



ScS Group plc

Preliminary results for the
year ended 31 July 2021

5 October 2021



Agenda

01	Highlights & review of the year	Steve Carson	CEO
02	Financial review	Chris Muir	CFO
03	Refreshed strategy	Steve Carson	
04	Outlook and current trading	Steve Carson	



Highlights and review of the year



Highlights

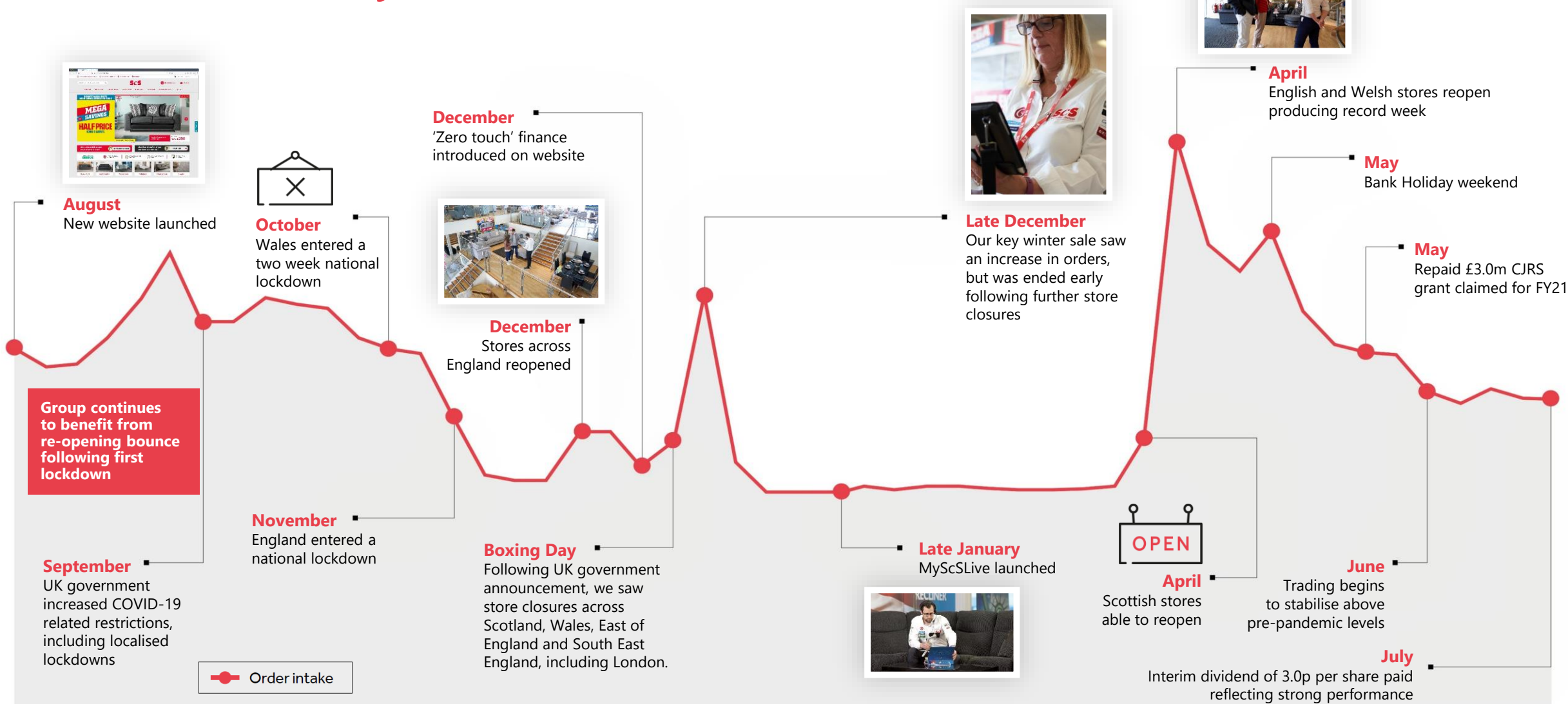
Strong year of recovery; refreshed strategy to drive future growth



Period	Weeks	Like-for-like order intake vs year ended July 2020	Like-for-like order intake vs year ended July 2019
26 July to 19 December 2020	1 to 21	12.4%	6.6%
20 December 2020 to 3 April 2021	22 to 36	(73.6%)	(76.6%)
4 April to 31 July 2021	37 to 53	54.8%	59.9%
26 July 2020 to 31 July 2021	1 to 53	(1.5%)	(6.5%)

- One year like-for-like order intake down only 1.5% during the year, despite a longer period of closure
- Like-for-like order intake down only 6.5% on 2019, despite being closed for 17 weeks in 2021
- Underlying profit before tax increased to £18.4m (2020: £0.9m)
- Good progress made on ESG
- Online sales increased 146.0% to £46.9m (2020: £19.1m) following continued investment in our online business coupled with an increase in online shopping during the periods of store closures
- “Excellent” TrustScore maintained on Trustpilot with 300,000 reviews
- Closing order book of £103.5m (including VAT), £60.6m higher than at the same point in 2019
- £3.0m furlough grant claimed under the Coronavirus Job Retention Scheme during the lockdown was repaid following the positive re-opening of the Group’s stores
- Launch of a refreshed strategy

