

21 May 2024

Topps Tiles Plc Interim Financial Report

Topps Tiles Plc ("Topps Group", the "Company" or the "Group"), the UK's leading tile specialist, announces its unaudited consolidated interim financial results for the 26 weeks ended 30 March 2024, together with new financial goals and an updated strategy for growth in the medium term.

Strategic and Operational Highlights

- H1 trading challenging, sales down 5.8% year-on-year but continuing to take market share
- Market c. 20% down on pre-covid levels, Group sales +11% vs H1 FY2019
- Further improvements in Topps Tiles customer satisfaction, up 1.2 ppts to 92.5% (H1 2023: 91.3%)
- Pro Tiler buy-out shortly to be completed: c. 5x EBITDA multiple paid for fast growing business, and founders retained
- Parkside profitable following implementation of business improvement programme in 2023
- Updated growth strategy, revenue goal and financial targets launched today - *Mission 365*
 - New goal to grow Group sales to £365 million in the medium term, with 8-10% adjusted profit before tax margins
 - Addressable market expanded to include hard wall and floor surface coverings and related products
 - Development of a significantly upgraded digital offer for Topps Tiles trade customers
 - New, co-ordinated growth strategy for B2B markets, across Topps Tiles Contracts, Parkside and Pro-Tiler
 - Further expansion of online pure-play businesses Pro-Tiler and Tile Warehouse

Financial Highlights

	26 weeks ended 30 March 2024 (H1 2024)	26 weeks ended 1 April 2023 (H1 2023)	YoY
Adjusted Measures			
Topps Tiles like-for-like revenue year on year ¹	(9.2)%	4.3%	n/a
Adjusted profit before tax ²	£3.1 million	£4.4 million	(29.5)%
Adjusted earnings per share ³	1.03p	1.57p	(34.4)%
Adjusted net cash at period end ⁴	£19.3 million	£19.9 million	£(0.6) million
Statutory Measures			
Group revenue	£122.8 million	£130.3 million	(5.8)%
Gross profit	£66.2 million	£68.7 million	(3.6)%
Gross margin %	53.9%	52.8%	+1.1 ppts
(Loss)/profit before tax	£(1.5) million	£1.7 million	£(3.2) million
Basic earnings per share	(1.12)p	0.25p	(1.37)p
Interim dividend per share	1.2p	1.2p	Flat

Financial Summary

- Group sales 5.8% lower year-on-year driven by lower footfall in Topps Tiles
- Gross margin up 1.1 percentage points year-on-year, due to recovery in Topps Tiles gross margin
- Adjusted operating costs £1.1 million lower year-on-year, driven by lower variable pay and savings
- Adjusted profit before tax down £1.3 million due to sales decline
- Statutory loss of £1.5 million stated after £3.1 million share purchase provision increase related to the Pro Tiler Limited earn out, reflecting the very strong performance of the business since acquisition in March 2022
- Cash broadly flat year-on-year at £19.3 million and strong balance sheet maintained with £49.3 million of headroom to banking facilities (H1 2023: headroom of £49.9 million)
- Interim dividend maintained at 1.2 pence per share

Current Trading and Outlook

- Group sales over the first seven weeks of the second half were 7.3% lower year-on-year
- Topps Tiles like-for-like sales were 10.1% lower year-on-year, with no material changes to trends seen in H1 2024
- Macroeconomic lead indicators such as GDP, mortgage approvals and customer confidence are all improving however trading results are yet to benefit from these upsidess
- The Group's competitive advantage is driven through market-leading brands, world-class customer service, specialist expertise, and best in class global sourcing
- Core strengths and new goal leave the Group well positioned for significant growth in the medium term

Commenting on the results, Rob Parker, Chief Executive said:

"Trading conditions in the first half have been challenging in a tile market which is down 20% on 2019. Against this backdrop, we are continuing to take market share, our online pure play businesses are growing strongly and the Group remains in a robust financial position. Lead indicators of market activity such as mortgage approvals, consumer confidence and smaller ticket DIY spend are improving, and while we are yet to see this feed through into our customer's spending patterns, as market leader Topps Group remains well-positioned for recovery.

"Notwithstanding the challenges of current market conditions, we believe that Topps Group has a substantial opportunity to increase sales and profitability over the medium term through our new growth strategy of *Mission 365*.

