



**ScS**

SOFA • CARPET • SPECIALIST

**ScS Group plc**

**Preliminary results for the year ended 25 July 2020**

29 September 2020

Highlights and review of  
the year

**David Knight**  
Chief Executive Officer

Financial review

**Chris Muir**  
Chief Financial Officer

Our business and current  
trading

**David Knight**

## RESILIENT PERFORMANCE IN UNPRECEDENTED CONDITIONS

Period	Weeks	Date	Order intake vs prior year
Pre-lockdown	1 to 34	28 July 2019 to 21 March 2020	(4.2%)
Lockdown	35 to 43	22 March to 23 May 2020	(92.5%)
Post-lockdown	44 to 52	24 May to 25 July 2020	92.2%
Full year	1 to 52	28 July 2019 to 25 July 2020	(5.9%)

- Focus and investment in our e-commerce offering drove further online growth
- Demonstrated financial stability
- Maximised the opportunity to review the business



Order intake

**(5.9%)**

## Our actions

- All stores and distribution centres closed on 23 March
- Our customers – contacted over 25,000 with orders
- Our people
  - Over 1,400 furloughed - paid 100% of salaries and average commission
  - Team of 150 supporting the business
  - Increased communications
- Our partners
  - Paid suppliers on time and in full
  - Planned re-start
  - Deferred advertising and capital spend
  - Worked with our landlords
- Supported our community



## Our re-opening

- Comprehensive restart plan
  - Opened ahead of our competition
  - Making our customers and colleagues feel safe
  - Appointment system
- Marketing plan
  - Continued brand awareness sponsorships
  - Instant 'call to action' on re-opening



## The result

- Order intake growth of 92.2% in the nine weeks ending 25 July 2020
- Able to take market share from competition
- Significantly strengthened the businesses position
- Continue to maximise opportunity to deliver for our customers





# Financial review

# Financial highlights

	Gross sales*	EBITDA*	EPS*
July 20	£268.1m	£7.2m	4.3p
July 19	£333.3m	£19.7m	30.3p
July 18	£327.5m	£19.1m	26.8p

Gross margin

**44.6%**

FY19 – 45.0%

FY18 – 45.0%

Cash generated from  
operating activities

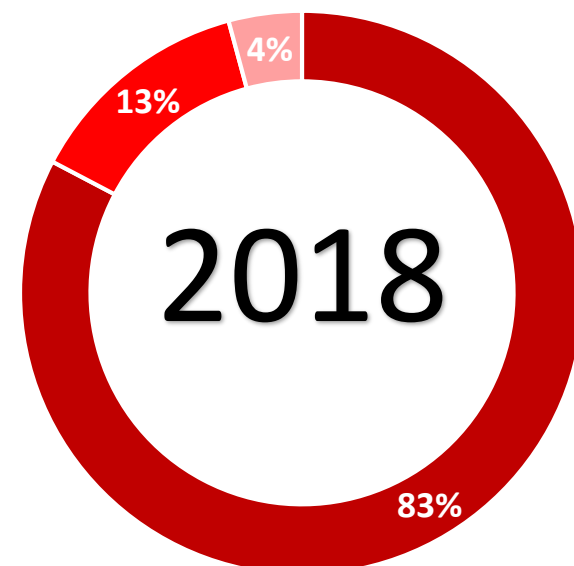
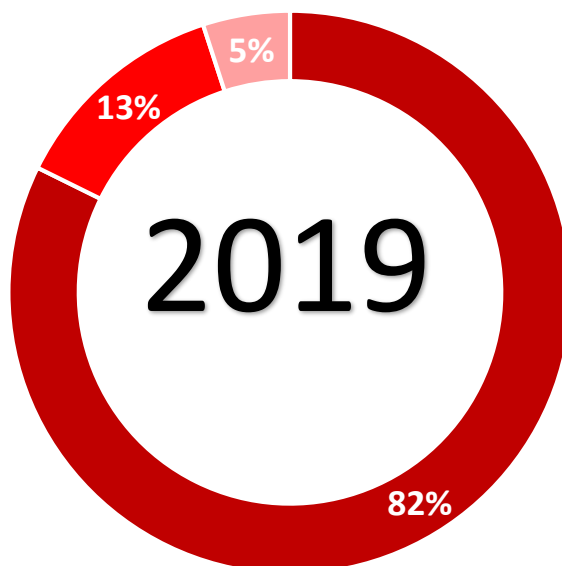
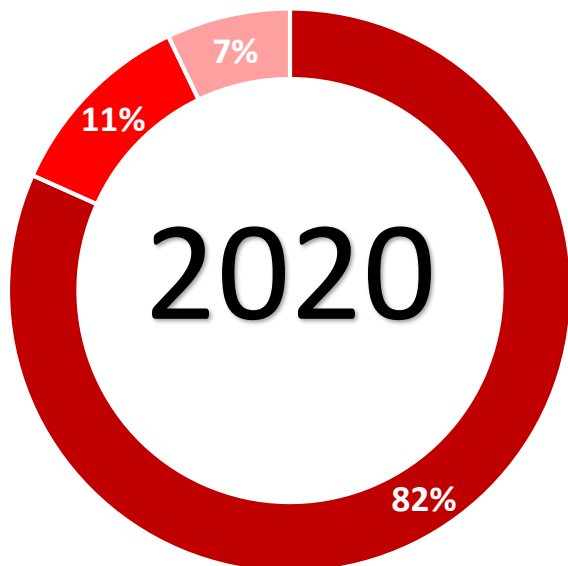
**£39.5m**

