RNS Number : 4262B
Revolution Beauty Group PLC
02 June 2023

This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 ("MAR"), and is disclosed in accordance with the Company's obligations under Article 17 of MAR.

REVOLUTION BEAUTY GROUP PLC

("Revolution Beauty", the "Group" or the "Company")

INTERIM RESULTS FOR THE SIX MONTH PERIOD ENDED 31 AUGUST 2022

NARROWING LOSSES IN H1 2023 WITH SOLID UK AND INTERNATIONAL PERFORMANCE

CONDITIONAL APPOINTMENT OF TWO NEW NON-EXECUTIVE DIRECTORS

REVENUE FOR FY23 EXPECTED TO DELIVER LOW SINGLE DIGIT GROWTH, FY24 EXPECTED TO DELIVER HIGH SINGLE DIGIT GROWTH

Revolution Beauty Group plc (AIM: REVB), the multi-channel mass beauty innovator, today announces its Half Year Results for the six months ended 31 August 2022 ('H1 23'). These interim financial statements have not been subject to review by the Group's Auditors. The Group also provides an update for post period end as well as current trading for the new financial year, FY24.

The Group published its results for the year ended 28 February 2022 ('FY22') on 26th May 2023, which included full details explaining the delay in both FY22 and H1 23 results due to an Independent Investigation into certain accounting issues. The results below should be considered in conjunction with the findings of the Independent Investigation which are summarised in the FY22 results and the FY22 Annual Report and Accounts.

Set out below is a summary of the results for the 6 months ended 31 August 2022 ('H1 23')

Group results (Unaudited)	**H1 23 £'M**	H1 22 As restated £'M	Change £M	Growth %
Revenue	**75.3**	78.6	(3.3)	(4.2%)
Gross Profit	**31.2**	23.0	8.2	35.6%
GM%	**41.4%**	29.3%	12.1%	41.3%
Adjusted EBITDA*	**(7.5)**	(9.5)	2.0	21.1%
Operating loss	**(12.1)**	(23.7)	11.6	48.9%
Loss after tax	**(13.4)**	(28.9)	15.5	53.6%
Cash	**11.8**	21.8	10.0	(45.9%)
Net cash/debt	**(15.9)**	17.6	(33.5)	(190.3%)

**Adjusted EBITDA is an alternative performance measure used by management to gauge the underlying performance of the business, adjusting for certain non-cash, non-recurring and normalising items that are not considered to form part of underlying performance (note 7).*

Financial Highlights

- Group revenue decreased by 4.2%, while operating loss in H1 23 narrowed from previous year to £12.1m (H1 22: £23.7m), primarily due to reduced stock provision charge in the period and the benefit of no IPO fees as incurred in H1 22, partly offset by additional marketing and overheads in H1 23.
- UK stores revenue grew 21% year on year helped by new distribution in Boots, and good performance across Superdrug stores.
- New distribution in Walgreen ensured US stores revenue was flat in an environment where US retailer performance continued to recover following the pandemic.

performance continued to recover following the pandemic.

- Rest of the world store groups were down 6% year on year, due primarily to the timing of order placings.
- Digital wholesale revenue declined by 22% as the digital sector struggled with overstocking (with the return of bricks and mortar retail coming out of the pandemic), and our own web sales declined 8%.
- Gross margin at 41.4% was significantly higher than H1 22, mainly due to the stock provision charge in H1 23 being £3.5m versus a charge of £14.3m in H1 22.
- Net bank debt was £16.2m at H1 23, with £28m drawn on the RCF and £11.8m of cash at bank. As at 27 May 2023 cash balances were £14.0m.
- The H1 22 figures include a number of prior year adjustments which are set out in note 3 of this Half Year Results announcement. The notes to this Half Year Results announcement also contain important information regarding going concern, as previously set out in the FY22 Full Year Results announced on 26 May 2023, which shareholders should be aware of (see note 2).

Operational Highlights

- Increased number of doors worldwide as a result of new retail relationships, expansion of existing relationships and entry into new territories.
- Successful roll-out into Walmart stores in US.
- Growth in D2C customers, increasing the total customer base by +3%, with returning customers increasing by +6%.
- The Group continued to develop its distinctive social media presence and successfully leveraged its existing Revolution branded social media channels to achieve a global social channel follower community of over 7m (+15% YOY) and a reach on Meta platforms alone of over 32m.
- Strong, experienced management team in place.

Post-Period End - for the year ended 28 February 2023

- Improving trend of performance through the second half of the FY23 year.
- Revenue for the full year FY23 is expected to deliver low single digit growth on FY22.
- FY23 Adjusted EBITDA (on a constant currency basis) is expected to show a small loss.
- These estimates in respect of FY23 are subject to audit, and there will be a number of accounting treatments to be determined with the auditors relating to the adjustments made to the FY22 results, that may alter, and potentially improve the results further.
- New management team in place, focussed on delivering improved operational and financial performance.

Outlook

- The current financial year for the year ending 28 February 2024 ('FY24') has seen encouraging trading, with revenue at the end of Q1 in line with internal forecasts. The sell through in key retailers has been strong, despite the cost-of-living crisis, demonstrating the strength of our brand and price proposition. The global outlook for the beauty business continues to grow.
- FY24 Adjusted EBITDA on a constant currency basis is also in line with internal forecasts at the end of Q1 due to strong revenue performance and focussed cost control.
- The cash balance as at 27 May 2023 was £14.0m with £32m drawn on the RCF, resulting in net bank debt of £18m.
- Our current expectation for FY24 is high single digit growth in revenue, and constant currency adjusted EBITDA in the high single digit millions.

