



ScS Group plc

Interim results for the half year ended 25 January 2020

20 March 2020

Introduction and highlights

David Knight
Chief Executive Officer

Financial review

Chris Muir
Chief Financial Officer

Review of the period and
outlook

David Knight

Highlights

- Successful winter sale, following a challenging autumn
- Order intake up 3.3% on a like-for-like basis for the last seven weeks
- Successful roll-out of our new in-store sales app allowing transactions to be fully paperless and enabling further efficiencies
- Centralised the administration of our entire branch network creating a central customer experience team
- Over 200,000 Trustpilot reviews with 'Excellent' rating maintained
- The Group returned £4.4m to shareholders through a buyback and cancellation of 2m of its own shares
- As of 11th Feb 2020, Sun Capital Partners no longer held any shares in the Group



Like-for-like orders

-4.4%

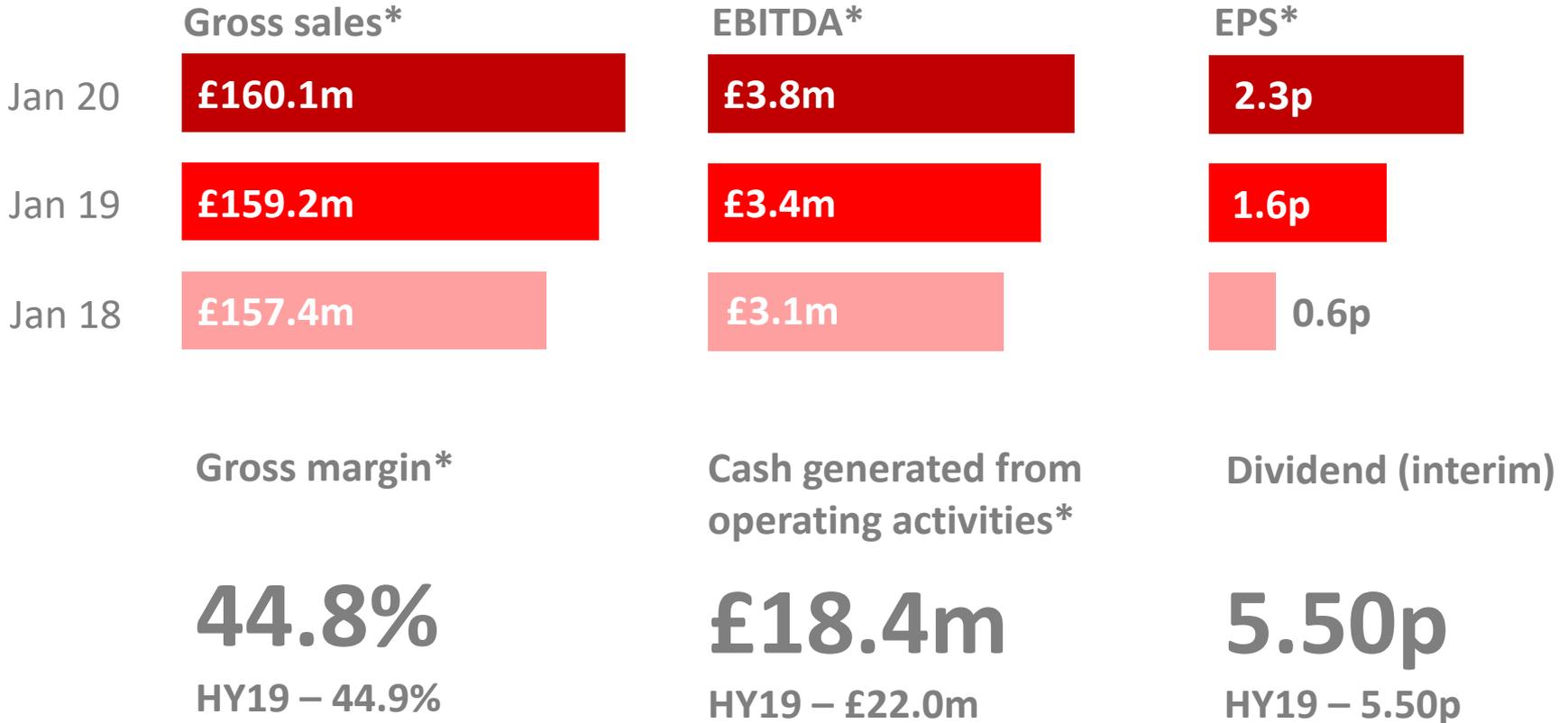
Two-year: -2.9%



Financial review

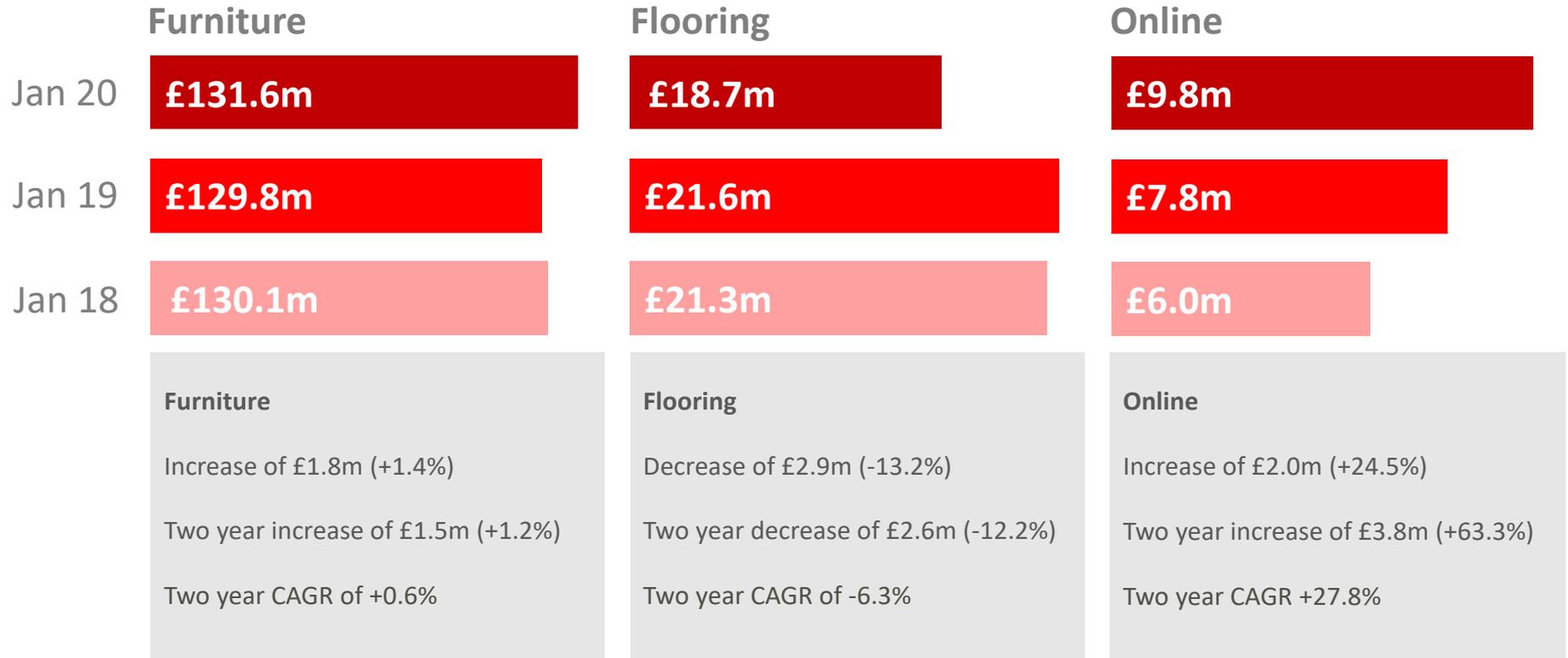
	Post IFRS16 HY20 £m	IFRS16 adjustments			Pre- IFRS16 HY20 £m	IAS 17 HY19 £m
		Exclude rent £m	Include depreciation £m	Include interest £m		
Revenue	152.0				152.0	151.4
Gross profit	71.7				71.7	71.5
Distribution costs	(9.1)	1.4	(1.4)		(9.1)	(8.6)
Administration expenses	(61.4)	11.4	(10.7)	-	(62.1)	(62.5)
Operating profit	1.2	12.8	(12.1)	-	0.5	0.4
Net finance (expense)/ income	(1.8)	-	-	(2.0)	0.2	0.1
PBT	(0.6)	12.8	(12.1)	(2.0)	0.7	0.5
Underlying EBITDA	16.6	12.8	-	-	3.8	3.4