"*Mission 365* includes the development of new digital platforms for Topps Tiles trade customers; an increase in our addressable market of 75% by entering new product areas adjacent to our core tile specialism; a drive for accelerated growth in B2B markets through a more co-ordinated Group-wide approach; and continued momentum in our high growth online pure play businesses, Pro-Tiler and Tile Warehouse. Together these initiatives represent an opportunity to grow sales to £365 million over the medium term, while delivering profit before tax margins in the range of 8-10%."

Notes

¹ *Topps Tiles like-for-like revenue is defined as sales from Topps Tiles stores that have been trading for more than 52 weeks and online sales made through the Topps Tiles brand.*

² *Adjusted profit before tax excludes the impact of items which are either one-off in nature or fluctuate significantly from year to year. See the financial review section of this document for a reconciliation of adjusted profit before tax to statutory profit before tax.*

³ *Adjusted earnings per share is adjusted for the items highlighted above, plus the impact of corporation tax.*

⁴ *Adjusted net cash is defined as cash and cash equivalents, less bank loans, before unamortised issue costs as at the balance sheet date. It excludes lease liabilities under IFRS 16.*

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION

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INTERIM MANAGEMENT REPORT

Topps Group is the largest specialist distributor of tiles and related products in the UK. The majority of our revenues are generated from the domestic market for the renovation, maintenance and improvement (RMI) of UK homes, through our market-leading, omni-channel brand, Topps Tiles. Our Parkside brand operates in the commercial sector which includes tiles supplied across sectors such as leisure, retail, hospitality, transport and new build residential housing, where product specification is often heavily influenced by the architect and designer community. The Group also operates in the Online Pure Play sector through two brands, Pro Tiler Tools and Tile Warehouse.

All of the brands within the Group derive benefit from the scale of the Group, the specialist focus of our business model and our passion for tiles. We enjoy a competitive advantage in sourcing differentiated products from around the world that we can access on an exclusive basis and deliver world-class customer service through our store network, digital platforms and commercial sales teams. We lead the UK tile market in environmental matters, including our goal of being carbon neutral across Scope 1 and 2 emissions by 2030, and this year will begin reporting Scope 3 emissions as part of our ongoing drive to reduce our impact on the environment.

OPERATIONAL REVIEW

As detailed below in the financial review, trading conditions in the first half of the year have been challenging, against the backdrop of a weak RMI market. Notwithstanding these challenges, the Group continued to make progress in a number of areas.

Within Topps Tiles, our market-leading, omni-channel specialist, lower footfall led to like-for-like sales falling 9.2% year-on-year, although conversion levels were higher and average transaction values were only slightly lower. We continue to serve a mix of professional trade customers and homeowners; trade sales mix increased in the first half to 61.4% of sales (H1 2023: 59.0%), as sales to our trade customer base outperformed sales to homeowners. Customer satisfaction scores were a highlight, increasing again in the period to 92.5% overall satisfaction (H1 2023: 91.3%). Operationally, we have added new methods of payment including open banking and digital wallets, and enhanced our trade credit offering. We have continued to evolve the merchandising of our stores, including more extra-large format stands, rolled out our new Everscape Solutions outdoor branding, and improved our online samples process. Our new brand awareness campaign "Because We Know Tiles" has had 80 million impressions across digital and social channels.

In the period, the trading store estate increased by one to 304 stores (FY 2023 year end: 303 stores), with one new opening at Kingston Park Newcastle, and one relocation at Brentwood. We retain significant flexibility within our store estate, with an average unexpired lease term of 3.0 years (H1 2023: 2.9 years), or 2.9 years excluding strategically important stores (H1 2023: 2.7 years). At the period end there were three closed stores (H1 2023: eight).

strategically important stores (H1 2023: 2.7 years). At the period end, there were three closed stores (H1 2023: eight closed stores), with four closed stores exited in the first half.

Parkside, our commercial tile business, which focuses on projects where the architect and designer are key influencers, also experienced a weaker market in the first half of the year and recorded a fall in sales of 8.7% to £4.2 million. However, following the business improvement programme which was implemented in the third quarter of FY 2023, significant cost was removed from the business and, as a result, Parkside made a small profit of £0.2 million in the first half of the year, compared to a loss of £0.5 million in the same period last year. We are focused on delivering consistent and profitable sales growth in this market, working with the other parts of the Group that service the B2B customer.