Review of the year



FY21 - COVID-19 response and moving forward

Putting our customers and colleagues first whilst delivering excellent results



Ensuring customers were safe, comfortable and confident to order with us



Prioritisation of colleague safety and wellbeing



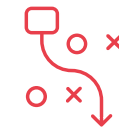
Progress in digital offering supported continued trade



Continued ability to deliver (unlike FY20 lockdown)



Successful re-opening supported with advertising



Used the time to develop our refreshed strategy

Responsible business

**We want to create
a business that we
can be proud of**



What we have done

Environmental



Completed Furniture Industry Sustainability Programme (FISP) external audit

Joined the Leather Working Group committed to sustainable supply

Switched our electricity supply to 100% renewable sources and added our first fully electric vehicles to the company car fleet

Social



Trained colleagues in mental health first aid to provide support across the business

Gave back to our communities; donated 10,000 free schools meals, raised almost £30k for bowel cancer, continued to support the Foundation of Light

Repaid furlough claimed in the year and continued to top-up all of our furloughed colleagues pay to 100%

Governance



Invested in formal 'Institution of Occupational Safety and Health' (IOSH) training

Engagement of third-party specialist to review the Group's risk management framework

Risk management practices have been enhanced through improved functional risk registers

During the year, the Group has accelerated its thinking on developing a formal Environmental, Social, and Corporate Governance (ESG) strategy that builds on our RIGHT values and integrates sustainability throughout all aspects of the business