Progress to lifting share suspension

The publication of the H1 23 interim results is an important step on the journey towards the lifting of the share suspension.

In addition, the Directors commissioned a review of the Groups Financial Position and Prospects Procedures (FPPP) to ensure that the Groups processes and procedures meet the standards required of an AIM listed company. Following this review, a number of key priority actions were identified, and the Board have actioned changes to rectify the findings. These are shown in the table below together with the actions taken.

Priority Action	Latest Update
Appoint two additional independent NEDs to the Board ensuring consideration is given to the QCA Guidelines.	Two NEDs have agreed to join the Board of the Company subject to the suspension of trading in the Company's shares being lifted.
Formally document the Terms of Reference of the Risk Committee outlining the responsibilities of this new sub-committee. Develop risk registers by department on a bottom up basis.	Risk Committee established and meets monthly, reporting to the Audit Committee quarterly. Terms of Reference approved by the Board. Group risk register is built from departmental risk registers.
Apply the key accounting principles from the statutory accounts preparation process to the monthly management accounts going forward to ensure that the financial information on a monthly basis reflects as closely as possible the position at the year end. This includes: (1) posting all final and agreed historical audit adjustments to the ledger; and (2) preparing management accounts under IFRS16 and in accordance with the new inventory provisioning methodology.	All audit postings relating to the FY22 statutory accounts have been made and ongoing, the management accounts are prepared under IFRS, including IFRS 16. The new inventory methodology is applied on a monthly basis and posted on Netsuite.
Prepare a detailed external reporting timetable for the FY23 half-year and year-end which: (1) details key milestones in the reporting process; (2) allocates responsibilities to members of the finance team as appropriate; (3) accounts for the preparation of a glossy set of plc accounts, including front end disclosure around areas such as risk, corporate governance and ESG; and (4) is discussed and agreed with the external auditor.	The FY23 half year results have been completed. There is a detailed plan in place for the FY23 full year results, including a plan with the designers and printers to prepare a glossy set of plc accounts with full disclosures included. The plan has been discussed with the auditors who are working on their own internal planning to ensure audit completion by the end of August 2023.

In addition, prior to the FPPP review being conducted, the Board made a number of changes to the control environment to strengthen procedures and controls, including:

- Implementation of a 13 week cashflow forecast to enable weekly bank covenant tracking and reporting
- Updating and recirculating the whistleblowing and anti bribery and corruption policy to all employees
- Revised assignment of certain matters to the CEO and CFO to ensure that the board gets early sight of matters that may pose a risk to the group's reputation
- Updated accounting policy manual and prepared specific accounting policy papers for key areas such as revenue recognition and inventory, to ensure that new policies are understood and clear to the team
- Updated delegation of authority matrix
- Accelerated the timetable for preparation of management accounts
- Implemented downside sensitivity analysis and a formal quarterly reforecasting process
- The updated forecasting process also includes incorporating monthly sales submissions from the company's various commercial teams.

Following the publication of these results and the changes the Board have implemented to the Groups governance procedures, the Board are continuing to work with the Company's nominated adviser, Zeus Capital, to enable restoration of trading in the Company's shares in the near term. The remaining work to be completed includes a review of working capital and finalisation of internal policy documentation.

Bob Holt OBE, Chief Executive, said:

"The publication of these H1 figures for the six months ended 31 August 2022 represents an important step as we work towards lifting the suspension of Revolution Beauty shares.

"Overall, performance was resilient in the first half of FY23 financial year, and the Group narrowed previous losses, and saw significant margin expansion. The half was one where our digital business was impacted by consumers moving back to bricks-and-mortar retail stores post-pandemic, but where Revolution's omni-channel retail strategy mitigated the decline, with solid retail performances in our key markets. Our future growth is first and foremost via a global retailer strategy. Our direct to consumer online customer base grew in the year albeit we recognise the sentiment of a decline in online sales. As we look ahead, we remain confident, and expect single digit revenue growth in both the FY23 financial year, and the current FY24 financial year.

"Post period end, the momentum in H2 and encouraging recent trading demonstrates that Revolution Beauty continues to have a highly relevant and attractive customer offer, providing consumers with quality products at the right price. This, combined with the strength of our customer partnerships, and global retailer strategy underpins our confidence. As we look ahead, we remain confident, and expect single digit revenue growth in both the FY23 financial year, and the

As we look ahead, we remain confident, and expect single digit revenue growth in both the FY23 financial year, and the current FY24 financial year.

"Together with the Board, Elizabeth Lake, our CFO, and I, remain focused on strengthening procedures and controls across the Group, and I am pleased to today provisionally welcome two new NEDs to the Board."

For further information:

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About Revolution Beauty

Revolution Beauty is a global mass beauty and personal care business which operates a multi brand, multi category strategy and sells its products both direct-to-consumer (DTC) via its e-commerce operations, and in physical and digital retailers through wholesale relationships.

Today, the Group has a retail footprint of c.14,000 doors across leading retail chains in the UK, USA and other international markets. Revolution Beauty has access to a wide customer base, predominantly aged between 16 and 35, through its digital partners and own DTC platform. It has established and invested to streamline its supply chain with its own manufacturing facility in the UK, and third-party warehousing facilities across the UK, USA and Australia. The Group has offices in the UK, USA, New Zealand and Germany. Revolution Beauty currently employs 411 people.

The total mass beauty market was worth $218bn in 2022 and is expected to grow to $255bn over the next 3 years (*source: Euromonitor*). Revolution Beauty has been a leading innovator building a significant global following across social channels, enabling it to spot trends and respond quickly to consumer demand, and translating this to mass market beauty retail.