Online Pure Play continues to perform very strongly, with sales growing by 39.4% year-on-year, to £13.8 million. Both Pro Tiler Tools and Tile Warehouse made substantial progress in the period. Pro Tiler Tools is established as a leader in its sector and continues to innovate and improve its service model and increase its brand portfolio. Tile Warehouse grew strongly in the first half, driving increased web traffic and launching a variety of website optimisations and customer support improvements.

Leading Product refers to our expertise in the ranging, sourcing and procurement of tiles and related products on a global basis, which remains a core specialism for the Group and a major source of competitive advantage. In the first half, we have launched 33 new products (H1 2023: 32 products), of which 34% were developed in house and are exclusive to the Group. The new 'Pronto' brand was launched for our luxury vinyl tile ranges, and our Everscape outdoor tile brand was extended to include a market-leading fitting solutions offer, Everscape Outdoor Solutions. Overall, 77% of ranges in Topps Tiles are either exclusive or own brand (H1 2023: 74%). Maintaining close relationships with our strategic supplier base remains key, and in the first half, 67% of purchases were from this group (H1 2023: 66%).

Leading People refers to our focus on world-class customer service, across all of our brands. World class levels of customer satisfaction are a cornerstone of the Topps Tiles offer, and a cornerstone of our success. Maintaining such high standards requires outstanding people across the business and this year, we were pleased to see a substantial reduction in employee turnover, down year-on-year at 26.3% (H1 2023: 34.0%). We continue to develop and promote from within the Group with 58% of promotions into management positions being made internally during the first half (H1 2023: 62%) and our diversity, equity and inclusion programme 'One Topps' launched, with the current focus on female and ethnicity listening groups.

Environmental Leadership remains a central part of the Group's strategy. The Group's goal is to be carbon neutral by 2030 across Scope 1 and 2 emissions, which are currently about 5,000 tonnes per annum. Key initiatives in the first half were the trial of HVO fuel as a diesel replacement and the examination of additional store efficiency measures, focused on reducing emissions from heating. We are on track to report scope 3 emissions at the full year results. Other areas of focus include the reduction of tile waste and the Group is on track to achieve a second successive year of more than 10% reduction in this metric. Finally, we were delighted that PrincipleTM was awarded Wall Tile of the Year at the Tile Association Awards. This range uses a world leading 90%+ of recycled content, diverting waste from landfill and also using less energy to produce than traditional tiles. This range was developed in partnership with Alusid and represents an excellent example of how tile manufacturing could develop in the future and how the Group is helping to lead the thinking in this important area.

LAUNCH OF NEW GOAL AND STRATEGIC UPDATE

Last year, the Group delivered a third consecutive year of record sales and achieved its market share goal of '1 in 5 by 2025', two years ahead of schedule. Sales increased to £262.7 million and our market share increased from 17%, when the goal was set in 2019, to 22.1% of the combined domestic and commercial market for tiles and related products in the UK.

The tile market started to weaken in 2023 after two years of strong growth following the Covid pandemic, and this trend has accelerated in 2024, in line with a further step-down in RMI spending. External data is limited, but we estimate that the UK tile market is currently 20% lower than in the pre-pandemic period, with Group sales up 11% in the same period. Macroeconomic indicators such as GDP, mortgage approvals, consumer confidence and smaller ticket DIY spend now appear to be trending upwards, but we are yet to see this feed through into our customers' spending patterns.

Notwithstanding these short-term challenges, we believe that the Group has substantial potential to increase sales, profitability, cash flows and returns over the medium term through self-help measures. To this end, we are launching a new financial goal, built upon five strategic growth areas.

The Group's new goal is to increase sales to £365 million in the medium term, with an adjusted profit before tax margin of 8-10% at a Group level. Moreover, we believe that each of the businesses in the Group is capable of delivering operating margins at that level. On that basis, this new goal implies the delivery of a minimum of £30 million of adjusted profit before tax in the medium term, which is 2.4x the level of profits in FY 2023, or approximately double the pre-pandemic profitability of the Group. We are calling this new goal 'Mission 365 - grow sales, build profit'. The objectives of Mission 365 are based on conservative assumptions and assume only a modest recovery in tile market volumes, with cumulative market and pricing growth over the medium term of c. 4-8%.

