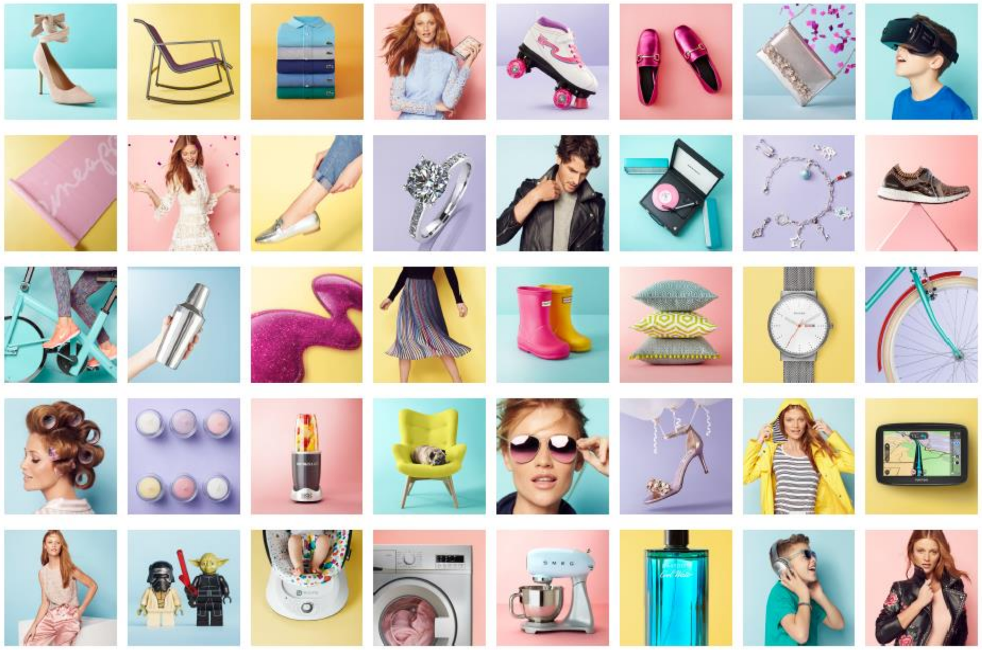

Shop Direct Limited

FY19 Results

Twelve months ended 30 June 2019

23 October 2019

SHOP DIRECT

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Due to rounding, numbers presented throughout this and other documents may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

Continued progress in a challenging market

FY19[1] Unaudited highlights versus prior year

- Group revenue grew 1.8% to £1,993.4m (FY18: 1,958.8m)
  - Very revenue up 7.1% to £1,488.1m (FY18: £1,389.1m), continuing to perform ahead of online market growth
  - Littlewoods revenue down 11.3% to £505.3m (FY18: £569.7m), a significant improvement over the 14.5% decline seen in FY18
- Interest income as a percentage of the debtor book increased 0.4%pts to 23.2% (FY18: 22.8%)
- Strong retail gross margin performance with improvement in underlying rate through growth in full price and clothing & footwear sales out-weighing impact of the continued switch to Very from Littlewoods
- Group gross margin[2] broadly in line with prior year at 39.6% (FY18: 39.9%)
- Bad debt as a percentage of the debtor book[2] improved by 0.2%pts to 7.0%. Default rates broadly in line year-on-year
- Reported EBITDA[2] increased by 3.3% to £271.0m (FY18 £262.3m), with the margin up 0.2%pts to 13.6% reflecting good trading performance and continued strong cost control. Management EBITDA grew by 4.7% to £272.4m
- Underlying free cash flow[3] remaining strong at £135.2m (FY18: £143.1m)
- Increase in customer redress provision by £150m following unexpected surge in claims submitted ahead of August 2019 deadline. Company evaluating a number of funding alternatives
- Loss before tax of £185.5m (FY18 loss before tax: £24.7m). Includes exceptional items of £310.2m comprised of £241.0m increase in regulatory provision to cover customer redress payments for historical shopping insurance sales and other charges of £69.2m including impairment of goodwill associated with the Douglas Insurance business.
- Very customers increased 5.7% to 2.98m, supporting total Group customer growth of 0.7% to 4.05m
- Post year end, Topshop, Topman and Topshop Beauty went live on site on 23rd August

Notes

1. FY19 is the unaudited 12 months ended 30 June 2019. FY18 is the 12 months ended 30 June 2018
2. From 1 July 2018 the Group has applied IFRS 9 – Financial Instruments and as an expected loss model, this changed the profile of the bad debt expense line during the year. However, over the course of full year FY19 the impact amounted to an additional charge to the Income Statement of only £0.1m relative to accounting under IAS 39 and given this minimal difference we have not prepared any analysis adjusting for this in this presentation
3. Underlying free cash flow defined on page 11

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Continued revenue growth and cost discipline

Income statement

(£ millions)	FY19	FY18	Variance %
Very	1,488.1	1,389.1	7.1 %
Littlewoods	505.3	569.7	(11.3)%
Group Revenue	**1,993.4**	**1,958.8**	**1.8 %**
Gross margin	788.8	780.7	1.0 %
% Margin	*39.6%*	*39.9%*	*(0.3)%pts*
Distribution expenses	(224.9)	(215.8)	
Administrative expenses	(295.6)	(304.3)	
Other operating income	2.7	1.7	
Reported EBITDA	**271.0**	**262.3**	**3.3 %**
% Reported EBITDA Margin	13.6 %	13.4 %	*0.2 %pts*
Operating costs as % of revenue	(26.0)%	(26.5)%	*0.5 %pts*

Highlights

- **Group revenue** grew 1.8% to £1,993.4m driven by Very (+7.1%) which has continued ahead of online market growth and growing market share. Littlewoods managed decline (-11.3%) reflected an improvement over the 14.5% decline seen in FY18
- **Gross margin** broadly stable at 39.6% (FY18: 39.9%) evidencing the strength of our integrated retail / Financial Services model. Strong underlying retail margin performance offset by the continued switch to Very from Littlewoods and the impact of lower warranty volumes
- **Costs as a percentage of group revenue** reduced reflecting continued strong cost control with full delivery of internal cost reduction targets
- **EBITDA** increased by 3.3% to £271.0m, with margin up 0.2%pts to 13.6% and Management EBITDA up 4.7% to £272.4m

Notes

1. FY19 is the unaudited 12 months ended 30 June 2019. FY18 is the 12 months ended 30 June 2018
2. FY19 reported under IFRS 9. FY18 reported under IAS 39. FY19 includes an adverse bad debt provision movement of £0.1m relative to accounting under IAS 39.