What we are going to do



Review waste packaging management



Report in line with TCFD recommendations



Review sustainability of product sourcing through responsible procurement



Consider BEIS and implement required control environment



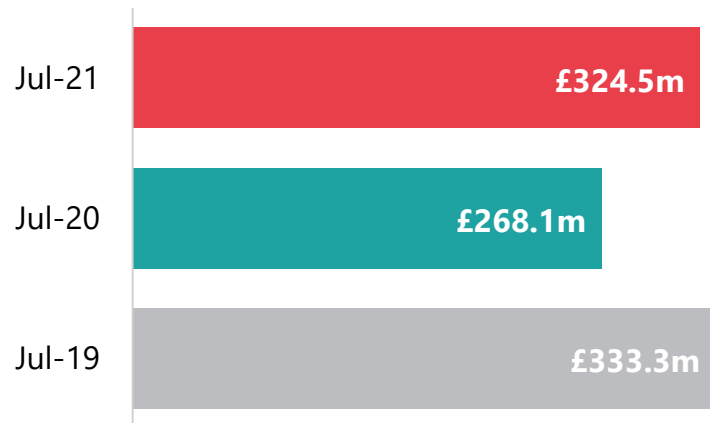
Formalise ESG roadmap including targets

Financial review

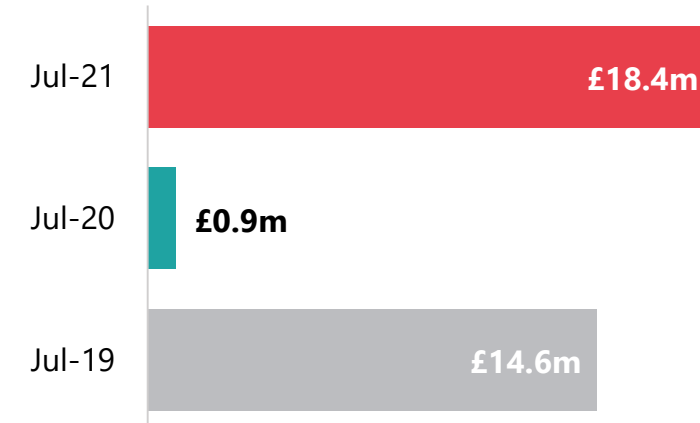


Financial highlights

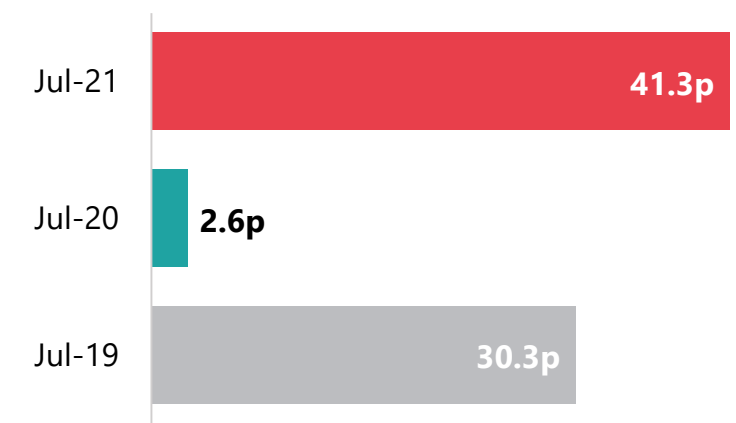
Gross sales



Underlying profit before tax



Underlying earnings per share



Gross margin

45.3% FY20 44.6%
FY19 45.0%

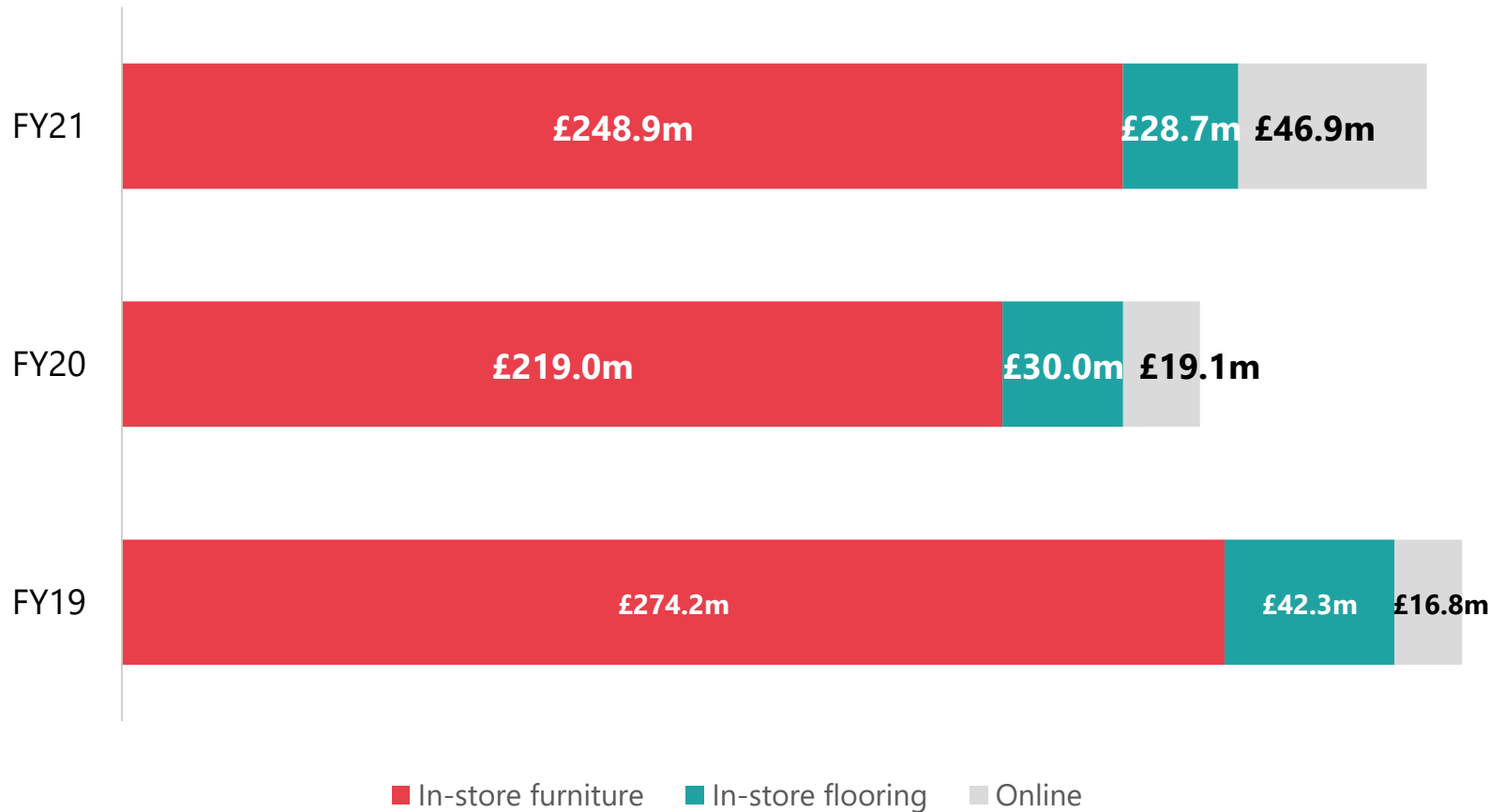
Cash

£87.7m FY20 £82.3m
FY19 £57.7m

Dividend per share

10.0p FY20 nil
FY19 16.7p

Gross sales



Strong recovery in sales

Sales benefit from large opening order book and strong Q1

Able to continue to deliver furniture through H2 lockdown

Closures impacted flooring more heavily

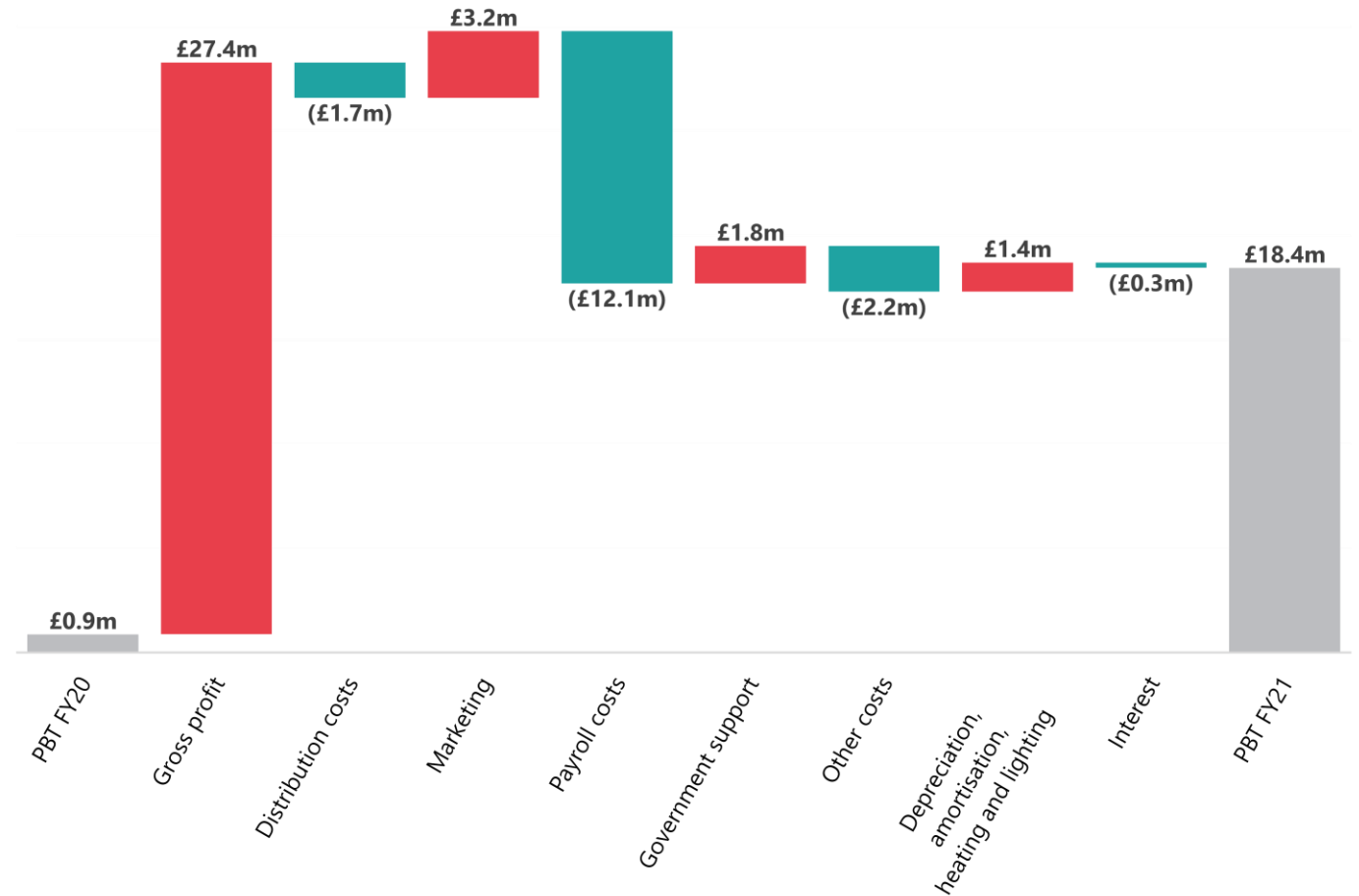
Flooring opportunity remains

Online sales growth of 146% driven by digital improvements and store closures

Underling profit before tax

Underlying PBT improved by £17.6m

- Gross profit increased £27.4m to £147.0m driven by increases in delivered sales volume and an improved gross margin of 45.3% (2020: 44.6%)