As part of the launch of the new goal, we are redefining the scope of the Group's operations and the market in which we operate. Topps Group has a core focus on tiles and related products, a market which was measured at £1.2 billion last year. However, the Group sells more than tiles, and the way the consumer is accessing our market continues to evolve. Traditional uses of porcelain and ceramic tiles, predominantly as wall and floor coverings in bathrooms and kitchens, are expanding, with porcelain now representing an excellent choice for applications such as outdoor areas, countertops, or even furniture. At the same time, other products such as luxury vinyl tiles, wood and laminate, can represent good substitutes for tiles in kitchens and bathrooms and are also suitable for many other rooms in the home, particularly in living and communal areas. As a result, we are redefining the Group's addressable market as *hard floor and wall surface coverings and related products*. This change increases the scope of our market from c £1.2 billion to c. £2.1 billion, a 75% increase. There may be the opportunity to expand the Group's addressable markets still further in future.

In this larger market, the Group has five key areas of focus to help deliver the 'Mission 365' goal

In this target market, the Group has five key areas of focus to help deliver the mission 200 goal.

KEY FOCUS AREAS

1) Modernise the trader digital experience in Topps Tiles

Selling to trade customers has been a consistent strength of the Topps Tiles brand in recent years. The percentage of sales made to trade in Topps Tiles has increased from c. 50% in FY 2015 to 61.4% in H1 2024 and trade sales have consistently outperformed sales to homeowners in the last 12 months. Trade customers can offer higher volumes and repeat custom, and can act as brand ambassadors, both to other traders, and directly influencing homeowners' purchasing decisions.

The Topps Tiles brand offers traders significant value, including the convenience of a nationwide store estate, more than three times larger than any other specialist competitor, technical expertise and strong relationships that are built up with our store teams, and a very good depth of stock ready to take away for the consumable items that traders need each day.

However, there is an opportunity to significantly improve our digital engagement with traders. While Topps Tiles has a trade website and a PWA (Progressive Web App), usage is currently low by industry standards. The Pro Tiler Tools acquisition has clearly demonstrated the demand for modern digital interaction from this customer group and, under the leadership of our new Sales and Operations Director, Simon Robinson, who was previously Retail Director at Toolstation, we will develop and improve our digital platform, addressing frictions in our current processes, whilst offering new functionality and services to further engage this important customer group. Specifically, we will:

- Relaunch our trade website, making it much easier to complete registration and transact with us;
- Launch a modern trade app, with enhanced functionality, making this the default way of engaging with Topps Tiles for many of our trade customers;
- Improve pricing clarity and reduce confusion with respect to trade prices when compared to homeowner prices;
- Modernise our trade loyalty scheme and embed this within our app;
- Substantially increase our trade credit offering; and
- Launch a new Customer Engagement Platform (CEP) which will allow us to communicate far more effectively with trade customers, tailoring our marketing messages and genuinely adding value for our customers.

Overall, we believe that there is an opportunity to increase trade sales through this initiative by £15 million - £20 million from current levels.

2) Expand into new product categories

As described above, we have expanded the definition of the Group's addressable market to include hard floor and wall surface coverings and related products, which increases its aggregate value from £1.2 billion to £2.1 billion per year. Approximately half of the sales in Topps Tiles are currently traditional porcelain and ceramic tiles, with the remainder being other types of coverings products (for example, natural stone), consumables (for example, adhesive and grouts), tools, and other fitting and fixing products (for example, tile backer boards, substrate matting or levelling compounds).

We see an opportunity to push much harder into other coverings products, some of which we sell in small quantities already, and some of which are new categories. These include luxury vinyl tiles, shower panels, outdoor tiles, laminate and engineered wood, splashbacks, and extra-large tiles, also known as porcelain slabs. In many cases, we have already sourced appropriate product ranges, or have the relevant supplier relationships in place, but have yet to activate full marketing campaigns to support them, particularly in the digital space, or refreshed our store merchandising solutions. A 5% market share in the categories mentioned above would represent at least a £25 million - £30 million sales opportunity and could be largely served from existing stores and Topps Tiles' current and proposed digital sales channels.