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Retail revenue progression

Retail revenue

	Clothing & Footwear	Electrical	Seasonal	Furniture & Homeware
YoY %	+2.9%	+1.2%	+2.6%	(1.7)%
FY19 Mix %	*34%*	*38%*	*16%*	*12%*
FY18 Mix %	*34%*	*39%*	*15%*	*12%*

- From FY20 we will report a revised set of product categories to mirror changes to our internal structures and reporting

Highlights

- **Clothing & Footwear** growth achieved whilst improving retail margin rate. Full price sales participation represented 63% of total C&F sales (FY18: 58%). Sportswear continued to be the standout category and has grown by 11.8% in the year
- **Electrical** revenue progression driven by mobiles and smart tech, with the latter posting double digit year-on-year growth. Performance further supported by small domestic appliances and audio-visual categories
- **Seasonal** growth underpinned by a strategic focus on Toys, with the category posting a 12.4% increase in revenue
- **Furniture & Homeware** posted second half growth of 1.7%, bringing full year performance to (1.7)%. This reflects a significant improvement against the (9.5)% reported in FY18, through changes in marketing approach, as well as improvements to availability and stock range

Notes

1. FY19 is the unaudited 12 months ended 30 June 2019. FY18 is the 12 months ended 30 June 2018

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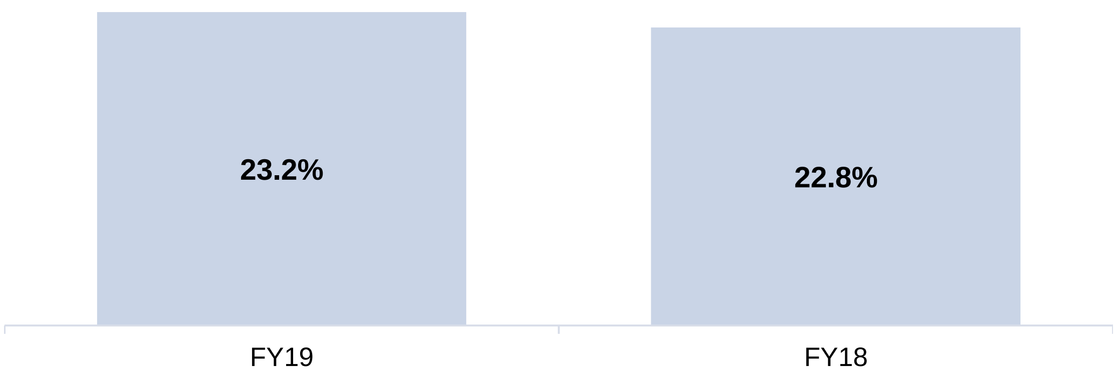
Growth in interest income driven by Very

Financial Services revenue

£m	FY19	FY18	Variance %
Interest Income	387.2	376.2	2.9%
Other	44.0	50.9	(13.6)%
FS revenue	**431.2**	**427.1**	**1.0%**

Interest Income as % of Debtor Book



Highlights

- **Interest income** up 2.9% to £387.2m driven by Very. Very, with its higher interest bearing element, comprises 83% of total interest income in FY19, compared to 72% of debtor book (81% of total interest and 68% of debtor book in prior year)
- As a percentage of the debtor book, interest income increased by 0.4%pts to 23.2%, driven by shift in brand mix towards Very (now 75% of group revenue compared to 71% in prior year)
- **Other** financial services revenue reduction reflects lower warranty volumes year-on-year
- **Average debtor book** grew 0.9% to £1,665.8m driven by revenue growth partially offset by higher customer payment rates

Notes
1. FY19 is the unaudited 12 months ended 30 June 2019. FY18 is the 12 months ended 30 June 2018

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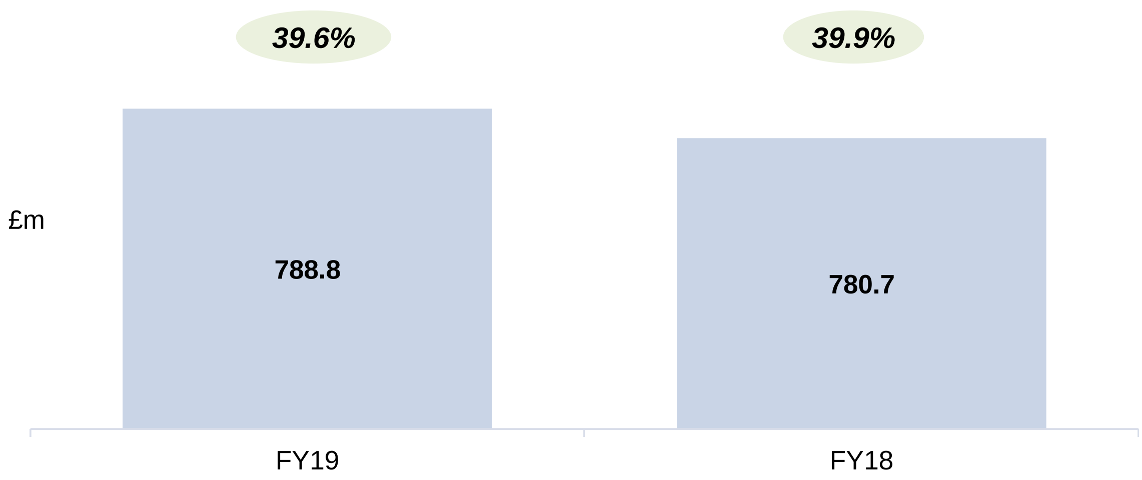
Strong retail gross margin performance