Financial highlights

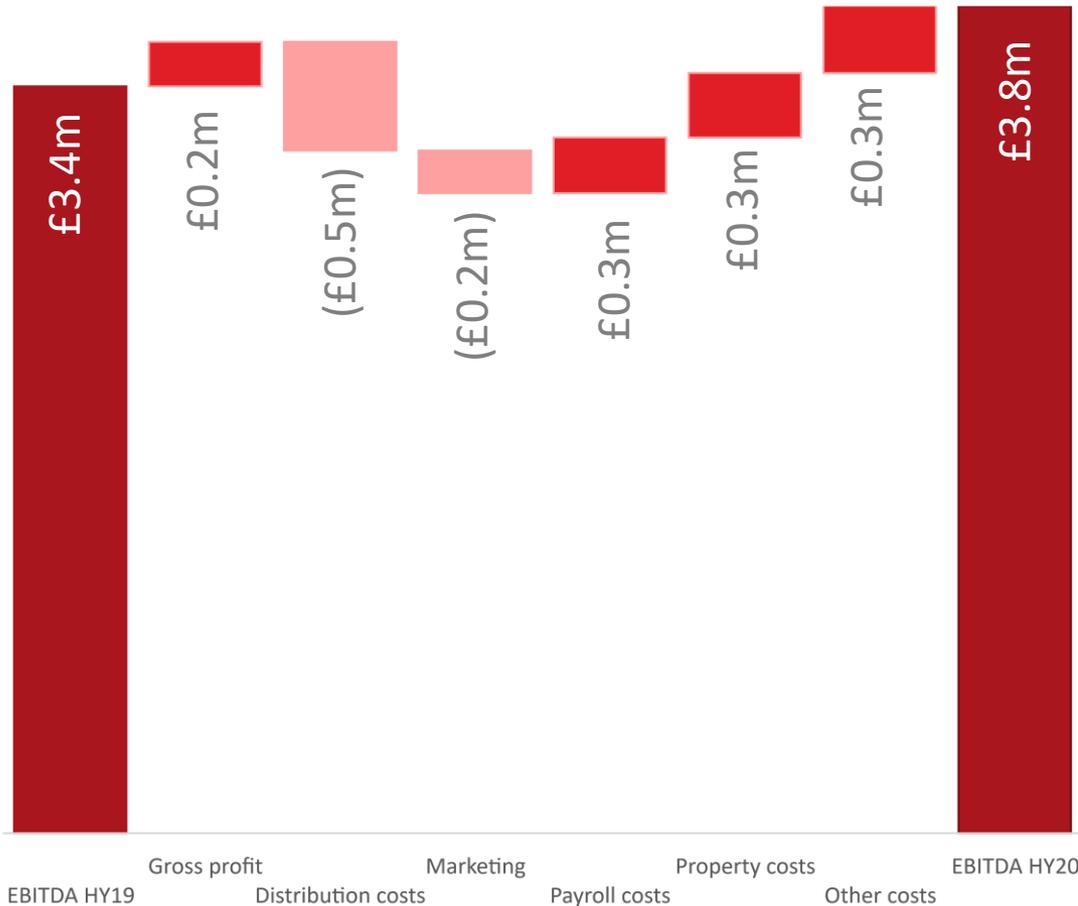


*Figures presented are for continuing operations, before exceptional costs and IFRS 16 adjustments