3) Business-to-business sales focus

As described above, we believe there is a substantial opportunity to increase sales to trade customers in Topps Tiles. There is also a wider opportunity to increase business-to-business sales elsewhere in the Group. Following the acquisitions of Parkside in 2017 and Pro Tiler Tools in 2022, the Group now has three brands with highly complementary offers for business-to-business customers, allowing us to access this market in different ways:

- Topps Tiles offers the convenience of over 300 stores nationwide, as well as a central contracts team who are able to form relationships with contractors buying coverings and consumable items, who value the convenience of a large store network as well as central support;
- Parkside is highly relevant for projects where the architect or designer is the key influencer behind the coverings purchasing decision, and where bespoke or technical products are required;
- Pro Tiler Tools offers modern digital channels to contractors buying consumable items and technical tools, as well as a direct selling team able to provide telephone or face to face support for their contractor customers.

These three brand propositions are supported by physical assets including over 300 Topps Tiles stores, 200,000 square feet of central warehousing and a specialist distribution fleet, £35 million of stock at the latest balance sheet date, and, in future, a very wide product range, including ceramic and porcelain tiles, luxury vinyl tiles, engineered wood, laminate, splashbacks, shower panels, extra-large porcelain and outdoor tiles, supported by a full range of fitting and fixing products. This offer is competitively advantaged and, we believe, will prove attractive to medium and large contractors. We believe this opportunity is worth £15 million - £25 million across the Group.

4) Continue to support Pro Tiler

Since Topps Group took a controlling share in Pro Tiler Limited in 2022, the business has continued its exceptional growth trajectory, growing from an annualised £11 million of sales per year at that time to £25 million in the year to March 2024. With the buy-out of the remaining 40% of shares shortly to complete at an overall multiple of c. 5x EBITDA and the two founders (Sam and Todd Bucknell) retained, we remain focused on providing the support and resources required to grow the business further.

The key focus will remain supporting the core brand of Pro Tiler Tools. Although the brand has grown substantially in recent years, we believe its growth prospects remain exciting, based on the high levels of service, wide range of brands, and technical expertise provided by the team. A key project over the next year will be expansion into a larger warehouse, as the current fifty thousand sq ft warehouse is not large enough to support the next phase of growth. Secondly, there are other brands within the Pro Tiler portfolio that have the opportunity to provide material growth opportunities and we will look to invest in these in future years. Lastly, we believe that, as described above, Pro Tiler is complementary to other group brands and that there is the opportunity to cross sell across Pro Tiler, Topps Tiles and Parkside - where a Pro Tiler customer is buying consumables, other Group brands can provide covering products, and where other brands are providing coverings, Pro Tiler may be the perfect partner for consumables or tools.

Pro Tiler has more than doubled in scale since acquisition into the Group and we see the opportunity for it to double again to £50 million, providing the opportunity to add another £20 million - £25 million of sales to the Group.

5) Develop Tile Warehouse to maturity

Tile Warehouse, our online pure play brand focused on selling coverings products to value-conscious homeowners, was established in summer 2022. The brand combines the relevant parts of the Group's infrastructure, such as the buying teams, central warehousing and logistics functions, with the specialism of a focused online team. Following changes to the management team at the end of 2023, progress this year has been strong, with all metrics moving positively, and the rate of sales at the end of H1 2024 was almost three times higher than at the end of FY 2023, although from a low base.

The growth strategy for Tile Warehouse is focused on building high quality traffic through organic, paid and social media activities, optimising conversion through a programme of continued web site enhancements and underpinning the offer with excellent customer service credentials.

The objective for this brand remains the same as when it was launched - to establish a £15 million business within five years in the £100+ million UK online pure play tile market.

Indicative financial outcomes

Overall, these five strategic areas of focus underpin a medium term revenue target of £365 million, alongside a modest level of market and pricing growth in the medium term:

	Revenue £m
Approximate market consensus FY 2024	250
Market and BAU pricing	10 - 20
Modernise the trade digital experience	15 - 20
Expand into new product categories	25 - 30
Business-to-business sales focus	15 - 25
Pro Tiler expansion	20 - 25
Tile Warehouse maturity	10 - 15
Mission 365	365

Mission 365 is very clearly focused on building profit, as well as growing sales. The Group has been successful in controlling costs over the last four years, with no growth in adjusted operating and interest costs within the Topps Tiles brand over the period FY 2019 to FY 2023, despite approximately £13 million of cost inflation, however adjusted profit before tax margins have fallen overall. The sales upside contained within the goal, combined with tight cost control and the Group's operational gearing gives us confidence that adjusted profit before tax margins can increase to a range of 8-10%, delivering a minimum of £30 million of adjusted profit before tax in the medium term.