Gross Margin and Gross Margin Rate



Highlights

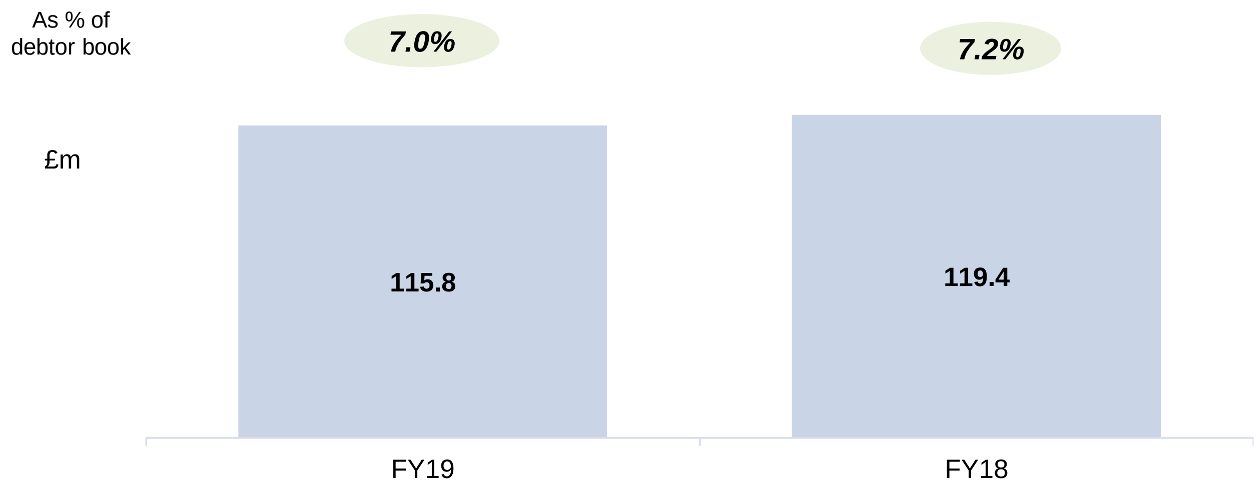
- **Gross margin rate** of 39.6% (FY18: 39.9%) with stability enabled through our integrated retail and financial services model:
  - Retail margin improvement driven by underlying rate as a result of strong full price performance across all product divisions. This was partially offset by the switch to Very from Littlewoods;
  - FS margin elements impacted by a decline in warranty volumes. This was partly mitigated by performance in interest income and bad debt

Notes

1. FY19 is the unaudited 12 months ended 30 June 2019. FY18 is the 12 months ended 30 June 2018
2. FY19 reported under IFRS 9. FY18 reported under IAS 39. FY19 includes an adverse bad debt provision movement of £0.1m relative to accounting under IAS 39.

Quality of debtor book maintained

Bad Debt and as % of Debtor Book



Highlights

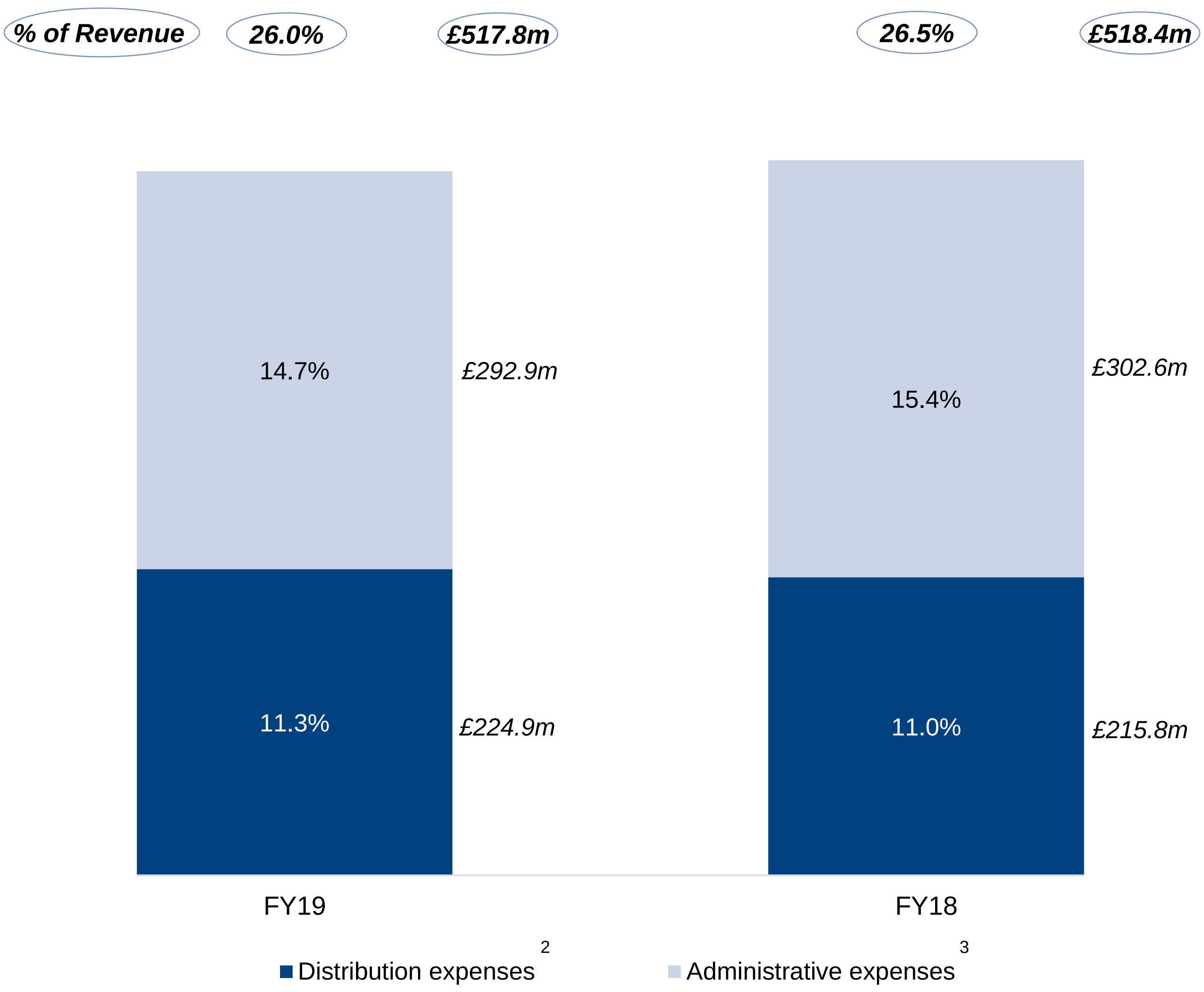
- On 1 July 2018 IFRS 9 Financial Instruments was adopted by the Group. As an expected loss model this changed the profile of the bad debt expense line during the year, but over the course of full year FY19 amounted to an additional charge to the Income Statement of only £0.1m relative to accounting under IAS 39. **Bad debt as a percentage of the debtor book** of 7.0% (FY18: 7.2%)
- The underlying quality of the debtor book remains in line with prior year with a strong focus on responsible lending and assessment of customer sustainability at both acquisition and during the lifetime of lending, as well as increasing proportion of lower risk Very customers