Gross sales from continuing operations



Underlying EBITDA from continuing operations*



HY20 pre-IFRS16 EBITDA improved £0.4m (11.8%)*

Gross profit increased £0.2m to £71.7m.

Gross margin decreased to 44.8% (2019: 44.9%)

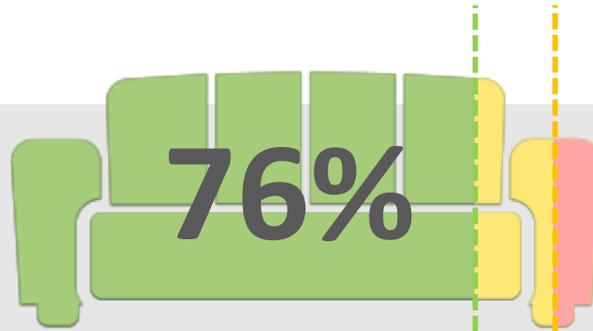
Distribution costs up 5.8% due to increased volume of furniture deliveries, coupled with property and staff cost pressure

Marketing expenditure increased £0.2m

Performance related payroll costs decreased by £0.4m due to lower than targeted order intake performance, offset by a £0.1m increase in basic payroll and pension costs.

Property cost reduction mainly driven by rates refunds and cost savings as a result of rent reductions.

*Figures presented are for continuing operations, before exceptional costs and IFRS 16 adjustments



£m	2020	2019	%
Gross sales	160.1	159.2	
EBITDA	3.8	3.4	
Total costs	156.3	155.8	100%
Cost of goods sold (inc. credit)	(88.4)	(87.8)	56.6%
Distribution costs	(9.1)	(8.6)	5.8%
Marketing costs	(14.5)	(14.3)	9.3%
Payroll costs (performance related)	(6.5)	(6.9)	4.1%
Other payroll	(16.2)	(16.1)	10.4%
Other costs	(3.7)	(3.9)	2.4%
Rent, rates, heat and light	(17.9)	(18.2)	11.4%

