



5 June 2020

Matalan Covid-19 Investor Update

Matalan, a leading omni-channel fashion and homeware retailer, today issues a further update on developments in its business regarding Covid-19.

This update to Investors follows that issued by the Company on the 27th April 2020 and contains a number of forward-looking statements, including with respect to our expectations for our business and financial performance, the market generally and the UK's response to the Covid-19 pandemic. As always, Investors are cautioned not to place undue reliance on such forward-looking statements as they are inherently uncertain and are not guarantees of future performance or financial condition.

Trading Update

Stores

Following the “lock down” of the UK on the 24th March, all 232 of our UK stores closed. During the period of closure we followed government guidance closely in addition to liaising with the BRC and the BEIS to aid our preparation for when it was safe and permissible to re-open. As a primarily out-of-town retailer, our stores are typically large, spacious and conveniently located with access to easy car parking, which are all attributes that help in enabling socially-distant shopping. In addition to this we have made numerous changes to the customer and colleague journey and experience in our stores, implementing best-practice, and taking on board insights from other relevant “essential” retailers that operated throughout the lockdown period. New and enhanced health and safety measures ensured that every Matalan store which re-opened would be fully compliant with social distancing rules, with employees trained appropriately and provided with mandatory PPE. We are confident that these safety measures have gone above and beyond the guidance provided by the Government and Public Health England. Our priority is to protect both our colleagues and our customers' safety in every store.

Enhanced safety measures in our stores include:

- Monitoring and controlling the numbers of customers allowed into the store
- Store layouts have been amended to enable easier social distancing
- Floor markers were introduced to help with social distancing

- Sanitiser and cleaning products are available to enable cleaning of hands, baskets and trolleys
- All store colleagues are trained to support and supervise social distancing
- All store colleagues are provided with appropriate personal protective equipment
- Perspex screens have been installed in the checkout area
- All fitting rooms, toilets and cafes will remain closed until further notice
- Product deliveries are scheduled to avoid crowding
- Cleaning takes place throughout the day, including regularly disinfecting high touch points such as door handles, lift buttons and hand-rails
- Telephone numbers and email addresses are provided for staff to raise any questions or seek support

Government guidance changed on the 1st May to include Homeware as essential retail in England, a change subsequently mirrored in Northern Ireland. Matalan is a Clothing and Homeware Retailer with a significant Homeware business. Homeware within Matalan occupies 1.4m square feet, ranges upwards of 3000 different product lines and turns over in excess of £150m annually. We consulted extensively with the BRC, BEIS, our colleagues and our customers in assessing the potential and readiness to re-open. We concluded that the updated government guidance and changes we had made in our stores enabled us to commence a gradual and phased re-opening of our stores in England and Northern Ireland to which the updated government guidance applied. After rigorous in-store testing and preparation we opened an initial 13 stores on Monday 18th May. These stores were all spacious stores with large Homeware departments and a Click and Collect service, as well as being located on out of town retail parks, with parking outside, enabling us to effectively adhere to social distancing guidelines. Following these initial openings we gradually re-opened more stores over the following two weeks. By 30th May we had re-opened 175 of our stores. We have a further 18 stores in England and Northern Ireland yet to re-open, primarily due to them being shopping centre, high street or clearance stores that we intend to open in line with other retailers in the locality. Our stores in Scotland and Wales, of which there are 39, are fully prepared in line with social distancing protocols and ready to open and operate when guidance permits.

To support the 175 re-openings thus far, we have unfurloughed over five thousand of our colleagues. Upon re-opening, store performance has been strong and ahead of expectation. Like-for-like store sales performance for re-opened stores on the days they were trading to 30th May 2020 was +14.6% ahead of last year.

Online

Approximately 85% of our revenue comes from our UK stores and the majority of the balance from the UK online channel. Whilst our stores were temporarily closed from the 24th March, we continued to trade online, implementing all necessary social distancing protocols to protect our colleagues. As we updated previously, online demand has been resilient and skewed into our very strong Baby and Kids categories particularly. However, as is the case with many other retailers, the measures we have taken to adapt our operating procedures temporarily constrained our despatch volume capacity within our Knowsley warehouse.

Following a period of rapid technology and operational process development, we successfully accelerated our progress in enabling online parcels to be picked and despatched from selected stores. The ability to do this capitalises on our previous investments in RFID technology, providing high levels of store stock-file accuracy, a prerequisite for online fulfilment. We initially launched this capability in 20 stores and despatched orders to nearly 8000 customers in the first week. These stores are each now consistently despatching over 100 orders per day. We are currently utilising 35 stores to pick and fulfil online orders and are extending this capability further in the coming weeks.

Furthermore, we are also undertaking some development in our Corby warehouse to enable it to also pick and fulfil online orders in the coming months. Together these developments in our stores and in our Corby warehouse mitigate the limitations socially distant practices have on our Knowsley despatch capacity.

Whilst the initial speed of development has limited this capability to fulfilling orders destined for delivery to customers' homes, we intend to further develop the process to enable the fulfilment of click and collect orders from store inventory. This subsequent development will significantly improve the economics of the click and collect fulfilment channel as well as providing potential improvements to the speed at which orders could be ready for collection.

In the 4 weeks to 30th May 2020 our online performance has been resilient but constrained from its underlying growth rate of 24% while the additional capacity of store fulfilment was being developed. As such we have not actively driven traffic to the site or offered a material level of promotions, resulting in a very strong level of margin performance from the demand satisfied.