Notes

1. FY19 is the unaudited 12 months ended 30 June 2019. FY18 is the 12 months ended 30 June 2018
2. FY19 reported under IFRS 9. FY18 reported under IAS 39. FY19 includes an adverse bad debt provision movement of £0.1m relative to accounting under IAS 39.

Cost control continues

Operating costs



Highlights

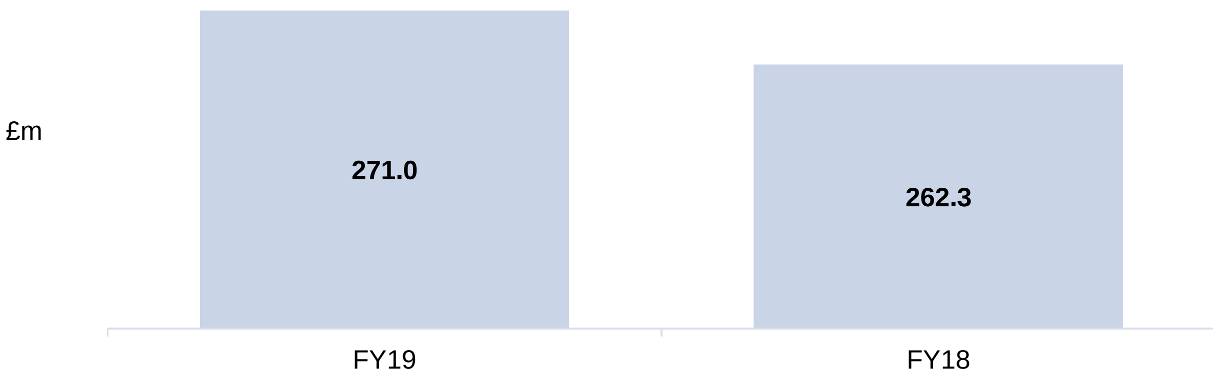
- Total costs as a percentage of revenue reduced by 0.5%pts to 26.0% reflecting a strong culture of cost control in the business and is significantly lower than 2 years ago (FY17: 28.5%):
  - **Administrative costs** as a % of revenue decreased by 0.7%pts to 14.7% as part of our ongoing cost reduction programme which has been delivered in full in the year;
  - **Distribution costs** as a % of revenue increased by 0.3%pts to 11.3% reflecting the impact of a greater proportion of clothing & footwear sales, higher fuel rates and inflation

Notes

1. FY19 is the unaudited 12 months ended 30 June 2019. FY18 is the 12 months ended 30 June 2018
2. Distribution expenses comprise distribution and fulfilment costs
3. Administrative expenses comprise marketing, contact centres, head office costs and other operating income, excluding depreciation and amortisation

Solid EBITDA growth

Year-on-year Reported EBITDA reconciliation



Highlights

- **Reported EBITDA** increased by 3.3% to £271.0m (FY18: £262.3m) with Management EBITDA increasing by 4.7% to £272.4m (FY18: £260.2m)
- Driven by revenue growth, consistent gross margin and cost control

(£ millions)	FY19	FY18	Variance %
Reported EBITDA[2]	**271.0**	**262.3**	**3.3 %**
Adjusted for:			
Fair value adjustments to financial instruments	(2.3)	(4.5)	
Foreign exchange translation movements on trade creditors	2.6	0.4	
IAS19 and IFRIC 14 pension adjustments	1.1	2.0	
Management EBITDA	**272.4**	**260.2**	**4.7 %**
Adjusted for:			
Management fee	5.0	5.0	
Securitisation interest	(49.1)	(41.3)	
Adjusted EBITDA post securitisation interest	**228.3**	**223.9**	**2.0 %**

Notes
1. FY19 is the unaudited 12 months ended 30 June 2019. FY18 is the 12 months ended 30 June 2018.
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Underlying free cash flow remains strong