Flexibility

Proportion of cost variability remained consistent year-on-year

Sales are made to order creating a flexible business model

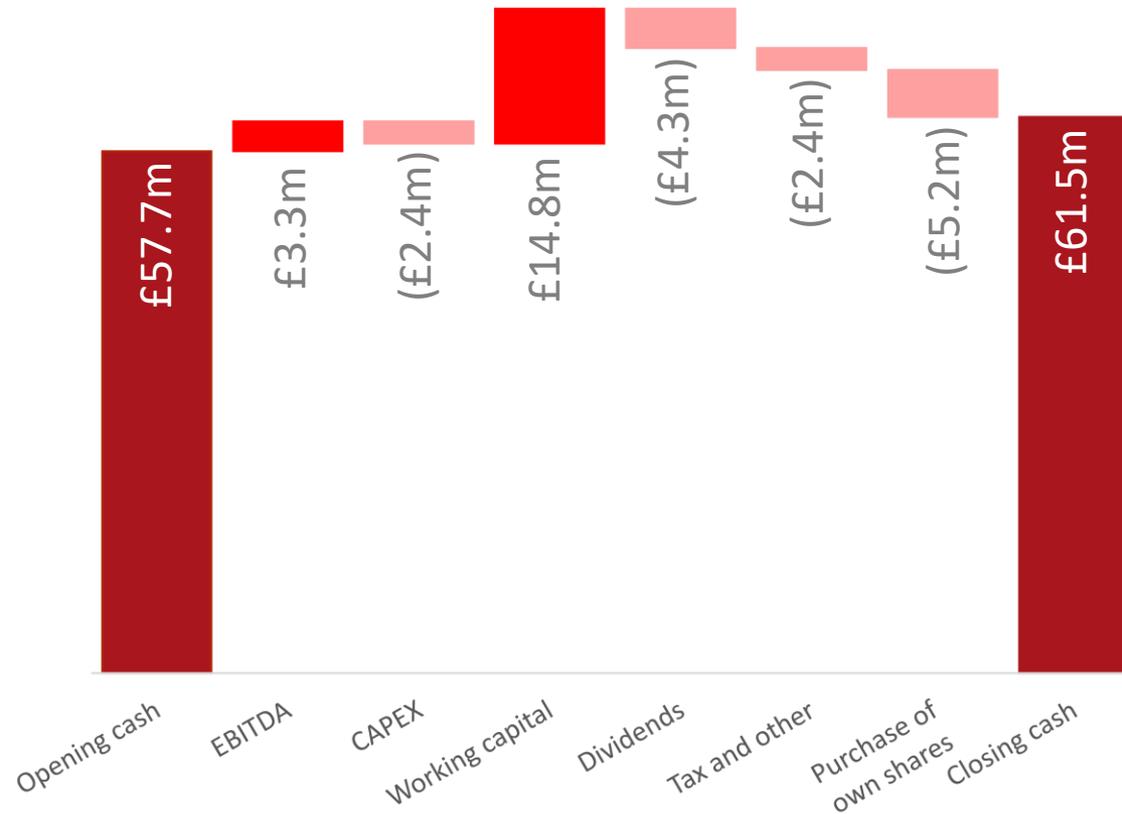
76% of the cost base is variable with sales

13% is semi variable

Rent, rates, heat and light account for 11% of the overall cost base

	Variable
	Semi variable
	Fixed costs

Cash flow*



Strong cash flows

Free cash flow in the period of £13.3m (2019: £18.8m)

Capital expenditure in the period totalled £2.4m, relating to existing store improvements, our new Kirkcaldy store and ongoing investment in IT (including the new website)

£14.8m working capital movement largely due to customer deposits received

£5.2m share buyback being £4.4m of shares which were subsequently cancelled and further £0.8m worth of shares to satisfy share awards

Of the closing cash balance, customer deposits are £24.1m (HY19: £25.0m, FY19: £14.7m)

Negative working capital model

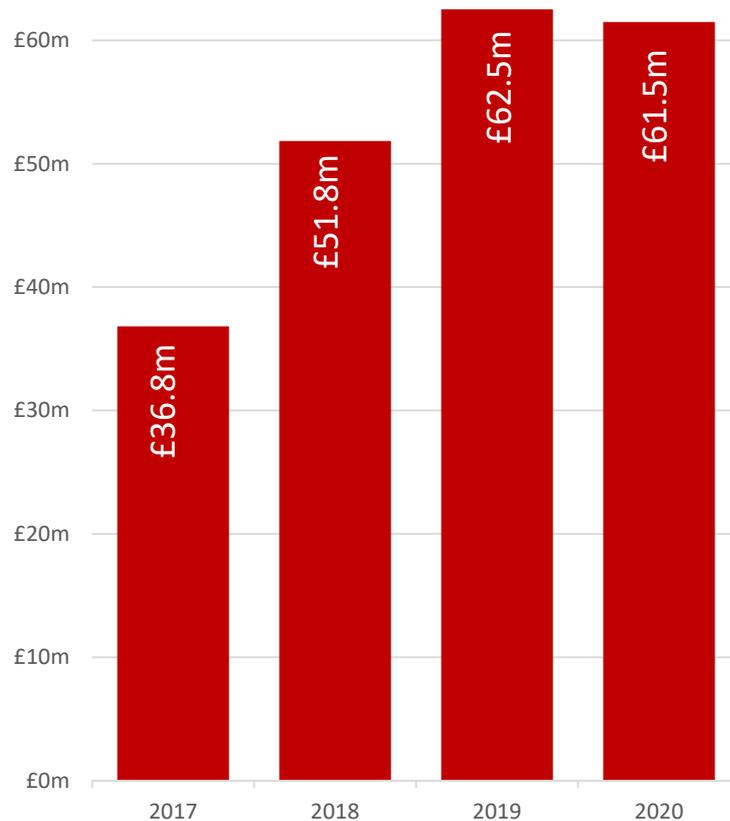
Cash or card sales - deposits received at point of order, balance settled before delivery