FY19 – £24.1m

FY18 – £21.0m

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

# Gross sales from continuing operations

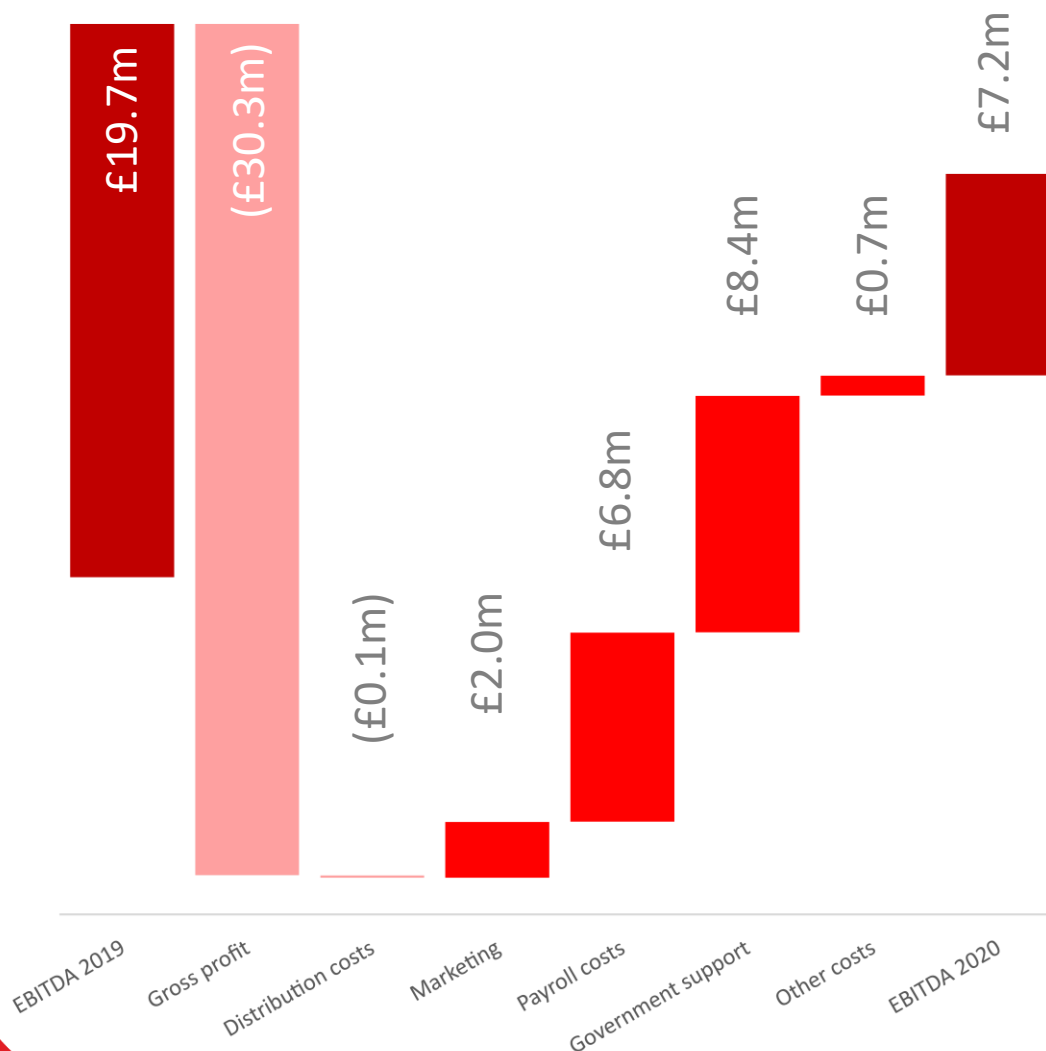


■ In-store furniture ■ In-store flooring ■ Online

Channel £m	2020	2019	Var.	Var. %
In-store furniture	219.0	274.2	(55.2)	(20.1)
In-store flooring	30.0	42.3	(12.3)	(29.2)
Online	19.1	16.8	2.3	13.6
Total	268.1	333.3	(65.2)	(19.5)



# Underlying EBITDA from continuing operations\*



## FY20 EBITDA declined by £12.5m

Gross profit decreased £30.3m to £119.6m as a result of the temporary closure of our distribution centres

Gross profit margin fell slightly to 44.6% due to the increasingly promotional offer

Distribution costs remained broadly in line with the prior year

Marketing expenditure decreased £2.0m, deferring planned spend on the key Easter and May bank holiday trading periods

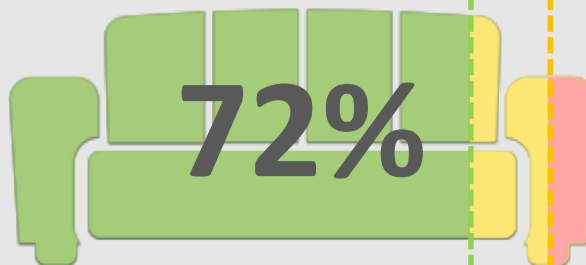
Payroll costs decreased £6.8m, predominantly due to performance related pay

£8.4m of government support received in response to the COVID-19 outbreak. £5.0m from the Coronavirus Job Retention Scheme and £3.4m of retail business rates relief

Other costs mainly driven by lower utility costs as a result of temporary store closures

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

# Flexible cost base



£m	2020	2019	%
Gross sales	268.1	333.3	
EBITDA	7.2	19.7	
<b>Total costs</b>	<b>260.9</b>	<b>313.6</b>	<b>100%</b>
Government support	8.4	-	
<b>Total costs exc gov support</b>	<b>269.3</b>	<b>313.6</b>	<b>100%</b>
Cost of goods sold (inc. credit)	(148.5)	(183.4)	55.1%
Distribution costs	(17.4)	(17.3)	6.5%
Marketing costs	(20.4)	(22.4)	7.6%
Payroll costs (performance related)	(8.2)	(14.6)	3.0%
Other payroll	(31.9)	(32.3)	11.8%
Other costs	(8.3)	(7.4)	3.1%
Rent, rates, heat and light	(34.6)	(36.2)	12.9%