Group gross margins are expected to fall by 2 - 3 percentage points in the medium term, primarily as a result of changes in business and product mix. As a result, we believe medium term gross margins for the Group will be approximately 51 - 52% of sales.

To deliver the plans described above, we will invest into the business, specifically in the following key areas:

- We will begin a three-year systems investment programme, consisting of a new ERP system, warehouse management system and new store systems. In addition, we will invest in a new customer engagement platform (CEP), and a new trade app, as described above. In total, these investments are expected to cost less than £3 million over the next three years, which will be largely classified as operating costs rather than capital expenditure, and will drive both sales and conversion, as well as improve operational efficiencies, allowing us to increase our cost base by a lower amount than otherwise would be required to deliver this level of sales growth.
- We plan to increase marketing expenditure, specifically to drive trade sales and new product categories, as described in the sections above.
- We will make modest targeted investments to improve our skill base, including specialist central roles.
- We will invest into the supply chain infrastructure supporting both Pro Tiler and the rest of the Group.

In the period from FY 2019 to FY 2023, the Group has reduced adjusted operating costs and interest as a percentage of sales from c. 54% to c. 48%. Moving forward, due to increased leverage of the existing store network, the operational gearing inherent in the business, and continued tight cost control, we believe that operating costs and interest expenses will increase at a slower rate than sales overall, despite the investments above. As a result, costs expressed as a percentage of sales are expected to fall in the medium term to approximately 42-44% of sales.

We do not anticipate a significant step-up in capital expenditure, however the demands on capital expenditure in excess of normal spending will be in two areas. First, as part of the ERP upgrade, the Topps Tiles brand will replace its till systems, which is likely to cost less than £1 million and be incurred over FY 2025 - FY 2026. Second, as described above, the warehousing facilities supporting both Pro Tiler Tools and the main Group facilities in Leicester will need to be upgraded over the life of these strategic proposals. The level and timing of the of capital expenditure required to support these plans is not yet certain, but our current view is that we will invest approximately £5 million across both warehouses. In addition, working capital will flex up in line with sales.

Given the improved operating margins and the limited amounts of additional capital expenditure required, the Group's return on invested capital should increase materially on delivery of the medium term goal.

Summary

Topps Group has delivered three record years of sales and a strong increase in market share, however it has the potential to deliver much more. By focusing on self-help and five clear areas of strategic growth, and assuming only a modest improvement in the market, the Group has identified an opportunity to grow sales to £365 million over the medium term. This, combined with an adjusted profit before tax margin of 8-10%, represents a minimum of a £30 million profit opportunity, which would offer attractive returns to shareholders, new employment opportunities for our teams and excellent, modernised, levels of service to our customers and clients.

Key Performance Indicators ("KPIs")

As set out in our most recent Annual Report, we monitor our performance implementing our strategy with reference to a clearly defined set of financial and non-financial key performance indicators ("KPIs"). Our performance in the 26 weeks to 30 March 2024 is set out in the table below, together with the prior year performance data. One KPI, carbon emissions per store, is only available on an annual basis and so is not disclosed here. The source of data and calculation methods are consistent with those described in the 2023 Annual Report. Further information on adjusted performance measures can be found on page 2 of this document.

	26 weeks to 30 March 2024	26 weeks to 1 April 2023	YoY
Financial KPIs			
Group revenue growth/(decline) year on year	(5.8)%	9.3%	n/a
Topps Tiles like-for-like sales growth year on year*	(9.2)%	4.3%	n/a
Group gross margin %	53.9%	52.8%	+1.1 ppts
Adjusted profit before tax*	£3.1 million	£4.4 million	(29.5)%
Adjusted earnings per share*	1.03 pence	1.57 pence	(34.4)%
Adjusted net cash*	£19.3 million	£19.9 million	£(0.6) million
Inventory days	108	117	(9) days

Non-financial KPIs

Square metres of tiles sold in Topps Tiles (thousand)	2,088	2,352	(11.2)%
Topps Tiles customer overall satisfaction score	92.5%	91.3%	+1.2 ppts
Colleague turnover	26.3%	34.0%	(7.7) ppts
Number of Topps Tiles stores at period end	304	304	0