CEO Review

This review follows the very recent publication of our FY22 Annual Report and Accounts, where the issues the business has faced are well documented. The period in this report, the half-year ended 31 August 2022 was before the start of my tenure and many of the issues remained unknown during the period we are reporting on herein.

These results show revenue broadly in line with H1 22, the issues with revenue recognition at the end of FY22 have impacted the H1 23 performance as customers have reduced orders in H1 23 due to high stocking levels, particularly in the distributor channel. In addition, the re-opening of physical retail has impacted our digital customers as digital demand has moved back to a level closer to pre-pandemic.

Since the end of H1 23, trading has become more normalised and the data coming from our customers shows the sell through of core product is strong, supporting our view that the business is well placed to continue growing in the difficult economic environment consumers are facing. Our offering is very relevant, and our price points enable the consumer to continue purchasing from us and for some, to trade down from more expensive brands to Revolution.

I am very pleased that we have been able to deal with the issues within the business whilst maintaining and strengthening our relationships with key customers and suppliers, and I am very grateful for their continued support.

The business continues to enjoy the support of its banking partners who share the Boards view that the business is now well placed to deliver on the next phase of its potential. The global demand for our products continues to grow at a pace.

Acquisition of Medichem

We completed the acquisition of skincare and haircare manufacturer, Medichem, on 27 October 2021 for c.£27m. The agreement included an element of deferred consideration, which is reflected in the H1 23 balance sheet. The H1 22 balance sheet reflects the option agreement as there was no agreement in place at the time for how the consideration payments would be structured, as the option had not been exercised.

Following the findings of the Investigation and a revised valuation exercise commissioned by the Board in respect of Medichem in December 2022, the Board is in negotiations with the previous owner of Medichem to reach a revised agreement on the amount of consideration due and the payment terms for any further consideration payable. As announced on 7 March 2023 a deed of variation to the original sale and purchase agreement has been signed confirming that none of the originally agreed deferred consideration will be demanded until 21 October 2025.

Appointment of two additional Non Executive Directors (NEDs)

I am delighted that conditional on the restoration of trading in the Company's shares we will be appointing two new NEDs, both of whom have a wealth of experience to bring to Revolution Beauty.

Rachel Maguire will be joining us, Rachel has experience of audit, risk, nominations, and remuneration committees, with specialist focus on ESG, governance and stakeholder engagement. Rachel's previous roles also include senior roles at the London Stock Exchange, including as UK Head of Main Market and Head of AIM.

Matthew Eatough is also joining us, Matthew is an entrepreneur who has founded and run a number of successful businesses, most recently Proxima Group, which was recently acquired by Bain & Co, representing the largest Bain acquisition to date. Matthew has extensive experience growing businesses Internationally, particularly in the US.

Rachel and Matthew will bring robust challenge, fresh ideas and support as we move the business to the next phase of development and growth. A separate announcement will be made prior to restoration of trading in the Company's shares, providing full details of these conditional appointments to the Board.

Outlook

Revolution Beauty has made a good start to FY24, with revenue and adjusted EBITDA (constant currency) in line with internal forecasts. The global demand for our products continues to grow at a pace.

We are determined to be better at everything we do, and part of this has been to rationalise the brands we market, manage stock, be more focussed and target New Product Development (NPD) more carefully, and improve our operational and financial performance.

I look forward to bringing news of the future opportunities we see for Revolution Beauty to all our stakeholders.

Financial Review

Revenue was £75.3m, down 4.4% on H1 22. The largest reduction was in digital wholesale revenue which fell by 22% overall, due to customers carrying excess stock as physical retail recovered post pandemic and customers moved back to physical stores. This impact was felt the most in H1 23 and has reduced in the second half of FY23. Own web sales were also down 8% which was to be expected given the opening up of physical retail.

UK store revenue was up 21% year on year, boosted by new distribution in Boots together with a strong performance in Superdrug. US store groups were flat year on year, with US retail continuing to underperform due to the pandemic, balanced by new distribution in Walgreens. Rest of the world store groups were down 6% year on year, due primarily to the timing of orders.

Gross margin in the period was 41.4%, significantly ahead of H1 22. The gross margin in H1 22 has been impacted by an increase in the stock provision of £10.8m, this is following the adoption of a new stock provisioning policy which resulted in a £27.2m adjustment to opening reserves on 1 March 2022. The charge in H1 23 is £3.5m.

Operating loss was £12.1m, against a loss of £23.7m in H1 22. A reduced stock provision charge of £3.5m versus £14.3m significantly impacted the result. In addition, IPO costs of £8.9m were included in the H1 22 numbers, however in H1 23 there were additional marketing costs c.£4.5m and additional people and legal costs of c.£2.8m which partly negated the IPO cost saving impact.

Reported loss after tax was £13.4m against a loss of £28.9m in H1 22. The finance costs of the business changed significantly post IPO as debt was paid down, resulting in the charge for H1 23 being £3.9m lower.

We ended the period with a cash balance of £11.8m and gross borrowing amounted to £28m.

The face value of the Group net debt is £16.2m. The reported net debt of £15.9m is after deducting £0.3m of prepaid fees.