Cash Flows

(£ millions)	FY19	FY18
Adjusted EBITDA (post securitisation interest)	**228.3**	**223.9**
Net working capital movement:		
Movement in inventories	7.7	12.4
Movement in trade receivables	1.4	(53.1)
Movement in prepayments and other receivables	(37.3)	(54.3)
Movement in trade and other payables	(75.2)	31.1
Movement in securitisation facility	55.2	88.6
Net working capital movement (post securitisation funding)	**(48.2)**	**24.7**
Pension contributions	6.8	(19.4)
Underlying operating free cash flow	**186.9**	**229.2**
Capital expenditure	(51.7)	(86.1)
Underlying free cash flow	**135.2**	**143.1**

Highlights

- **Net working capital movement (post securitisation funding)** driven by:
  - Continued strong inventory management;
  - Inflow through trade receivables, reflecting higher customer payment rates;
  - Prepayments / other receivables reflects lower payments associated with the fit out of the new fulfilment centre;
  - Trade and other payables reflecting timing of supplier payments, lower inventory balance and timing of payments for automation equipment at the new fulfilment centre;
  - Draw down of securitisation facility includes current year benefit from the new issue of 'B' and 'C' notes and the impact of the securitisation of the Ireland debtor book
- **Pension** driven by £22.4m inflow from completion of pension scheme buy-out. An associated £8.0m payment is included within income taxes paid
- **Acquisition of property, plant, equipment and intangible assets** includes investment in customer experience and our data analytic capabilities and lower than prior year due to timing of investments

Notes

1. FY19 is the unaudited 12 months ended 30 June 2019. FY18 is the 12 months ended 30 June 2018

Customer redress update

- Balance sheet provision of £100.4m at 30 June 2018
- In the 12 months to 30 June 2019 an additional £241.0m provision has been recognised, with £166.8m being paid out
- Results from a significant increase in 4^{th} quarter provision of £150m as a result of surge in claims in run up to August 2019 claims deadline. Over 276,000 claims were submitted in August 2019 versus the typical monthly run rate of 40,000
- Balance sheet provision of £174.6m at 30 June 2019
- Company evaluating a number of funding alternatives to address the increased liability. The bar date of 29 August 2019 now brings this long running legacy issue to an end; management focus on growing our core retail operation

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IFRS 16 – Leases

- IFRS 16 replaces the provisions of IAS 17 and is effective for accounting periods beginning on or after 1 January 2019. The Group will therefore apply IFRS 16 from 1 July 2019
- On the adoption of IFRS 16, the Group will recognise a right of use asset and corresponding lease liability
- There will be no change to the total expense recognised over the period of the lease. However, as the expense will be recognised as depreciation and interest payable rather than as an operating expense as is the case under IAS 17, there is a favourable impact on EBITDA
- The estimated impact at 1 July 2019 is to increase tangible assets within a range of £75m to £85m with the recognition of an opposing lease liability
- There is no impact on the brought forward reserve position

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Continued progress in a challenging market

FY19[1] Unaudited highlights versus prior year

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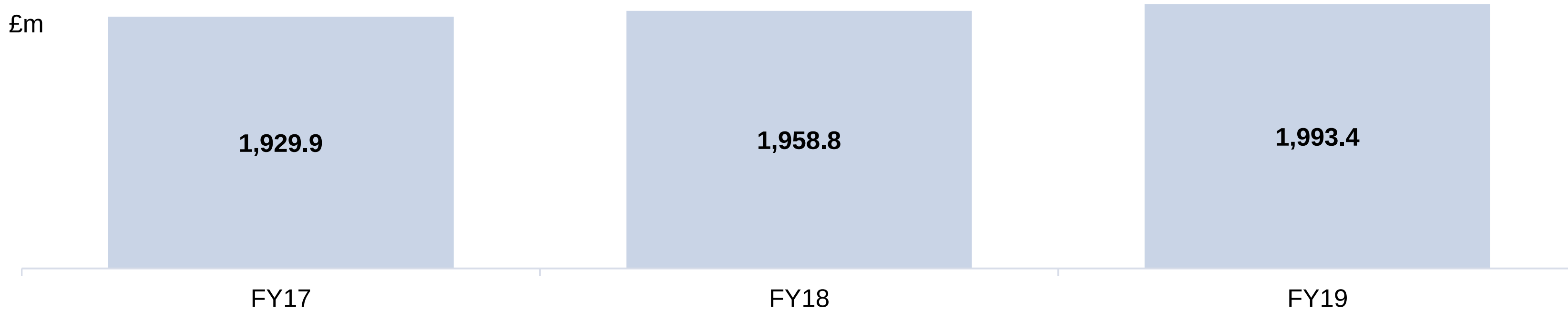
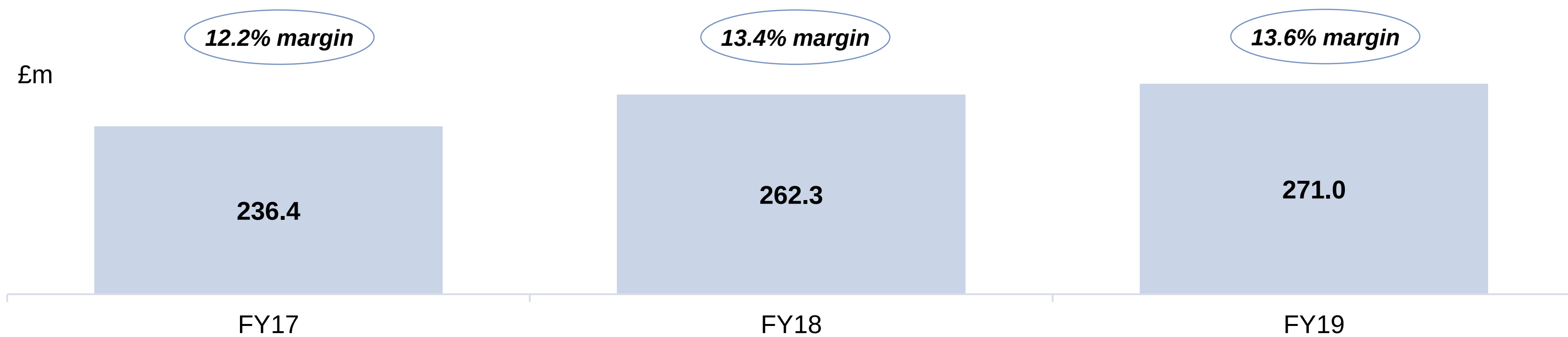
Appendix A: LTM KPIs

