pro forma adjustment to Q1 FY18 and FY17 net debt for estimated fees and expenses per Offering Memorandum page 58.

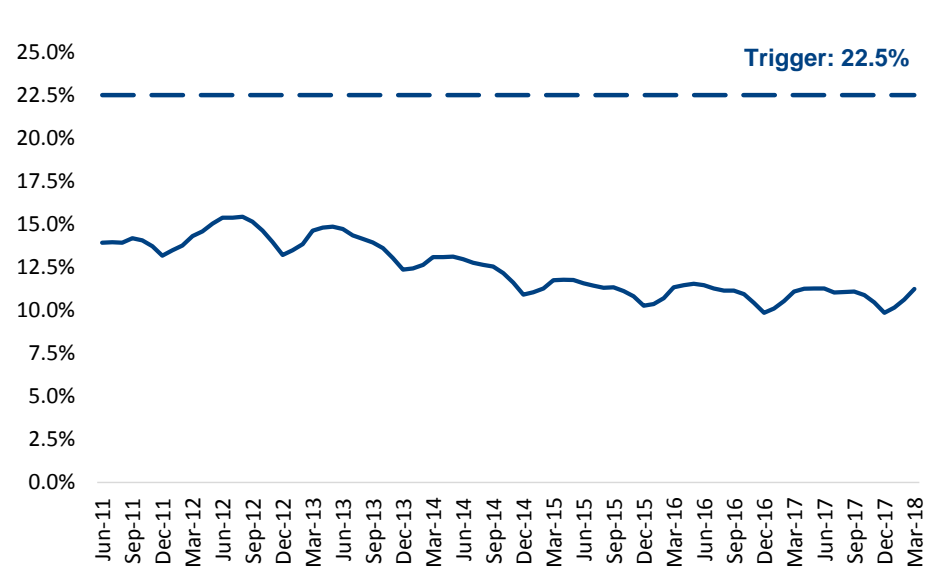
Appendix D: Securitisation Performance Covenants

Key triggers and historical performance – stable performance over economic cycles

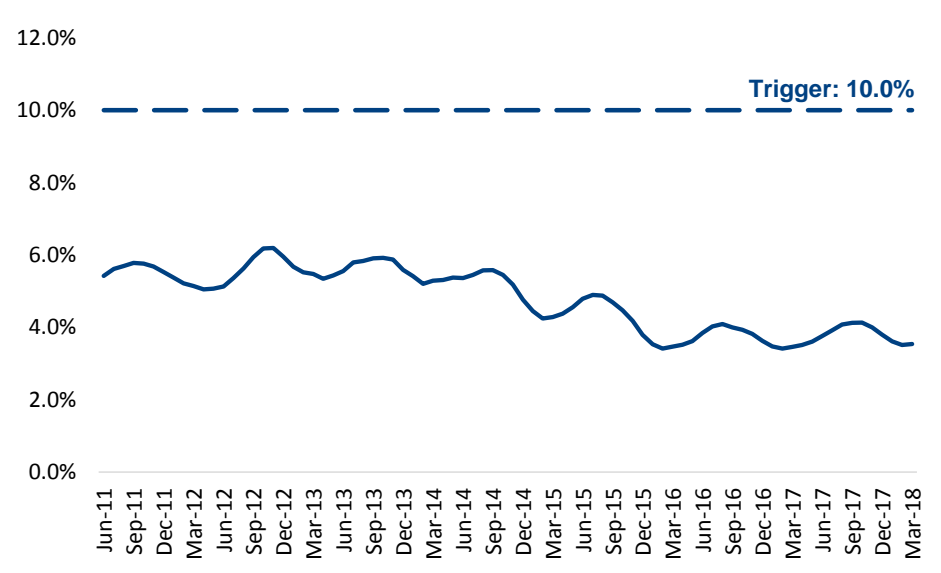
Defaults (3-month moving average)



1-5 months delinquency rates



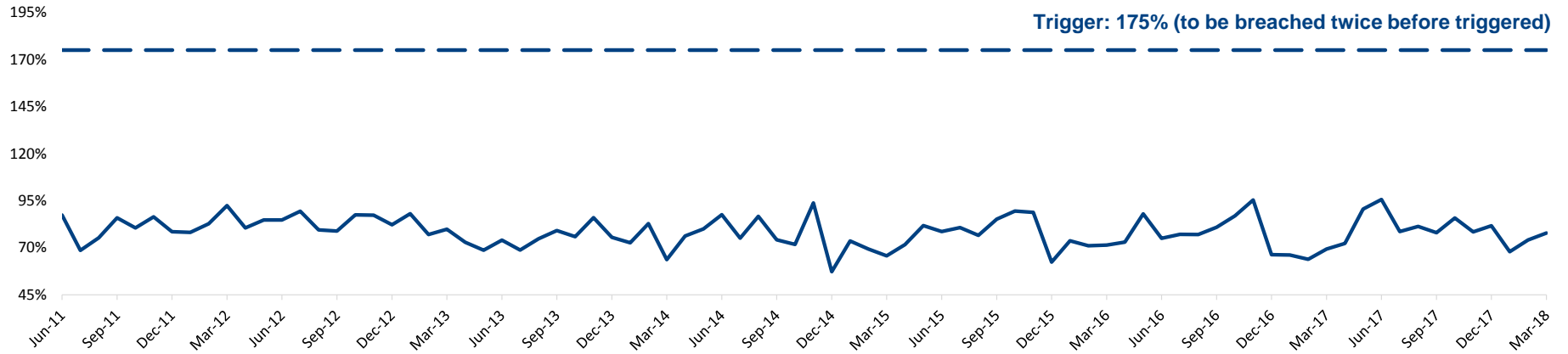
5+ months delinquency rates



Appendix D: Securitisation Performance Covenants

Key triggers and historical performance – stable performance over economic cycles

Dilutions Ratio



Payment Rate (3-month moving average)