REVOLUTION BEAUTY GROUP PLC

CONSOLIDATED CONDENSED STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 AUGUST 2022

	Note	6 months ended 31 August 2022 Unaudited £'000	6 months ended 31 August 2021 As restated Unaudited £'000	Year ended 28 February 2022 £'000
Revenue	5	75,273	78,608	184,579
Cost of sales		(44,088)	(55,607)	(113,552)
Gross profit		31,185	23,001	71,028
Marketing and distribution costs		(26,964)	(22,474)	(49,546)
Administrative expenses				
- General administrative expenses		(16,346)	(15,252)	(35,038)
- Impairment losses on financial assets		-	-	(1,428)
- Impairment of property, plant and equipment		-	-	(1,948)
- Impairment of goodwill		-	-	(13,000)
- IPO related costs		-	(8,936)	(8,936)
Total administrative expenses		(16,346)	(24,188)	(60,350)
Other operating income		-	-	5
Operating loss		(12,125)	(23,661)	(38,863)
Finance income		-	-	76
Finance costs		(1,192)	(5,115)	(6,110)
Loss before taxation		(13,317)	(28,776)	(44,897)
Income tax credit/(expense)		(111)	(133)	1,174
Loss for the year/period		(13,428)	(28,909)	(43,723)

Other comprehensive expense for the period, net of tax				
Exchange differences		(1,433)	(31)	158
Total comprehensive loss for the period		(14,861)	(28,940)	(43,565)
Earnings per share (p)	6	(4.3)	(11.3)	(15.5)
Diluted earnings per share (p)	6	(4.3)	(11.3)	(15.5)
Adjusted EBITDA	7	(7,531)	(9,549)	(801)

The total comprehensive loss for the period is entirely attributable to the owners of the parent company.

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Refer to Note 3 for detailed information on the correction of prior period errors.

REVOLUTION BEAUTY GROUP PLC **(Company Number: 11666025)**

CONSOLIDATED CONDENSED STATEMENT OF FINANCIAL POSITION

AS AT 31 AUGUST 2022

	Notes	31 August 2022 Unaudited	31 August 2021 As restated Unaudited	28 February 2022
ASSETS		**£'000**	**£'000**	**£'000**
Non-current assets				
Intangible assets		9,956	22,589	9,837
Property, plant and equipment		8,945	10,094	8,215
Right-of-use assets		3,602	1,648	4,150
		22,503	34,331	22,202
Current assets				
Inventories	9	55,200	48,323	44,683
Trade and other receivables		53,144	40,809	55,334
Corporation tax recoverable		-	-	1,384
Cash and cash equivalents		11,754	21,797	15,619
Total current assets		120,098	110,929	117,020
Current liabilities				
Lease liabilities		(2,046)	(233)	(1,915)
Trade and other payables		(83,062)	(77,759)	(69,924)
Deferred consideration		(5,083)	-	(4,889)
Borrowings	8	(27,637)	(4,183)	(23,551)
Corporation tax payable		(311)	(557)	(48)
Total current liabilities		(118,139)	(82,732)	(100,327)
Net current assets		1,959	28,197	16,693
Total assets less current liabilities		24,462	62,528	38,895
Non-current liabilities				
Lease liabilities		(1,974)	(1,306)	(2,732)
Deferred consideration		(13,778)	(26,997)	(13,504)
Deferred tax liabilities		(460)	(166)	(432)
Provisions		(1,210)	-	(1,210)
Total non-current liabilities		(17,422)	(28,469)	(17,878)
Net assets		7,040	34,059	21,017
Equity				

Share capital	3,097	3,097	3,097
Share premium	103,487	103,487	103,487
Warrant reserve	7,239	7,239	7,239
Merger reserve	14,860	14,860	14,860
Translation reserve	(764)	480	669
Retained earnings	(120,879)	(95,104)	(108,335)
Total equity	7,040	34,059	21,017

Refer to Note 3 for detailed information on the correction of prior period errors.

REVOLUTION BEAUTY GROUP PLC

CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 AUGUST 2021

	Share capital £'000	**Share Premium £'000**	**Warrant reserve**	**Merg reser £'0**
Balance at 1 March 2021	-	-	-	14,8(
Effect of prior period errors which are impracticable to be retrospectively adjusted	-	-	-	
Balance at 1 March 2021 - *as restated*	-	-	-	14,8(
Loss for the period - *as restated*	-	-	-	
Other comprehensive income net of taxation:				
Foreign operations - foreign currency translation differences	-	-	-	
Total comprehensive loss for the period	-	-	-	
Transactions with owners in their capacity as owners:				
Issue of shares, net of transaction costs	696	105,080	-	
Bonus issue of shares	2,416	-	-	
Repurchase of shares	(15)	-	-	
Share-based payments	-	-	-	
Issue of warrants	-	(1,593)	7,239	
Total transactions with owners	3,097	103,487	7,239	
Balance at 31 August 2021 - *as restated*	3,097	103,487	7,239	14,86

Refer to Note 3 for detailed information on the correction of prior period errors.

REVOLUTION BEAUTY GROUP PLC

CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 AUGUST 2022

	Share capital £'000	Share premium £'000	Warrant reserve £'000	Merger reserve £'000
Balance at 1 March 2022	3,097	103,487	7,239	14,860
Loss for the period	-	-	-	-
Other comprehensive expense net of taxation:				
Foreign operations - foreign currency translation differences	-	-	-	-
Total comprehensive loss for the period	-	-	-	-
Transactions with owners in their capacity as owners:				
Share-based payments	-	-	-	-
Total transactions with owners	-	-	-	-
Balance at 31 August 2022	3,097	103,487	7,239	14,860