Credit sales - loan provider pays ScS two working days after delivery

Majority of suppliers paid at the end of month following delivery into our distribution centres

*Figures presented are on an IAS17 basis (i.e. before IFRS 16 adjustments)

Cash



- No debt with significant cash position
- Over the last 12 months the cash balance varied as follows:
 - Average £58.1m
 - Lowest point £39.5m
 - Highest point £68.9m
- Further protection from £12.0m committed revolving credit facility to November 2021



Review of the period

Excellent customer experience with outstanding value, quality and choice



Range of price points

From £299 to £5,295 - always an offer or deal available



Easy ways to pay

Long-term interest-free making buying easy



Brands

Long term relationships with leading furniture and flooring brands, supporting well recognised own brands



Service

5-star “Excellent” Trustpilot rating, delivered by our passionate and caring team



On key retail parks

High quality stores in prime locations



Online

Rapidly growing sales platform, and our ‘other’ shop window for customer research

Improve our ability to attract, recruit, develop and retain the right people

- Strengthening our retail teams by:
 - Introduced a new field based learning and development team to grow our internal training capacity and capability
 - Working with third party trainers to provide development opportunities to our management teams such as the 'Olympic experience'
- Currently recruiting new operating board specialists in marketing and technology
- Delivery of key actions from the 2019 culture survey to improve our employee's experience and promote general wellbeing



Delivering an exceptional customer experience

- “Excellent” Trustscore maintained on Trustpilot with over 200,000 reviews
- Ranked 4th most reviewed company in the UK on Trustpilot
- Centralisation of administrative processes to improve the customer journey:
 - A larger dedicated contact support team available for a wider timeframe
 - Consistent processes and approaches to ensure all customers receive the same high quality service
- 6 months of our new nYwhere in-store sales app:
 - Streamlined sales ordering process
 - Integrated with our core system, increasing speed and order accuracy levels
 - Enables paperless transactions

KPIs

Trustpilot – TrustScore:



Customer satisfaction score:



Optimising the existing footprint

- Our stores remain vital in our customers' experience and business model
- Strong conversion rates in-store due to customer research online before visit
- Successfully renegotiated a number of leases in the period resulting in reduced property costs
- Increased brand awareness with dedicated areas
- Attention to detail in-store with focus on value end product mix – AOV remained largely consistent with the prior year
- HY20 sales per square foot up to £111 (HY19: £109)
- Ongoing review of store network:
 - Kirkcaldy store opened in the period
- Centralisation of administration staff has resulted in increased floor space for additional product ranges

KPIs

Sales per square foot:

2020	£111
2019	£109
2018	£108

Furniture AOV:

2020	£1,540
2019	£1,543
2018	£1,610

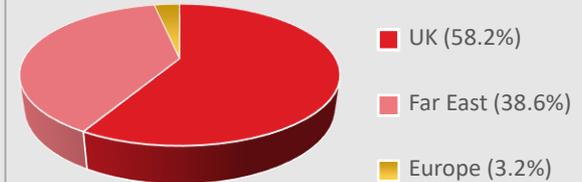


Our products

Driving quality and value through our product selection

- A market leading offer:
 - Wide range of price points
 - Becoming the 'Home of Big Brands'
 - Core ranges
 - Product exclusivity
- Resilient and optimised supply chain:
 - All purchases in £ sterling
 - Key customer to suppliers
 - No volume based supplier contracts
 - Far East products imported through UK suppliers
 - 95% made-to-order (no stock risk)
 - 29% from China in FY19 – working with all suppliers – expect lead times will temporarily increase