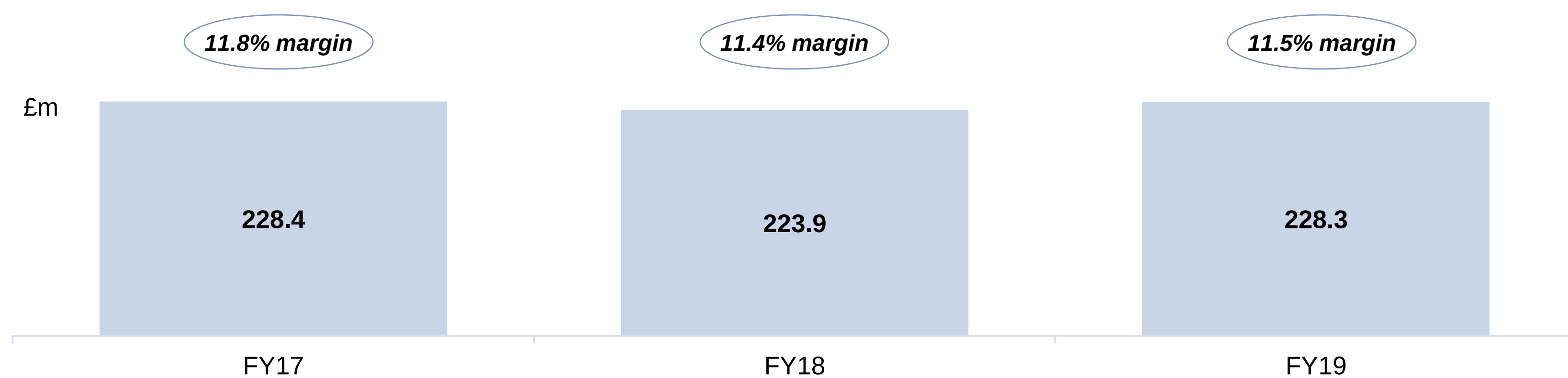
LTM Revenue



LTM Reported EBITDA



LTM Adjusted EBITDA post securitisation interest



Note

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Appendix B: Cash Flow Statement

Cash Flow Statement

(£ millions)	FY19	FY18
Adjusted EBITDA (post securitisation interest)	**228.3**	**223.9**
Net working capital movement:		
Movement in inventories	7.7	12.4
Movement in trade receivables	1.4	(53.1)
Movement in prepayments and other receivables	(37.3)	(54.3)
Movement in trade and other payables	(75.2)	31.1
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Pension contributions	6.8	(19.4)
Underlying operating free cash flow	**186.9**	**229.2**
Capital expenditure	(51.7)	(86.1)
Underlying free cash flow	**135.2**	**143.1**
Interest paid (excluding securitisation interest)	(48.6)	(47.0)
Income taxes paid	(17.1)	(0.5)
Cash impact of exceptional items (excluding customer redress)	(17.7)	(14.0)
Management fees	(5.0)	(5.0)
Cash paid to the parent company	(4.0)	(23.9)
(Repayments of) / draw downs from finance leases	(1.5)	0.1
Repayments of bank borrowings	-	(500.0)
Proceeds from issue of senior secured notes	-	550.0
Net increase in cash and cash equivalents pre customer redress	**41.3**	**102.8**
Customer redress payments	(166.8)	(115.6)
Net decrease in cash and cash equivalents	**(125.5)**	**(12.8)**

Notes

1. FY19 is the unaudited 12 months ended 30 June 2019. FY18 is the 12 months ended 30 June 2018

Appendix C: Net Leverage

Net Leverage

(£ millions)	Q4 FY19	Q3 FY19 exc IFRS 9	Q3 FY19	Q2 FY19 exc IFRS 9	Q2 FY19	Q1 FY19	Q4 FY18
Cash & Cash Equivalents	**14.8**	**56.9**	**56.9**	**97.9**	**97.9**	**79.3**	**140.5**
Fixed Rate Notes	(550.0)	(550.0)	(550.0)	(550.0)	(550.0)	(550.0)	(550.0)
Term Facilities	-	-	-	-	-	-	-
Revolving Credit Facility	(95.0)	(110.0)	(110.0)	-	-	(120.0)	(95.0)
Other debt	(10.7)	(10.7)	(10.7)	(6.1)	(6.1)	(12.0)	(12.4)
Total Gross Debt (excluding Securitisation)	**(655.7)**	**(670.7)**	**(670.7)**	**(556.1)**	**(556.1)**	**(682.0)**	**(657.4)**
Total Net Debt (excluding Securitisation)	**(640.9)**	**(613.8)**	**(613.8)**	**(458.2)**	**(458.2)**	**(602.7)**	**(516.9)**
Total Net Debt (excluding Securitisation)	**(640.9)**	**(613.8)**	**(613.8)**	**(458.2)**	**(458.2)**	**(602.7)**	**(516.9)**
LTM Adjusted EBITDA (post securitisation interest)	**228.3**	**225.7**	**221.2**	**224.9**	**213.5**	**227.5**	**223.9**
Q4 FY19 to Q4 FY18 Actual	**2.8x**	**2.7x**	**2.8x**	**2.0x**	**2.1x**	**2.6x**	**2.3x**

Note
1. FY19 unaudited and reported under IFRS 9. FY18 reported under IAS 39. FY19 full year includes an adverse bad debt provision movement of £0.1m relative to accounting under IAS 39.