## Flexibility

Sales are made to order creating a flexible business model

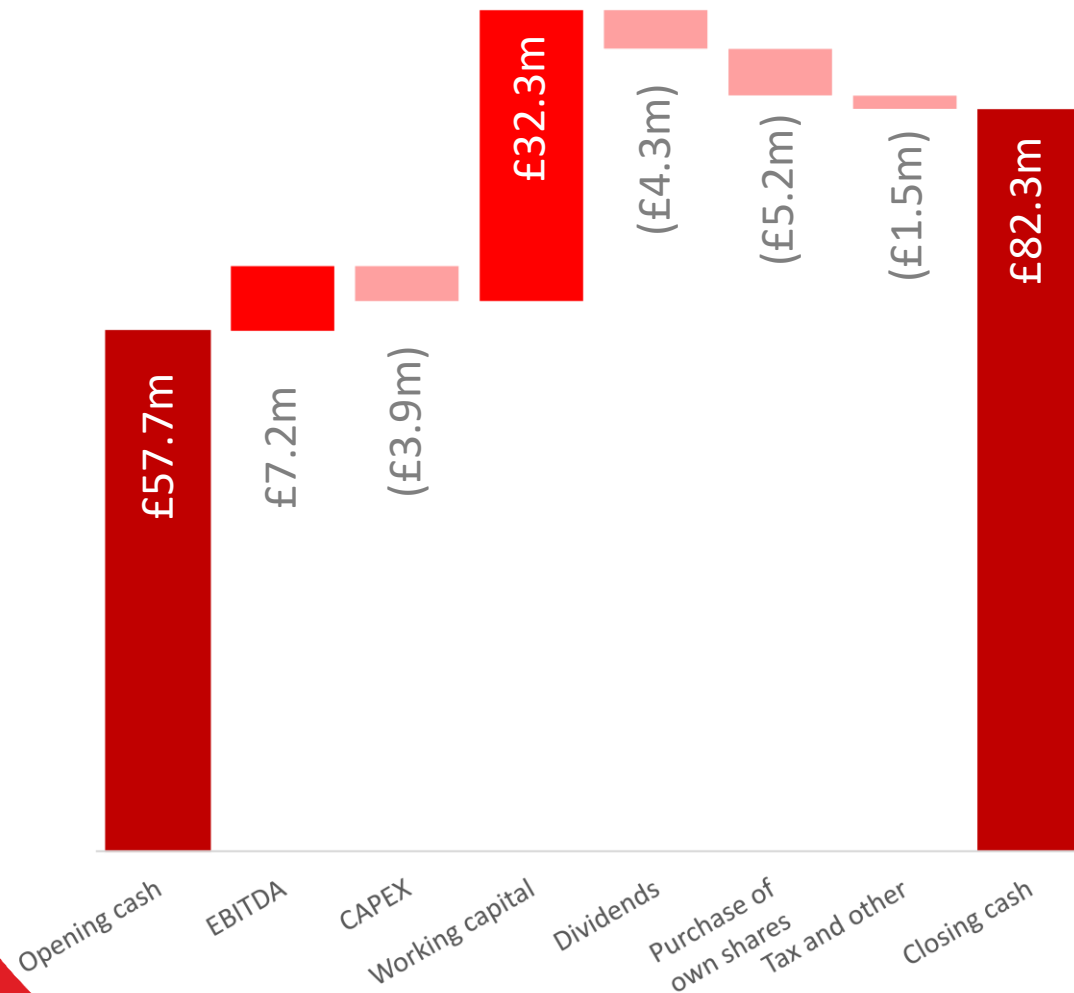
72% of cost base variable with sales

15% semi variable

Rent, rates, heat and light 13% of overall cost base

As would be expected flexible costs reduced in line with the fall in sales, meaning semi-variable and fixed costs increased as a % of total costs