- Gross margin improved due to reduced take up of interest-free finance, together with lower stock sales
- Distribution costs increased by £1.7m to £18.7m as a result of increased deliveries
- Marketing expenditure decreased £3.2m as the business adjusted investment as a result of the temporary store closures
- Payroll costs increased £12.1m, £8.6m due to performance related pay
- £10.2m of government support received through retail business rates relief. FY20 government support included £3.4m of retail business rates relief and £5.0m of Coronavirus Job Retention Scheme (CJRS)



Flexible cost base

£m		FY21	FY20	%
Gross sales		324.5	268.1	
Underlying PBT		18.4	0.9	
Total underlying costs		306.1	267.2	
Government support		10.2	8.4	
Total underlying costs ex. gov. support		316.3	275.6	100%
Cost of goods sold (inc. credit)	●	(177.5)	(148.5)	56.1%
Distribution costs	●	(18.7)	(17.0)	5.9%
Marketing costs	●	(17.2)	(20.4)	5.4%
Payroll costs (performance related)	●	(16.8)	(8.2)	5.3%
Other payroll	●	(35.4)	(31.9)	11.2%
Other costs	●	(8.8)	(6.6)	2.8%
Depreciation, interest, rates, heating, lighting	●	(41.9)	(43.0)	13.3%