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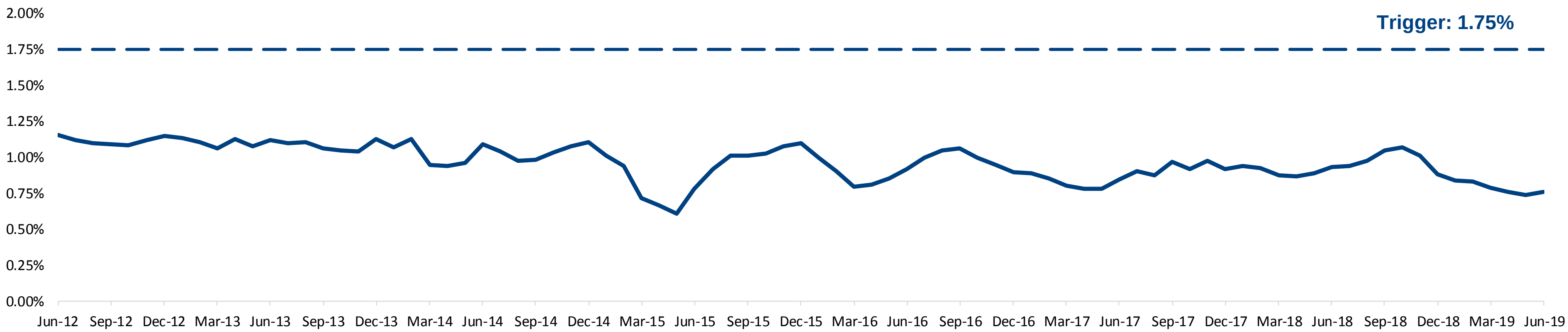
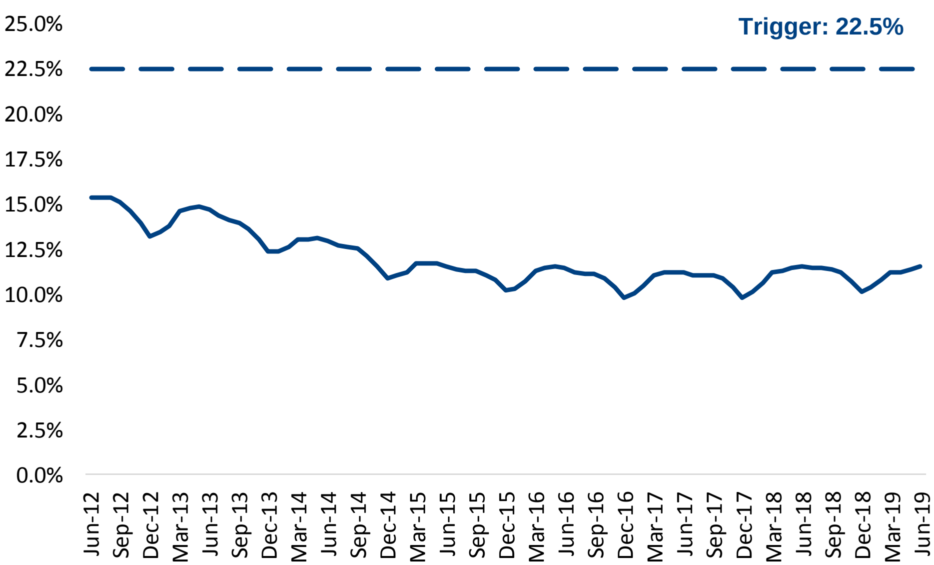
Appendix D: Securitisation Performance Covenants

Key triggers and historical performance – stable performance over economic cycles

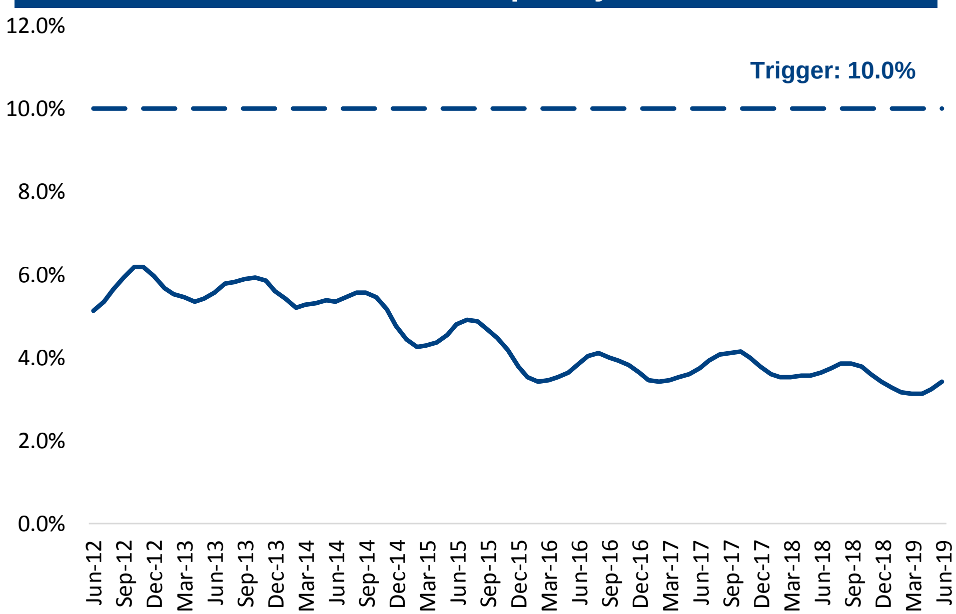
Defaults (3-month moving average)