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

REVOLUTION BEAUTY GROUP PLC

CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 31 AUGUST 2022

	6 months ended 31 August 2022 Unaudited £'000	6 months ended 31 August 2021 As restated Unaudited £'000	Year ended 28 February 2022 £'000
Cash flows from operating activities			
Loss for the financial period	(13,428)	(28,909)	(43,723)
Adjustments for:			
Taxation	111	133	(1,174)
Finance costs	1,192	5,115	6,110
Finance income	-	-	(76)
Depreciation of property, plant and equipment	2,638	3,005	6,310
Impairment of property, plant and equipment	-	-	1,948
Amortisation of intangible assets	787	599	1,303
Impairment of intangible assets	-	-	13,000
Loss/(profit) on disposal of property, plant and equipment	197	-	(34)
Equity settled share-based payment expense	884	816	2,778
Issue of warrants	-	5,646	5,645
Provisions movement	-	-	1,210
Movements in working capital:			
Movement in inventories	(10,517)	(9,959)	(5,708)
Movement in receivables	1,638	11,501	(1,666)
Movement in payables	12,060	4,496	(3,764)
Cash used in operating activities	(4,438)	(7,557)	(17,841)
Income tax refunded/(paid)	1,564	(232)	(890)
Net cash used in operating activities	(2,874)	(7,789)	(18,731)
Cash flows from investing activities			
Purchase of intangible assets	(449)	(111)	(3,066)
Purchase of property, plant and equipment	(2,767)	(1,808)	(4,968)
Finance income			1

Finance income	-	-	1
Payment of financial derivatives	-	-	(510)
Purchase of subsidiaries (net of cash acquired)	-	370	(6,630)
Net cash used in investing activities	(3,216)	(1,549)	(15,173)
Cash flows from financing activities			
Interest paid	(873)	(4,468)	(5,000)
Proceeds from borrowings	4,000	8,747	29,000
Proceeds from issue of shares, net of transaction costs	-	105,776	105,775
Repayment of debt instruments	-	(6,000)	(6,000)
Repayment of borrowings	-	(77,853)	(78,665)
Payment of lease liabilities	(1,066)	(140)	(534)
Loan issue fees	-	-	(449)
Net cash generated from financing activities	2,061	26,062	44,127
Cash and cash equivalents			
Net increase/(decrease) in the period	(4,029)	16,724	10,223
Cash and cash equivalents at the beginning of the period	15,619	5,581	5,581
Effects of exchange rate changes	164	(508)	(185)
Cash and cash equivalents at the end of the period	11,754	21,797	15,619

REVOLUTION BEAUTY GROUP PLC

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 AUGUST 2022

1. General information

Revolution Beauty Group Plc ("the Company") is a company limited by shares and is registered and incorporated in England and Wales. The registered office is 2-3 Sheet Glass Road, Cullet Drive, Queenborough, Kent, ME11 5JS.

The Group ("the Group") consists of Revolution Beauty Group Plc and all of its subsidiaries.

The Board of Directors approved this interim financial information on 1 June 2023.

2. Significant accounting policies

These consolidated condensed financial statements for the interim half-year reporting period ended 31 August 2022 have been prepared in accordance with IAS 34 'Interim Financial Reporting'. These interim financial statements do not constitute full financial statements and do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 28 February 2022. The FY22 numbers included in this report are not statutory accounts for that year (but have been derived from the statutory accounts). The FY22 statutory accounts are in the process of being filed at Companies House, they contain a qualified audit report which can be found on the Group's website https://revolutionbeautyplc.com/results-and-reports/.

The annual financial statements of the Group are prepared in accordance with UK-adopted International Accounting Standards ("IFRSs"). The Group has applied the same accounting policies and methods of computation in its interim consolidated financial statements as in its 28 February 2022 annual financial statements. There are no new and amended standards and/or interpretations that will apply for the first time in the next annual financial statements that are expected to have a material impact on the Group.

Tax charged within the 6 months ended 31 August 2022 has been calculated by applying the effective rate of tax which is expected to apply to the Group for the year ending 28 February 2023 as required by IAS 34.

The financial statements have been prepared on the historical cost basis except for, where disclosed in the accounting policies, certain financial instruments that are measured at fair value. The financial statements are prepared in Sterling, which is the functional currency and presentational currency of the parent Company and primary operating subsidiary. Monetary amounts in these financial statements are rounded to the nearest £1,000.

Going concern

As reported in note 2 of the FY22 Annual Report and Accounts, the Directors have completed a full assessment of forecast and banking arrangements to consider going concern.

The Directors are pleased with the current performance of the business particularly given the challenging economic outlook and the disruption faced by the business in FY22 and FY23. Net sales have increased since the balance sheet date, with recent data from key retail partners in both the UK and US for the first quarter of 2023 also showing year on year growth in their sell though, which reflects the continued strength of the brand. Steps taken with regard to the deferral and renegotiation of the Medichem consideration and the amendment of the Groups lending arrangements and reductions to the cost base are significant in strengthening liquidity and providing a base from which to grow.

Having considered the information available and recent changes to the business, the directors are satisfied that the base case supports the application of the going concern assumption in preparation of the financial statements.

However, the directors also recognise the challenges the business has faced since its listing on AIM and the underperformance of sales versus previous expectations, as well as the uncertainty in the wider economy. As noted above, the Directors have reset the strategy with reductions in forecast expenditure and improvements to the working capital cycle considered to be commensurate with the level of revenues forecast. The Directors are confident that the adopted strategy and actions taken to address the cost base and working capital cycle can be successfully executed. In the event that revenue falls below the level forecast in the base case scenario, the Directors are also confident that they are able to take mitigating actions to reduce controllable costs further on a timely basis, in order to maintain compliance with the Adjusted EBITDA and minimum liquidity covenant tests.

The directors acknowledge that, in the event either a financial or non-financial covenant were to be breached or that the Group is not readmitted to AIM within a reasonable timescale, the Group would be reliant on its lenders not requiring immediate repayment of the outstanding loan or obtaining alternative finance in order to continue to operate as a going concern. The lenders have provided a waiver in respect of the covenant relating to the Auditors qualifications in their audit report in the financial statements for the year ended 28 February 2022. Notwithstanding that the audit for the year ended 28 February 2023 has not yet commenced, the directors anticipate that certain qualifications will be carried into the Auditors opinion on the FY23 financial statements. The lenders have also confirmed their present intention to waive any further Event of Default which might occur as a result of the audit report to be issued by the Parent's Auditor in respect of the financial year of the Group ending 28 February 2023 containing qualifications which are substantially the same as qualifications in the financial statements for the year ended 28 February 2022.