● Variable
 ● Semi-variable
 ● Fixed costs

Flexibility

Sales are made to order, creating a flexible business model

73% of cost base is variable with sales

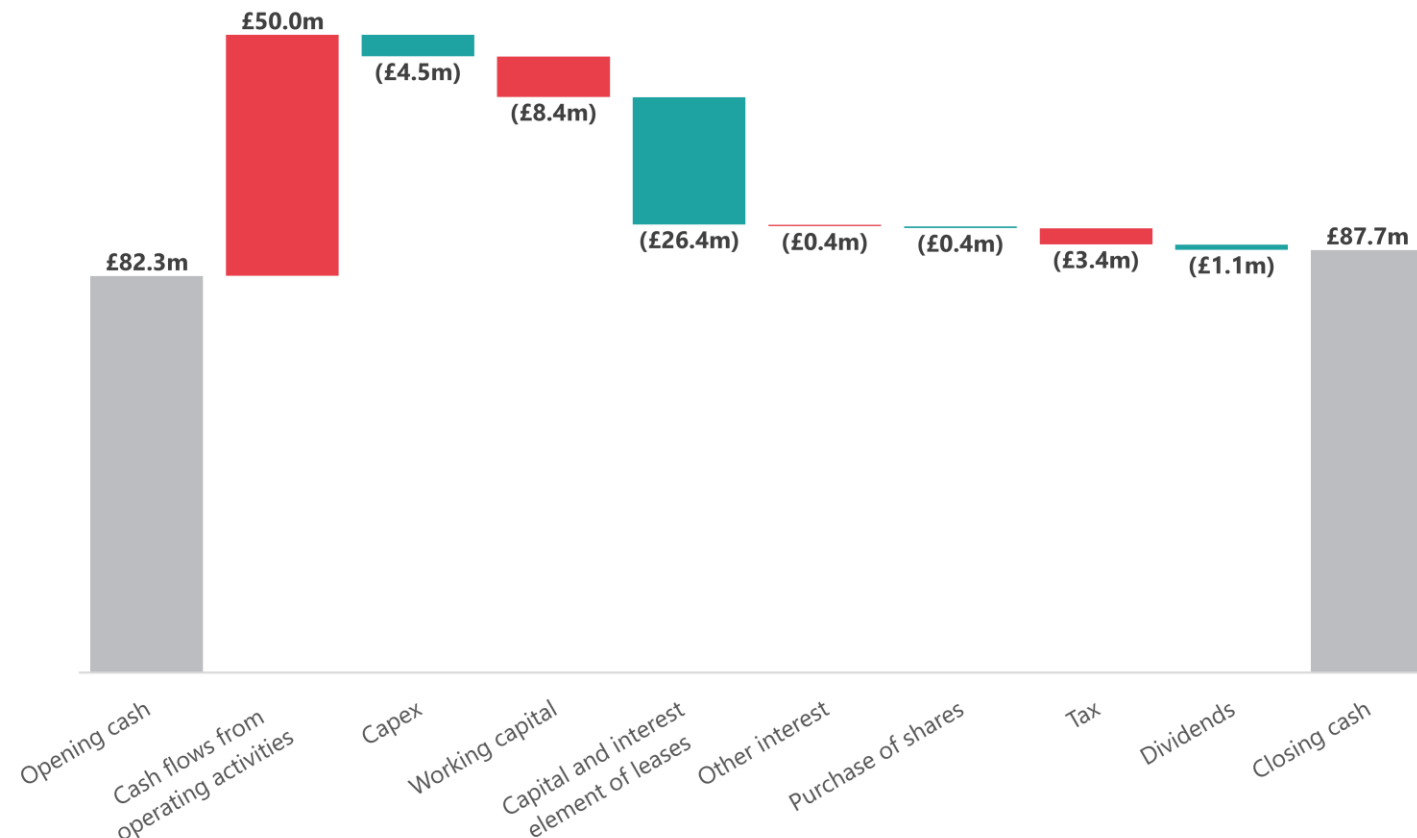
14% semi-variable

Depreciation, interest, rates, heat and light **13%** of overall cost base

Cash flow

Strong cash flows

- Increase in cash balance of £5.4m
- Capital expenditure in the period totalled £4.5m, relating to existing store and distribution centre improvements and ongoing investment in technology
- £8.4m working capital outflow largely as a result of the 53 week year capturing July month end payroll and supplier payments, a reduction in the VAT liability and the repayment of deferred PAYE/NI
- In light of the improved trading the Group paid an interim dividend totalling £1.1m in July 2021



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 end of month following delivery into our distribution centres

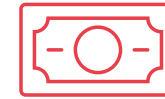
Progressive dividend reinstated



The Board recognises the importance of a dividend to investors and has set a progressive policy, with the intention to:



Keep earnings cover in the range of 1.25x to 2.00x



Ensure cash cover remains in the range of 1.75x to 2.25x through the economic cycle



Pay an interim dividend that will be approximately one third of the total dividend

The Board is confident in the outlook for the Group, and proposes a final dividend of 7.0p. If approved, this would give a full-year dividend of 10.0p

Refreshed strategy



Key ingredients

Helping create the home you love.