1-5 months delinquency rates



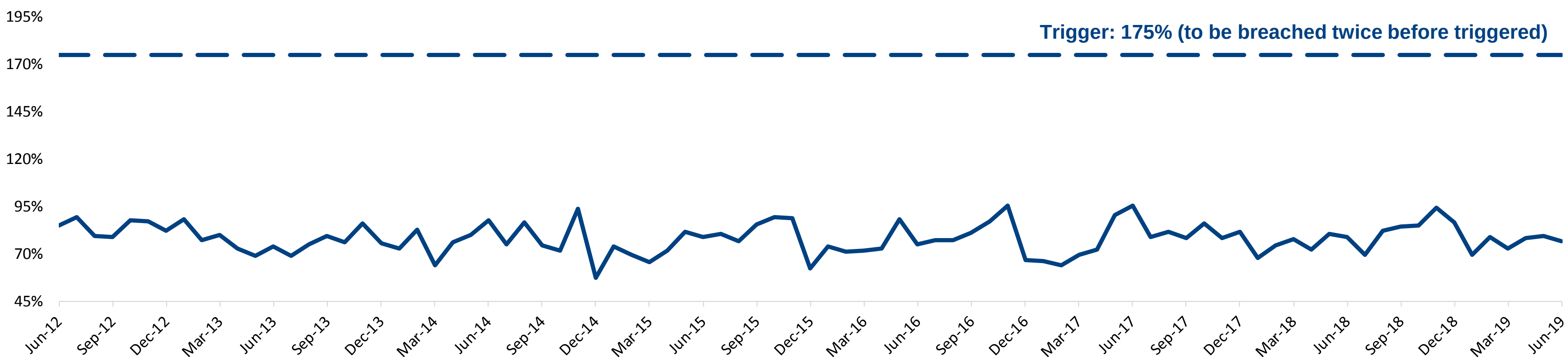
5+ months delinquency rates



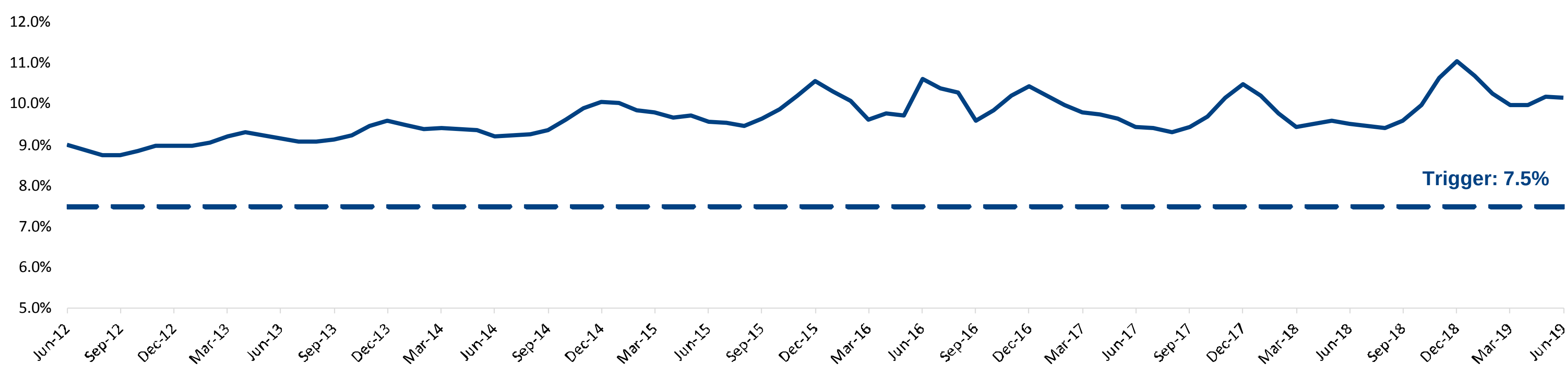
Appendix D: Securitisation Performance Covenants

Key triggers and historical performance – stable performance over economic cycles

Dilutions Ratio



Payment Rate (3-month moving average)



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Appendix E: Balance Sheet

Balance Sheet

	FY19	FY18
Non-current assets	**576.9**	**571.1**
Current assets	**2,219.2**	**2,451.7**
of which:		
Inventories	94.2	101.9
Trade receivables	1,374.4	1,516.3
Amounts owed by Group undertakings	514.5	500.4
Cash and bank balances	14.8	140.5
Current liabilities	**(849.4)**	**(819.6)**
of which:		
Trade and other payables	(502.6)	(557.8)
Customer redresss provision	(174.6)	(83.6)
Non-current liabilities	**(2,035.2)**	**(2,017.9)**
of which:		
Securitisation borrowings	(1,372.6)	(1,317.4)
Retirement benefit obligations	(58.0)	(72.3)
Customer redresss provision	-	(16.8)
Total deficit/(equity)	**88.5**	**(185.3)**

Highlights

- **Non-current assets** in line with prior year with capital investment in strategic initiatives and an increase in the deferred tax asset on adoption of IFRS 9, partly offset by the impairment of goodwill associated with the Douglas Insurance business
- **Inventories** have decreased due to a targeted reduction in inventory cover days
- **Trade receivables** driven by increase in provision on adoption of IFRS 9 of £141m at 1 July 2018
- **Amounts owed by Group undertakings** have increased to £514.5m principally driven by cash payments made to Primevere Limited reflecting additional fit out requirements and technical elements to the development outside the main contracts
- **Cash and bank balances** reduction driven by customer redress payments.
- **Securitisation borrowings:** The 'AS' and 'AJ' Notes commitment of £1,325m and the 'B' and 'C' Notes commitment of £210m expire December 2021, giving a total maximum value of £1,535m. The securitisation borrowings also include £24.5m in relation to the extension of the securitisation programme to include the receivables of Shop Direct Ireland Ltd
- **Retirement benefit obligations** lower than prior year with both defined benefit schemes in technical provisions surplus. The liability reflects voluntary contributions agreed to encourage trustees to move towards buy-out

Notes

1. FY19 unaudited and reported under IFRS 9. FY18 reported under IAS 39

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