These factors, in conjunction with the sensitivity identified in the severe but plausible downside scenario with respect to the recently agreed Adjusted EBITDA covenant, represent material uncertainty which may cast significant doubt over the Group's ability to continue to operate as a going concern. The financial statements do not include the adjustments that would be required should the going concern basis of preparation no longer be appropriate.

3. Correction of prior period errors

The following corrections to prior periods were identified resulting in the changes set out below.

(1) Capital support

Certain supplier support payments accrued during the prior year were identified not to be contractually payable and therefore not valid. This has resulted in a prior period adjustment at 31 August 2021, with a £353,000 reduction in inventories and a corresponding increase in cost of sales for the period ended 31 August 2021.

(2) Supplier rebates

Certain supplier rebates accrued during the prior year were identified not to be contractually receivable and therefore not valid. This has resulted in prior period adjustments for rebates at 31 August 2021. The adjustment includes a £324,000 increase in inventory, £508,000 increase in trade payables, £191,000 increase in other payables and £375,000 decrease in retained earnings.

(3) Debt instruments

Debt instruments issued to the directors totalling £3,150,000 and debt instruments issued to a related party totalling £2,850,000 in the period ended 28 February 2021 were incorrectly treated as equity instruments. The instrument contained a contingent cash settlement provision on the occurrence of an event that was outside of the control of the company, and the directors consider that the instrument should have been classified as a liability. The total of £6,000,000 was settled during the period ended 31 August 2021. Interest of £1,117,000 on these debt instruments was previously recognised directly in equity, however has now been reclassified as finance costs.

(4) Inventory provision

A prior period error has been recognised to correct the methodology for assessing the Group's stock provision, to include all applicable costs and bring the methodology in line with the Group's inventory purchasing, holding and sales patterns.

The Group previously assessed the recoverability of inventory balances solely by reference to sales in the 12 months prior to the reporting date for each product, and in addition the provision applied to SKUs which were assessed to be slow moving did not consider the cost incurred selling them. The following additional considerations, have been applied in assessing and correcting the provision for the prior year:

- Inclusion of costs expected to be incurred in selling inventory in the future when assessing the net realisable value of a product and the point at which slow moving inventory can no longer be sold above cost.
- The assessment of slow-moving inventory excludes inventory launched in the last twelve months No provision is applied to SKUs where inventory cover is 12 months or less. Where a SKU has more than 12 months inventory cover a provision of 50% is applied to inventory expected to sell in months 13-24 and 100% to inventory expected to sell thereafter.
- An additional slow-moving provision has been made over new products developed or launched within the 12 months prior to the reporting date, based on the historic sales performance of all newly developed products purchased in the previous three years.

This has resulted in a reduction in inventories of £41,513,000, a decrease in retained earnings of £27,220,000 and an increase in cost of sales of £14,293,000 in the period ended 31 August 2021.

(5) Stand impairments

A prior period error has been recognised to correct the impairment of property plant and equipment, specifically in respect of stands used to present the Group's inventory for sale in stores. The Group has determined that each customer represents a CGU for impairment testing purposes and uses forecast customer cashflows in calculating the value in use of each CGU.

However, in previous years, the cash flows used in determining whether indicators of impairment existed did not accurately reflect the performance of the assets and excluded central costs that were not assigned to any CGU. The adjustment made includes all forecast cashflows for the Group, attributed to customers directly or using performance of each CGU as a proportion of total Group performance to allocate central costs. This has resulted in materially lower value in use calculations.

This has resulted in a reduction in property, plant and equipment of £11,632,000 - with a corresponding adjustment to equity in the period ended 31 August 2021. Depreciation was also adjusted based on the lower carrying value, resulting in a £1,382,000 decrease in administrative expenses and a corresponding increase in property, plant and equipment.

(6) IPO Bonus

A prior period error has been recognised to correct the treatment of an equity settled share based payment charge which was incorrectly recognised as a bonus.

This has resulted in a reduction in administrative expenses of £655,000, with a corresponding adjustment to equity in the period ended 31 August 2021.

Impact on the Statement of Profit or Loss and Other Comprehensive Income

Extract	**6 month period ended 31 August 2021 Reported £'000**	**Adjustments £'000**	**6 month period ended 31 August 2021 Restated £'000**
Cost of sales (1),(4)	(40,961)	(14,646)	(55,607)
Administrative expenses (5),(6)	(26,225)	2,037	(24,188)
Finance costs (3)	(3,998)	(1,117)	(5,115)
Loss before taxation	(15,050)	(13,696)	(28,776)
Loss for the period	(15,183)	(13,696)	(28,909)
Total comprehensive loss for the period	(15,214)	(13,696)	(28,940)
Earnings per share (p)	(5.9)		(11.3)
Diluted earnings per share (p)	(5.9)		(11.3)
Adjusted EBITDA	5,135		(9,549)

Impact on the Statement of Financial Position

Extract	**31 August 2021 Reported £'000**	**Adjustments £'000**	**31 August 2021 Restated £'000**
Property, plant and equipment (5)	20,344	(10,250)	10,094
Inventories (1),(2),(4)	89,864	(41,541)	48,323
Trade and other payables (2)	(77,060)	(699)	(77,759)
Net assets/(liabilities)	86,549	(52,490)	(34,059)
Retained earnings (2),(3),(4),(5),(6)	(46,583)	(48,521)	(95,104)
Share-based payment reserve*	3,969	(3,969)	-
Total equity	86,549	(52,490)	(34,059)

*Presentational only - adjustment to combine the share-based payment reserve and retained earnings, not the correction of an error.