* as defined in the Financial Review

FINANCIAL REVIEW

Consolidated Statement of Profit or Loss

Following a record first half for revenue in 2023, the weakening of the UK tile market seen in 2023 has continued into 2024, resulting in challenging trading conditions in the first half of this financial year. Total Group sales were 5.8% lower year-on-year at £122.8 million. The year-on-year decline was largely due to a reduction in sales in the Topps Tiles brand, which saw like-for-like sales decline 9.2% over the half. Our estimate is that the UK tile market is currently approximately 20% lower than the pre-pandemic period of 2019, whereas sales in Topps Tiles in H1 2024 were approximately 4% lower than H1 2019, and overall Group sales were approximately 11% higher. Sales in Parkside were £0.4 million lower year-on-year at £4.2 million and the strong growth in Online Pure Play continued, with sales growth of 39.4% year-on-year to £13.8 million, including positive year-on-year contributions from both Pro Tiler and Tile Warehouse. Revenue consolidated into the Group accounts by business area was as follows:

Revenue by brand (£m)	H1 2024	H1 2023	Variance
Topps Tiles	104.8	115.8	(9.5)%
Parkside	4.2	4.6	(8.7)%

Parkside	H2	H1	(0.1)/0
Online Pure Play*	13.8	9.9	+39.4%
Topps Group	122.8	130.3	(5.8)%

*Online Pure Play includes Pro Tiler Tools and its associated brands, which were acquired in March 2022, and Tile Warehouse, which was launched in May 2022.

The Group's gross margin increased year-on-year by 1.1 percentage points to 53.9%, as expected, following the progress made in the second half of last year. Within this, gross margin in Topps Tiles increased 2.4 percentage points year-on-year, driven by the normalisation of shipping and product costs, as well as modest gains from mark-to-market movements on forward foreign currency contracts and retranslation variances. The gross margin in the Topps Tiles brand was also higher in H1 2024 than in H2 2023, although these gains are likely to moderate moving forward as cost prices have now largely normalised. Growth in other parts of the Group, specifically Online Pure Play, had the impact of offsetting some of the gains in Topps Tiles, as these businesses operate at a lower gross margin than the Group average. In total, Group gross profit was £66.2 million (H1 2023: £68.7 million).

Operating costs were £65.4 million compared to £64.9 million in H1 2023. Excluding adjusting items, which are explained below, operating expenses decreased by £1.1 million compared to the prior year period to £61.0 million, explained by the following key items:

	£ million
HY 2023 adjusted operating expenses	62.1
Inflationary costs	2.2
Reduced variable remuneration	(2.9)
Cost savings	(1.5)
Online Pure Play cost investment	0.5
Other	0.6
HY 2024 adjusted operating expenses	61.0

Net cost inflation in the period ran at about 3.5%, including a 5% salary increase for colleagues not paid at the National Living Wage from October 2023, elements of property cost inflation, an increase in the electricity expense due to the end of a longer-term fixed-price contract at the start of the financial year and, conversely, an approximate halving of the Group's gas expense based on the rapid fall in international gas prices year-on-year. All colleagues across the Group have the ability to earn variable remuneration, and the significant savings in these lines are as a result of the weaker sales and profit performance against last year. Savings of £1.5 million include c. £0.7m in Parkside, which was restructured in H2 2023, moving Parkside into a profitable position in the first half. The increase in costs across Online Pure Play represents continued investment in growth in these brands.

The first half contains a non-cash expense of £0.8 million relating to holiday pay accruals (H1 2023: £0.9 million expense), which will reverse in full over the second half of the financial year (resulting in a £1.6 million increase in half-on-half profits). Gas usage in the business will also be lower in the second half, however the quantum of the Group's gas expense is significantly smaller year on year so the impact will be less than in FY 2023. The increase in National Living Wage of almost 10% will also impact the second half cost base. The Forward Guidance section below sets out in more detail some of the factors influencing operating costs in H2 compared to H1.

Adjusted net finance costs were £2.1 million in H1 2024 (H1 2023: £2.2 million), with higher interest earned on bank balances offset by a higher IFRS16 interest expense. Statutory interest costs were £2.3 million (H1 2023: £2.2 million).

As a result of the above, adjusted profit before tax for the period was £3.1 million (H1 2023: £4.4 million and, after including the adjusting items described in the next section, the statutory loss before tax was £1.5 million (H1 2023: profit before tax of £1.7 million).