- Online sales +3.2% vs last year
- Online margin +20.1% vs last year

Financial position and performance

Our audited FY20 financial accounts will be published later in June 2020. Below are preliminary results based on management's initial review of our operations for the financial year ended 29th February 2020, which are subject to revision based upon our year-end closing procedures and upon the completion and external audit of our year-end financial statements. Actual results may differ from these preliminary results as a result of the completion of year-end closing procedures, final adjustments and other developments arising between now and the time that our financial results are finalised, and such changes could be material. In addition, these preliminary results are not a comprehensive statement of the our financial results for the fourth quarter or full financial year ended 29th February 2020, and should not be viewed as a substitute for full, audited financial statements prepared in accordance with IFRS, and are not necessarily indicative of our results for any future period.

FY20 Business Review: 53 weeks ending 29th February 2020

- The Group achieved Earnings before interest, tax, depreciation and amortisation (“EBITDA”) before exceptional items of £183.0m (FY19: £102.4m). The implementation of the IFRS 16 accounting standard during the period increases EBITDA, and so the comparable IAS 17 figure would have been £80.3m (FY19: £102.4m). The results were affected by Brexit uncertainty and weak consumer confidence impacting on customer spending habits.
- It should be noted that the year to 29th February 2020 incorporates 53 weeks compared to 52 weeks in the prior year. The overall effect of this is to increase both sales and expenses. Consequently the business review below compares a 53 week year in 2020 to a 52 week year in 2019.
- Revenue for the 53 weeks ended 29th February 2020 was £1,129.4m (FY19: £1,103.9m), with sales growth being driven by the additional trading week and strong online growth, offset slightly by a modest reduction in store sales. Online growth continued strongly at 24% growth as we continued to improve the customer journey, introduce mobile shopping and grow our online customer base.
- Gross profit before exceptional items was £129.8m (FY19: £128.4m). The impact of currency was largely neutral year on year, however we incurred significant levels of additional discounting costs in the year as a result of a challenging retail market and some specific ranging issues. We continued to improve our cost productivity within both selling and distribution costs despite ongoing wage rate inflation.
- Administrative expenses, before exceptional items, were £58.9m (FY19: £59.5m). During the year savings were delivered within staff costs as we continued to invest in improvements to our systems and ways of working.
- Exceptional items included in operating profit total £1.0m of costs of sales and £0.6m of administrative expenses (FY19: £1.5m of administrative expenses).
- Operating profit, before exceptional items, was £70.9m (FY19: £68.9m).
- Net finance costs were £87.6m (FY19: £37.3m), the increase driven by first time inclusion of IFRS 16 related interest charges.
- The statutory loss after tax under IFRS 16 was £16.8m (FY19: £23.5m profit under IAS 17).
- Additions to property, plant and equipment of £29.5m (FY19: £33.8m) and intangible assets of £20.1m (FY19: £18.1m) during the period include investment in ongoing store refurbishment, warehouse management and trading system upgrades, supply chain reconfiguration and the mobile app.
- Closing cash on the balance sheet as at 29th February 2020 was £61.2m (FY19: £72.5m)

FY21 Performance

Note the following results have been heavily influenced by the impact of Covid-19, resulting in all 232 of our UK stores closing on 24th March 2020. A phased re-opening began on 18th May 2020. In readiness for re-opening an investment of £0.5m was required in store layout and equipment to prepare stores to operate under new social distancing guidelines. In addition, investment totalling £0.3m was made in appropriate personal protective equipment for colleagues as well as consumable cleaning and sanitising products. Re-opening a significant proportion of our stores towards the end of May begins the unwinding of the working capital impact of a significantly heavier stock position carried through the period of disruption.

9 weeks to 2nd May 2020

Revenue was £53.5m (FY20: £185.6m)

Cash on balance sheet at 2nd May 2020 was £60.3m (FY20: £48.1m)

Liquidity at 30th May 2020

Cash on balance sheet at 30th May 2020 : £40.9m (FY20: £71.2m)

Pro Forma Capitalization

We recently announced our intention to enter into a number of financial transactions in order to provide us with additional liquidity consisting of (i) a £25,000,000 revolving credit facility pursuant to the Coronavirus Large Business Interruption Loan Scheme, (ii) a series of new senior secured notes generating proceeds to the Issuer of £25,000,000, which will be purchased by certain holders of our existing First Lien Secured Notes and (iii) the subordination of Existing Second Lien Notes held by John Hargreaves in an aggregate face value principal amount of £50,000,000 (collectively, the "Transactions"). The transactions are expected to generate gross proceeds of £50,000,000. The following table shows our estimated consolidated cash and cash equivalents and debt capitalization, pro forma for the financing transactions, which are expected to close on 9th June, 2020. The Transaction does not affect any of the Company's equity arrangements.

Actual amounts following the closing of the financing transactions may differ from the estimated amounts shown.

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	As at 9 June, 2020	
	Actual	As adjusted for the Transactions
	£m	£m
Long-term secured debt		
Super Senior Revolving Credit Facility maturing 25 July 2022	50.0	50.0
Super Senior CLBILS Facility maturing 25 July 2022	-	25.0
16.5% New Priority Notes due 25 July 2022 (net proceeds after issuance)	-	25.0
6.75% First Lien Secured Notes due 2023	350.0	350.0
9.5% Second Lien Secured Notes due 2024	130.0	80.0
Total secured debt	530.0	530.0
Long-term unsecured debt		
9.5% PIK Subordinated Unsecured Shareholder Notes due 2025	-	50.0
Total debt	530.0	580.0

Ends

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