Range of price points

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



Easy ways to pay

Long term interest free makes buying affordable



Brands

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



Service

“Excellent” Trustpilot rating service, delivered by our passionate and caring team



On key retail parks

High quality stores in prime locations



Online

Showcasing product and a rapidly growing sales platform



Strong business...



Differentiated value-focused positioning in furniture market



Strong reputation as a furniture specialist, evidenced by Trustpilot reviews



Well-managed and incentivised sales colleagues



Market leading range of entry to mid price points



Brand positioning and marketing that shouts value



...with a well-managed, lean operating model



Resilient financial foundation, prudent balance sheet and cash generative



Active management of property estate, with attractive locations and rents



Lean operating model with excellent cost control

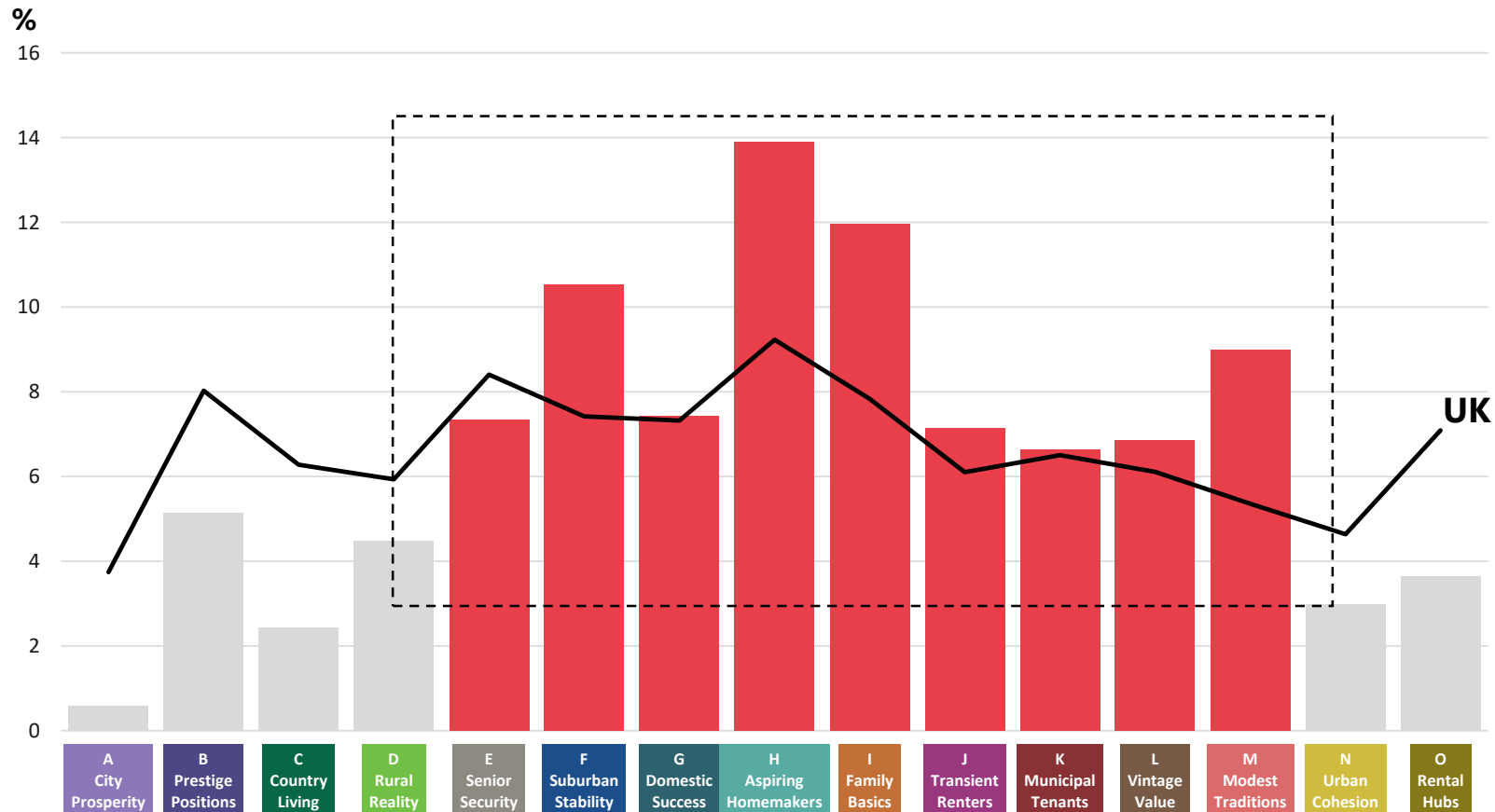


Established support functions who understand the industry and customer journey



Customer demographics

Mosaic Groups vs UK



Our customer

Broad appeal – in-line or above penetration in nearly two-thirds of UK households