Turnover by country:



LA Z BOY®

ENDURANCE

Celebrity
British Craftsmanship

Inspire



sisitalia

Our flooring offering

Market share growth opportunity

- Reduction in the volume of housing transactions has contributed to reduced sales
- Despite the challenging market we are preparing for an upturn by:
 - Recruiting more specialist flooring sales professionals
 - Developing and supporting our existing sales teams
 - Accreditation for all self employed fitters with further training
 - Restructuring to bring flooring support teams closer to retail management and our customers
 - Embedding and optimising new technology used by our surveyors
 - Increasing the range of samples available without having to visit a store via our online solution

KPIs

Flooring gross sales:



Flooring AOV:



ABINGDON
FLOORING



Furlong Flooring

First choice flooring for every room

Creating urgency and driving traffic through a cocktail of media activity

- Customers continue to seek value for money promotions, we have tailored our offers to reflect this:
 - Increased 'event days' with shorter campaigns
 - Push urgency – “ends soon”
 - Clear message on our value offer
- Broad mix of media with continued review
- Increased digital marketing and use of social media

Marketing spend:

2020	£14.5m
2019	£14.3m
2018	£14.1m

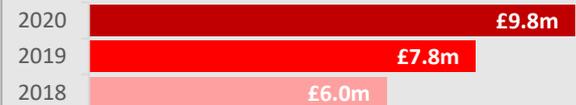


Our digital offering

Our fastest growing revenue and traffic stream

- Online gross sales increased 24.5% to £9.8m
- Increasing levels of visualisation from our in-house photography studio
- Key product information easily accessible
- Dedicated sales team to operate our webchat function ensuring efficient response to customer product queries
- Continued growth in website traffic:
 - Increasing online research prior to visiting a store
 - Shop window for stores
 - Growing confidence to transact online
- Our exciting new website is progressing well and remains on track for a summer launch!

Online gross sales:



Website traffic:



- **Our people**
 - Implemented new working practices to safeguard our teams
 - Regular communication and guidance in line with latest government advice
 - Support being offered, including sick pay
- **Our customers**
 - We will continue to provide customer service to the best of our ability, whilst following government guidance and prioritising the health and well being of our customers and people
 - Regular contact on any delivery days we are advised of
 - Order intake in the last 19 weeks of the previous financial was £102m
 - Any reduction in demand likely to recover post the period of disruption
- **Our suppliers**
 - Carried out due diligence to understand sourcing of all component parts
 - Deliveries totalled £126m in the final 19 weeks of the previous financial year
 - 3 to 4 week delays on product coming from the Far East but production and delivery is increasing, impact of a two week delay for all Far East product at the year-end is reduction in gross sales of c.£4m

- **Strategic priorities continue to drive results:**
 - £0.4m increase in EBITDA on a pre-IFRS 16 basis
 - £61.5m of cash and no debt
- **Current trading and outlook:**
 - Order intake up 3.3% on a like-for-like basis for the first seven weeks of the second half of the year to 14 March 2020. This strengthening performance has meant the year to date like-for-like order intake decline has reduced since the half year and is now down 3.0% for the 33 weeks to 14 March 2020
 - We have seen declines in footfall over the past week as concerns over COVID-19 increase
- Our focus in recent years on building a business with increasing resilience is reflected in the strength of our balance sheet
- We cannot predict the impact of COVID-19, but we believe the Group is as well positioned as it can be



Appendices

**Our stores and
distribution centres**

- Stores
- Distribution centres