	Variable
	Semi-variable
	Fixed costs



## 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

## Strong cash flows

Increase in cash balance of £24.6m

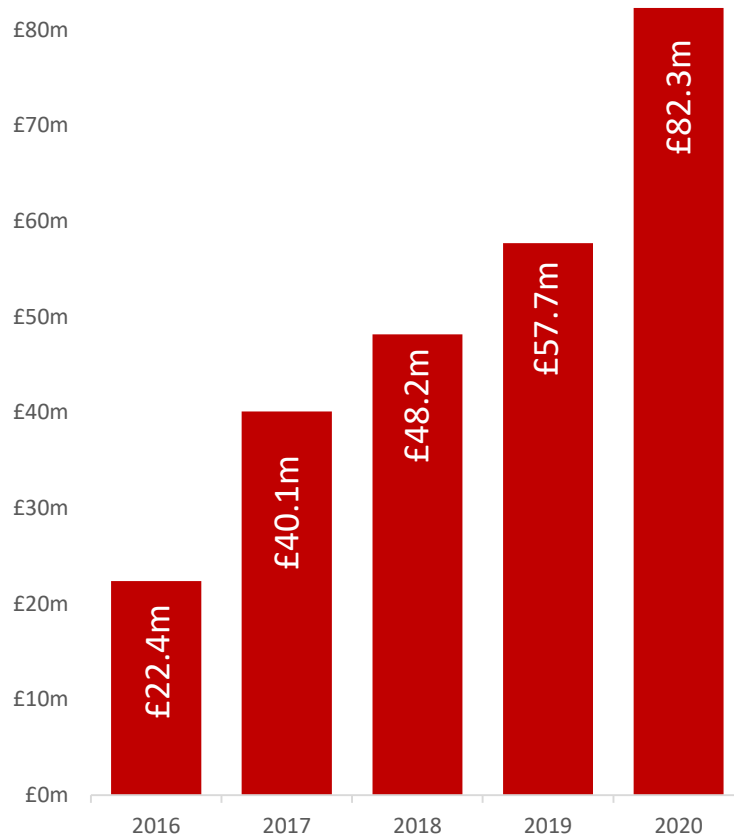
Capital expenditure in the period totalled £3.9m, relating to existing store improvements, our new Kirkcaldy store and ongoing investment in technology (including new website)

£32.3m working capital increase largely due to:

- £19.9m increase in customer deposits to £34.6m (FY19: £14.7m), reflecting strong post-lockdown sales order growth
- Deferment of PAYE/NI/VAT payments £6.1m
- Deferred rent £4.3m

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

## Cash



- No debt with significant cash position
- Over the last 12 months the cash balance\* varied as follows:
  - Average £54.6m
  - Lowest point £34.8m
  - Highest point £82.3m
- Further protection from £20.0m committed revolving credit facility agreed in Aug 20 for a term of 36 months

\*The cash balance presented here is excluding the drawdown of the £12m RCF which was subsequently repaid





Our business



## Excellent customer experience with outstanding value, quality and choice



### Range of price points

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



### Brands

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



### On key retail parks

High quality stores in prime locations



### Easy ways to pay

Long-term interest-free making buying affordable



### Service

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



### Online

Showcasing product and a rapidly growing sales platform

# The market – our position

## Market share

### Upholstery

**9.8%**

2019 – 9.4%

### Floorcoverings

**2.8%**

2019 – 2.5%

## Gross sales growth



Upholstery market reduced 22.7% from 2018 to 2020  
ScS sales decreased 16.3%

Flooring market reduced 28.5% from 2018 to 2020  
ScS sales decreased 29.9%

*Source: Company/GlobalData*

## Consumer confidence (overall score)



Big ticket sales are usually heavily affected by consumer confidence, which has reached new lows as COVID-19 has impacted worldwide

*Source: GfK Consumer Confidence*

## Housing transactions (% movement)



A house move often triggers purchase of furniture and flooring

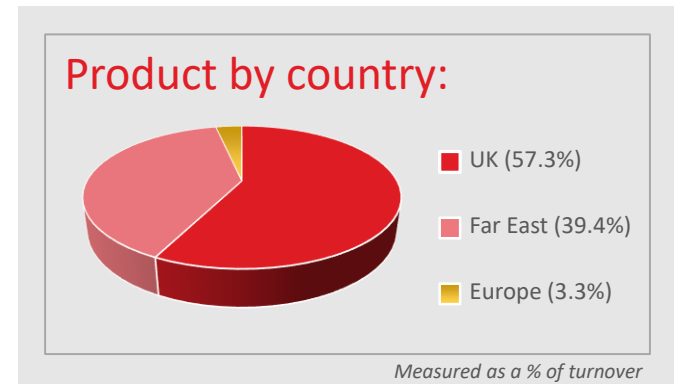
Over the past few years, housing transactions have continued to fall and have been significantly impacted by the COVID-19 outbreak

*Source: HMRC UK Property Transaction stats*

# The market – future opportunities

## Furniture

- Value led proposition
- Opportunity to take market share
- Majority of product manufactured in the UK



## Flooring

- Widened product offering
- Improvements to customer journey
- Strengthening in-store teams



# Our people

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

- Commitment to our people throughout the year
- Investment in development of our colleagues
- Significantly improved staff retention
- Highest ever number of annual job applications
- Recruitment ongoing of over 300 new roles
- Additional field support