4. Segmental reporting

IFRS 8 Operating Segments requires that operating segments be identified on the basis of internal reporting and decision-making. The Group identifies operating segments based on internal management reporting that is regularly reported to and reviewed by the board of directors, which is identified as the chief operating decision maker. Management information is reported as one operating segment, being revenue from sales of products.

5. Revenue

	6 month period ended 31 August	**6 month period ended 31**	**Year ended 28 February**

An analysis of the Group's revenue is as follows:	2022 Unaudited £'000	August 2021 Unaudited £'000	2022 £'000
Revenue analysed by class of business			
Digital	18,486	21,925	58,013
Store Groups	56,787	56,683	126,566
	75,273	78,608	184,579
Revenue analysed by geographical location			
United Kingdom	28,231	29,357	71,456
United States of America	22,704	22,345	48,021
Rest of World	24,338	26,906	65,102
	75,273	78,608	184,579

6. Earnings per share

The Group reports basic and diluted earnings per common share. Basic earnings per share is calculated by dividing the profit attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period.

Diluted earnings per share is determined by adjusting the profit attributable to common shareholders by the weighted average number of common shares outstanding, taking into account the effects of all potential dilutive common shares, including options.

	6 month period ended 31 August 2022 Unaudited	6 month period ended 31 August 2021 Unaudited	Year ended 28 February 2022
Loss attributable to shareholders (£'000)	(13,428)	(28,909)	(43,723)
Weighted average number of shares	309,737,250	256,372,467	282,835,551
Basic earnings per share (p)	(4.3)	(11.3)	(15.5)
Revenue analysed by geographical location			
Loss attributable to shareholders (£'000)	(13,428)	(28,909)	(43,723)
Weighted average number of shares	309,737,250	256,372,467	282,835,551
Dilutive effect of share options	-	-	-
Basic earnings per share (p)	(4.3)	(11.3)	(15.5)

Pursuant to IAS 33, options whose exercise price is higher than the value of the Company's security were not taken into account in determining the effect of dilutive instruments. The calculation of diluted earnings per share does not assume conversion, exercise, or other issue of potential ordinary shares that would have an antidilutive effect on earnings per share.

7. Adjusted performance measures

The Group uses a number of Alternative Performance Measures ("APMs") in addition to those measures reported in accordance with IFRS. Such APMs are not defined terms under IFRS and are not intended to be a substitute for any IFRS measure. The Directors believe that the APMs are important when assessing the underlying financial and operating performance of the Group.

The APMs are used internally in the management of the Group's business performance, budgeting and forecasting, and for determining Executive Directors' remuneration and that of other management throughout the business. The APMs are also presented externally to meet investors' requirements for further clarity and transparency of the Group's financial performance. Where items of profits or costs are being excluded in an APM, these are included elsewhere in our reported financial information as they represent actual income or costs of the Group.

The Group's Alternative Performance Measures are set out below.

Adjusted EBITDA

Adjusted EBITDA is defined as Operating Profit adjusted for depreciation and amortisation, impairments and reversals of impairment, profits and losses on the disposal of assets, share based charges and releases and exceptional items.

	6 month period ended	6 month period	Year ended

	31 August 2022 Unaudited £'000	ended 31 August 2021 Unaudited £'000	28 February 2022 £'000
Operating loss	(12,125)	(23,661)	(38,863)
Amortisation of intangible assets	787	599	1,303
Impairment of intangible assets	-	-	13,000
Depreciation of property, plant and equipment	2,638	3,005	6,309
Impairment of property, plant and equipment	-	-	1,948
Share-based payments	884	1,572	3,534
Operating exceptional items:			
IPO related costs	-	8,936	8,936
Acquisition costs	76	-	621
Restructuring costs	209	-	261
Exceptional audit fees	-	-	2,150
Adjusted EBITDA	(7,531)	(9,549)	(801)

Operating exceptional items

Having listed on AIM in July 2021, the Group incurred certain expenses connected with the listing through the course of the period. These expenses included £2.9m related to legal and professional fees associated with the IPO process, £0.5m in staff bonuses associated with the IPO and £5.6m in connection with the issue of warrants.

In addition, the Group incurred £76k (FY22: £621k, H1 22: nil) in further professional fees in connection with the acquisitions which are considered to be outside the normal course of business:

- the acquisition of Medichem Manufacturing Ltd.
- the purchase of assets from BH Cosmetics Inc.

The Group incurred £0.2m of severance costs as a result of restructuring undertaken during the period. During FY22 the Group undertook a reorganisation of its US operations, including the restructure of senior management positions and changes to certain operational reporting process. This reorganisation resulted in the Group incurring exceptional redundancy and professional costs of £0.2m.

As announced on 23 September 2022, the Company's auditor wrote to the Board on 21 September 2022 to identify a number of serious concerns that had arisen during the course of its work on the audit of the Company's accounts for the year ended 28 February 2022. The Board appointed independent external advisors to undertake an independent investigation, and the Company appointed Macfarlanes (lawyers) and FRA (forensic accountants) on 23 September 2022. As a result of issue identified through this process, including the prior year adjustments set out in note 3, exceptional audit fees were incurred above the level usually required for the Group's annual statutory audit.