Over-index in 4 key demographics:

- Suburban stability
- Aspiring homemakers
- Family basics
- Modest traditions

Helps guide future strategic choices and focus

Purpose and Mission

Purpose

Helping create the home you love

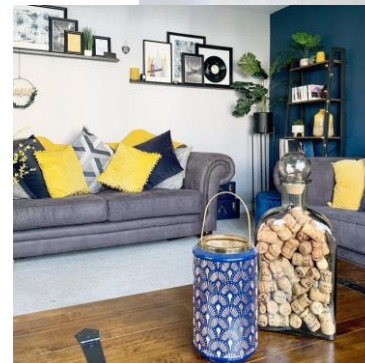


Mission

To be the UK's best value for money home retailer



Delivering outstanding value, quality and choice with a seamless customer experience



Our Growth Plan



Summary



Puts purpose at the heart of new strategic objectives



Developed with the support of colleagues across the business



Builds on the elements that have helped the Group progress whilst investing in opportunities for growth



Plan focuses on six key priorities

Evolution, not revolution

Outstanding team

Develop our leadership and invest in capabilities critical for future growth



Improve our employee proposition to ensure we attract and retain great talent



Build capability and capacity across key functions



Increase engagement, enhance our culture and empower our people



Continue to champion diversity and inclusion across the organisation



Pro-actively support our colleagues to make a difference in their local communities



Customer driven

Broaden our customer base and build deeper relationships with them



Improve the use of customer data to continuously improve our proposition and service for our customers



Continue to focus on quality across our ranges



Enhance the customer experience across all our touchpoints: stores, digital, delivery teams and support centre to maintain great customer satisfaction as evidenced by our market-leading Trustpilot scores



Refresh the ScS brand for customers, to broaden its appeal, and to further reinforce the proposition and channel improvements we will make



Inspiring ranges

Continue to update, improve and expand our ranges



Continue to provide broad choice and outstanding value for money to our customers



Innovate in our sofa range and introduce new design aesthetics and exciting new brands



Refine flooring range and optimise service proposition



Maximise the opportunity with our broad customer base



Expand our dining range to gain share



Explore new supply options including faster delivery



Digitally optimised

Grow our business digitally, both in channel and by encouraging customers into our stores



Strengthen digital leadership and invest in growing the team



Optimise relaunched website to improve conversion levels



Enhanced breadth of range with a deeper, more personalised relationship with our customers



Balanced marketing investment, which will be underpinned by improved analytical tools, ROI modelling and targeting



Offer a seamless omnichannel experience for customers who browse online and purchase in store or vice versa, underpinned by enhanced digital technology



Engaging showrooms

Invest more in our showrooms to create more engaging experiences for our customers



In an omnichannel world, stores remain the backbone of the business



Refresh of showroom environments to create a simpler, more inspiring experience to showcase latest developments in range and brands



Review of white space opportunities across the country



Continue to actively manage rent costs and relocate from less profitable locations



Strengthen the core

Focus on trading the existing business model, drive sales, protect margins and stay lean



Drive sales by continuing to offer customers outstanding value for money and great service



Use data and analytics to drive store and product performance



Optimise processes in core operational disciplines



Maintain focus on cost efficiencies



Ongoing investment in technology



The opportunity



Strengthen the team



Understand and improve our brand perception, awareness and consideration for our broad customer base



Expand and modernise our ranges and brands to increase market share



Increase digital investment to improve omnichannel offering



Refresh the look and feel of stores to make them more inspirational



Continue to do the basics brilliantly well

Strategy in progress – Inspiring new ranges

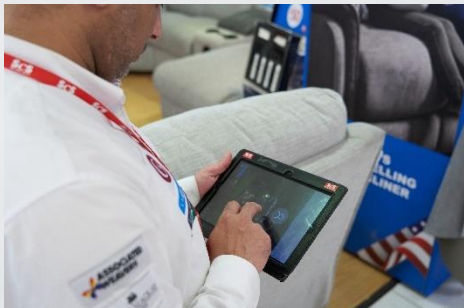
Giving our customers a designer product at an affordable price



Our new 'LLB' range collaborates with British interior designer and television personality Laurence Llewelyn-Bowen

Launched September supporting the 2021 National Television Awards

Outlook and current trading



Current trading

Strong start to the new financial year



We are pleased with the strong trading since the start of the new financial year



Two year like-for-like* order intake growth of 11.9% for the first nine weeks of the year



Order intake down 21.0% on a like-for-like* basis for the first nine weeks of the new financial year following the significant post-lockdown bounce experienced in prior year