## Placing customers at the heart of our business

- 'Excellent' Trustpilot rating – over 230,000 reviews
- Customer journey improvements
  - Centralised customer experience operations
  - 7 day operation and more methods of contact
  - nYwhere in-store app
  - Online 'myScS appointment' system
  - Increased communication
  - Virtual upholstery appointments
  - Creating a safe environment

### Trustpilot – TrustScore:



### Customer satisfaction score:



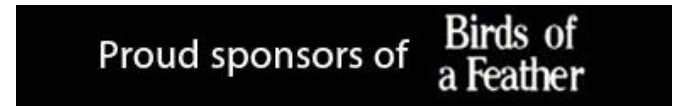
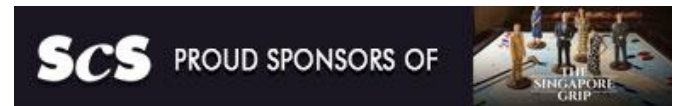


## Increased brand awareness with strong 'call to action'

- Clear focus and message on our value offer
- Push urgency – “ends soon”
- Strong relationships with advertisers allowed management and deferral of spend
- Increased digital marketing in line with online growth
- Refreshed media mix
  - Reduced newspaper investment
  - TV schedule and regional mix
  - Increased sponsorship

### Marketing spend

2020	£20.4m
2019	£22.4m
2018	£22.1m



**DOUBLE DISCOUNT SALE**  
**EXTRA SAVINGS**



## New site launched and significant continued growth

- Increased product range including online exclusives
- New site launched 26<sup>th</sup> July
  - Significant improvement in load speed
  - Mobile optimised
  - Improved user experience
  - Significant opportunities
    - 'Zero touch'
    - CGI and 360° imagery
    - Product offer
- Despite stores re-opening, continued growth in website traffic:
  - Increasing online research
  - Shop window for stores
  - Growing confidence to transact online
  - Development of online sales team

### Online gross sales:



### Website traffic:



## **FY20 – Resilient performance in unprecedented conditions**

- Power of our value offer
- Only 5.9% order intake reduction - 60 lost trading days
- Demonstrated cost control
- Underlying EBITDA of £7.2m
- Strength of our team
- Underlying cash flows from operating activities of £39.5m (2019: £24.1m)
- Strong balance sheet with cash of £82.3m (2019: £57.7m) and no debt

## **FY21 - Opportunity in a recovering market**

- 45.8% like-for-like order intake growth for the first nine weeks
- Benefit from pent-up demand and increased investment in homes
- Exceeded Board's expectations
- Increased economic uncertainty - furlough scheme ends in October
- Business in strong position with value led proposition
- Gain market share





# Appendices

# IFRS 16 'Leases' P&L proforma

		IFRS16 adjustments					
	FY20 IFRS 16 £m	Exclude rent £m	Include depreciation £m	Include interest £m	COVID-19 related rent concessions	Impairment	FY20 IAS 17 £m
Revenue	268.1	-	-	-	-	-	268.1
<b>Gross profit</b>	<b>119.6</b>	-	-	-	-	-	<b>119.6</b>
Distribution costs	(17.0)	3.0	(2.6)	-	-	-	(17.4)
Administration expenses (exc exceptional costs)	(97.9)	22.2	(20.2)	-	0.6	-	(100.5)
Exceptional costs	(4.0)	-	-	-	-	(0.8)	(3.2)
<b>Operating profit</b>	<b>0.7</b>	<b>25.2</b>	<b>(22.8)</b>	-	<b>0.6</b>	<b>(0.8)</b>	<b>(1.5)</b>
Net finance (expense)/income	(3.8)	-	-	(3.9)	-	-	0.1
<b>(LBT)/PBT</b>	<b>(3.1)</b>	<b>25.2</b>	<b>(22.8)</b>	<b>(3.9)</b>	<b>0.6</b>	<b>(0.8)</b>	<b>(1.4)</b>
<b>Underlying EBITDA</b>	<b>33.0</b>	<b>25.2</b>	-	-	<b>0.6</b>	-	<b>7.2</b>





Our stores and distribution centres

**S** Stores

**D** Distribution