8. Borrowings

	31 August 2022 Unaudited £'000	31 August 2021 Unaudited £'000	28 February 2022 £'000
Receivable finance facility	-	4,183	-
Bank revolving credit facility	27,637	-	23,551
	27,637	4,183	23,551
Payable within one year	27,637	4,183	23,551

9. Inventories

	31 August 2022 Unaudited £'000	31 August 2021 Unaudited £'000	28 February 2022 £'000
Finished goods and goods for resale	55,200	48,323	44,683

Finished goods and goods for resale	55,200	48,323	44,683
Stock written down/(written back) during period	3,510	14,292	11,262

Details of opening adjustments made to inventories are set out in note 3. The total cost of inventories recognised as an expense in cost of sale in the period was £43,984,000 (Period ended August 2021: £54,813,000, full year ended February 2022: £113,353,000).

10. Subsequent events

The investigation into serious issues of governance, accounting and internal controls that arose during the course of this audit and the independent investigation the Board commissioned in September 2022 concluded in January 2023 and we have worked hard to incorporate required changes into this set of accounts within the shortest possible timeframe.

As announced on 23 September 2022, the Company's auditor wrote to the Board on 21 September 2022 to identify a number of serious concerns that had arisen during the course of it's work on the audit of the Company's accounts for the year ended 28 February 2022.
The Board appointed independent external advisors to undertake an independent investigation, and the Company appointed Macfarlanes (lawyers) and FRA (forensic accountants) on 23 September 2022.

A number of financial accounting issues have arisen during the audit and from the Investigation and this has delayed the completion of the audited accounts.

Acquisition of Medichem Manufacturing Ltd ("Medichem")
A call option was granted on 13 July 2021, the details of which were set out in the Company's AIM Admission Document. The option was exercised in October 2021 following the completion of an independent valuation of Medichem, and the total consideration was approximately £27.5m (including payments to reflect a post completion net asset adjustment). Initial consideration of £7m was paid on completion, and deferred consideration of £19m (plus interest) remains outstanding, the remaining £1.5m is satisfied by a loan repayment that was due to Medichem from a property company owned by the Medichem seller. The deferred consideration was due in 4 equal installments of £4.75m payable annually from October 2022. As at the date of this report none of the deferred consideration has been paid.

Certain factors were identified in the investigation which may have impacted on Medichem's reported results in the financial periods prior to the acquisition. These factors were not considered by the independent valuers commissioned by the Board prior to the exercise of the call option disclosed at the IPO.

On 19 December 2022 the Company commissioned a further independent valuation. This has resulted in a new valuation which is materially lower than the original valuation.
As announced on 7 March 2023, the Board are in negotiations with the previous owner of Medichem to reach a revised agreement on the amount of consideration due and the payment terms for any further consideration payable.

Revenue recognition
The Company reached a conclusion that sales of approximately £9.6m made in February 2022 to two distributors did not represent revenue as they did not satisfy all elements of IFRS15, in particular around the extended credit terms offered being materially outside normal terms. These sales were included in the revenue figures published in the Company's FY22 pre-closing trading update on 6 May 2022.

Subsequent to the trading update, these sales have not been included in the FY22 results.
The Investigation concluded that the sales were undertaken for the purposes of meeting sales targets for FY22 and that the sales were made at the request of the Company and included stock items that were not needed by the Distributors.

The Board takes this issue very seriously and we have implemented a zero tolerance policy of pull

forward revenue. In addition, cash collection is monitored daily and customers with substantial overdue balances are put on hold until their accounts are back to operating to terms.
The Investigation also reported that between July and September 2021 two members of the Board at the time had directly or indirectly invested £1m (in aggregate) in one of the Distributors. In addition, one of those Directors also provided a £0.3m personal loan to the owners of the other Distributor.

Supplier rebates and support payments
Certain irregularities around supplier rebates recognised in FY19 and then capital support payments to the same two suppliers in FY21 were identified. No cash movements happened in relation to these transactions and therefore they have been reversed as prior year adjustment, see Note 3.

Inventory provisioning
A revised inventory provisioning methodology has been adopted by the Group, details are contained in Note 3. The new methodology is robust and consistent with current and historically available data, as well as consistent with the requirements of financial reporting standards.
This has resulted in significant additional inventory provision for FY22 of £11.3m (see note 19) and an adjustment to opening reserves as at 1 March 2021, details of this adjustment and the reasoning are in Note 3.

The Group has been and continues to carry excess stock. The appropriate provisioning policy enables us to deal with slow moving stock more quickly and we have put in place a process for exiting excess stock going forwards. We are also tackling the input to the stock balance by reducing the number of new products going forwards to a more appropriate level and by improving our forecasting tools.

11. Contingent liabilities

The Group has posted or reposted social media video clips which contain sound recordings and musical compositions from the music library of the relevant social media platform. A letter was received in Autumn 2020 from two music owners, claiming copyright infringement. Letters raising such allegations are common in other business sectors involved in social media. The Group, funded by its insurers, is robustly defending the allegations and, taking a cautious approach, has sought to remove any allegedly offending posts over which the Group has control. Despite the time that has passed, no court proceedings have been brought by the music owners. The Group has taken formal legal advice from specialist US intellectual property attorneys. Based on that advice, the Group believes that if the allegations were to ever be pursued through litigation and if there were found to be any liability at all on the part of the Group, there is a reasonable expectation that such liability would be within the combined level of the Group's insurance cover and an indemnity provided by the principal shareholders. However, the directors consider that at this stage it is not probable that a material liability will arise and any possible financial effect is not capable of being measured reliably.

The Group is aware of a pending claim in California regarding possibly improperly marketing some products as eyeshadows on the website, when the products contained one or more colour additives not approved by the FDA. The Group has engaged formal legal advice and based on that advice, at this stage it is not probable a material liability will arise, and any possible financial effect is not capable of being measured reliably.

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