Year to date trading is in line with the Board's expectations



Outlook

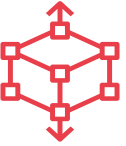
Helping create the home you love



Demonstrated throughout the pandemic that we have a flexible and resilient business model



Cost inflation, supply chain disruptions and staffing levels continue to present challenges



Expect to adapt to changes in the macro-environment whilst still delivering for our customers



We look forward to embedding our new purpose and mission into our operations and delivering on our refreshed strategy



Appendices



Alternative Performance Measures (“APMs”)

APM	Definition
Like-for-like order growth	‘Like-for-like’ order growth comprises total orders (inclusive of VAT) in a financial period compared to total orders achieved in a prior period excluding new or closed stores to ensure comparability
Gross sales	Gross sales represents turnover on the sale of goods and warranties before deduction of interest free credit
Gross margin	Gross profit as a percentage of gross sales
Non-underlying items	Certain costs or incomes that derive from events or transactions that fall outside the normal activities of the Group and are excluded by virtue of their size and nature to reflect management’s view of the performance of the Group
Underlying profit before tax	Underlying profit before tax is based on profit before tax, before the impact of certain costs or incomes that derive from events or transactions that fall outside the normal activities of the Group and are excluded by virtue of their size and nature to reflect management’s view of the performance of the Group
Underlying basic earnings per share (EPS)	Underlying basic EPS is based on earnings per share before the impact of certain costs or incomes that derive from events or transactions that fall outside the normal activities of the Group and are excluded by virtue of their size and nature to reflect management’s view of the performance of the Group

IAS17 Pro-forma (pre IFRS 16)

	FY21 IAS 17	Remove rent	Add depreciation	Add interest	Include additional IFRS16 impairment reversal	FY21 IFRS16
	£m	£m	£m	£m	£m	£m
Revenue	324.5	-	-	-	-	324.5
Gross Profit	147.0	-	-	-	-	147.0
Distribution Costs	(19.1)	3.1	(2.7)	-	-	(18.7)
Administration expenses (ex. exceptional costs)	(110.2)	22.5	(18.1)	-	-	(105.8)
Exceptional costs	2.4	-	-	-	1.9	4.3
Operating Profit	20.1	25.6	(20.8)	-	1.9	26.8
Net finance (expense)/income	(0.4)	-	-	(3.7)	-	(4.1)
PBT	19.7	25.6	(20.8)	(3.7)	1.9	22.7
Underlying EBITDA	22.9	25.6	-	-	-	48.5
Underlying PBT	17.3	25.6	(20.8)	(3.7)	-	18.4

F







Suburban Stability

Mature suburban owners living settled lives in mid-range housing



🏠 7.41% | 8.74% 👤



Who We Are

Age  56–65 223 32.5%	Household income  £30k–£39,999 175 26.9%
Household composition  Family + other adults 236 42.1%	Number of children  No children 124 90.6%
Tenure  Owned 150 95.6%	Residency type  Semi-detached 194 56.0%

Advert Response Channel

 84	 105	 100
 78	 85	 113

Key Features

- Older families, no children
- Own mid-value semis
- 3 bedrooms
- Established in community
- News and media sites
- Solar panels

Household Technology



Low



H

Aspiring Homemakers

Younger households settling down in housing priced within their means

🏠 8.79% | 8.53% 👤



Key Features

- Families with young children
- 3 bedrooms
- High outstanding mortgages
- Internet via smartphone
- Texts and photos on smartphone
- Order from takeaways



Who We Are

Age 🎂	Household income 🏠
26–35	£40k–£49,999
198 38.4%	255 30.2%
Household composition 👤	Number of children 👨‍👩‍👧
Pseudo family	1
217 22.9%	262 32.9%
Tenure 🤝	Residency type 🏠
Owned	Semi-detached
119 76.2%	149 42.9%



Advert Response Channel



Household Technology



Family Basics

Families with limited resources who budget to make ends meet

7.59% | 8.86%



Who We Are

Age 36–45 163 30.0%	Household income £30k–£39,999 182 27.9%
Household composition Family + other adults 149 26.7%	Number of children 1 266 33.4%
Tenure Council/HA 310 56.9%	Residency type Terraced 188 49.4%

Advert Response Channel



Key Features

- Families with lots of children
- Council/HA tenants
- Low discretionary income
- Low affluence
- Internet via smartphone
- Games consoles

Household Technology



M







Modest Traditions

Mature homeowners of value homes enjoying stable lifestyles

5.39% | 5.60%



Who We Are

Age 	Household income 
56–65	£20k–£29,999
219 32.0%	229 42.8%
Household composition 	Number of children 
Family + other adults	No children
157 28.0%	137 99.5%
Tenure 	Residency type 
Owned	Terraced
142 90.8%	186 48.9%

Advert Response Channel



Key Features

- Homeowners
- No children
- Established in community
- Low discretionary income
- Watch TV
- Solar panels

Household Technology



Very Low