Adjusting items

The Group's management uses adjusted performance measures, to plan for, control and assess the performance of the Group. Adjusted profit before tax differs from the statutory profit before tax as it excludes the effect of one-off or fluctuating items, allowing stakeholders to understand results across years in a more consistent manner. In line with prior years, we have included the business-as-usual impact of IFRS 16 in adjusted profit but continue to adjust for any impairment charges or impairment reversals of right-of-use assets, derecognition of lease liabilities where we have exited a store, and one-off gains and losses through sub-lets. We have also excluded property costs in relation to the store closure programme, which ended with stores closed in 2022, as well as restructuring costs. In the period between H2 2022 and H1 2024 we have excluded the cost relating to the 40% purchase of shares of Pro Tiler Limited which we expect to make early in the second half of 2024, which, under IFRS 3, is treated as a remuneration expense rather than a cost relating to the acquisition of the relevant shares. Please see the 2022 Annual Financial Results statement for a full description of this transaction and its accounting treatment, and the relevant section of this report for more information on the final values involved in the share purchase.

An analysis of movements from adjusted profit before tax to statutory profit before tax is given below:

	H1 2024 £m	H1 2023 £m
Adjusted profit before tax	3.1	4.4
Property		
Vacant property and closure costs	(0.3)	(0.7)
Store impairment and lease exit gains and losses	(1.1)	0.1
	(1.4)	(0.6)
Business development		

Pro Tiler Limited share purchase provision	(3.1)	(1.7)
Restructuring and other one-off costs	(0.1)	(0.4)
	(3.2)	(2.1)
Statutory (loss) / profit before tax	(1.5)	1.7

Tax and earnings per share

The tax expense was £0.5 million (H1 2023: £1.0 million). Tax rates are based on expectations for the full year and then adjusted for the impact of items which are not deductible for corporation tax purposes, notably in this half year by the Pro Tiler Limited share purchase provision increase, which is treated as an acquisition of shares under the UK tax code but as a remuneration expense under IFRS 3. On an adjusted basis, the effective tax rate for the period was 28.9% (H1 2023: 24.7%), higher than the headline rate of corporation tax in the UK of 25% as a result of certain disallowable expenses such as share based payment expenses and the net impact of depreciation compared to capital allowances.

After taxation and the removal of non-controlling interests, the basic loss per share was 1.12 pence (H1 2023: profit per share of 0.25 pence). Adjusting for the post-tax impact of the adjusting items detailed above, the adjusted basic earnings per share were 1.03 pence (H1 2023: 1.57 pence).

Dividend

The Group's capital allocation and dividend policy was updated as part of the Interim Results in 2022. Interim dividends will be set at one third of the full year dividend from the previous year, and as such, an interim dividend of 1.2 pence has been declared by the Board (H1 2023: 1.2 pence). The shares will trade ex-dividend on 7 June 2024 and the dividend will be paid on 12 July 2024.

Consolidated Statement of Financial Position and Consolidated Cash Flow Statement

Capital Expenditure

Capital expenditure in the first half was £1.9 million (H1 2023: £2.0 million). £1.7 million of the capital expenditure was on the Topps Tiles store estate, including a store relocation in Brentwood, the opening of a new store in Newcastle Kingston Park, and general refurbishment and merchandising across the estate.

The Board expects capital expenditure in the full year to be between £6 million and £8 million, including further refits, relocations and new store openings.

Inventory

Inventory at the period end was £35.1 million (H1 2023: £38.8 million), representing 108 stock days (H1 2023: 117 stock days). This includes £3.1m million of stock held in Pro Tiler (H1 2023: £2.7 million), representing 62 stock days (H1 2023: 78 stock days). At the last year end, inventory was £36.4 million, equivalent to 107 days turnover.

Consolidated Cash Flow Statement

The Group's cash balance decreased in the period by £4.1 million from £23.4 million at year end to £19.3 million at the half year end. Adjusted net cash is defined as cash and cash equivalents, less bank loans, before unamortised issue costs. The table below analyses the Group's adjusted cash flow:

	HY 2024	HY 2023
	£m	£m
Cash generated by operations, including interest and capital elements of leases, before WC movements*	5.9	7.2
Changes in working capital*	(1.7)	5.7
Capital expenditure	(1.9)	(2.0)
Interest	0.3	-
Tax	(1.9)	(2.0)
Other	<u>(0.1)</u>	<u>(0.1)</u>
Free cash flow	0.6	8.8
Dividends	<u>(4.7)</u>	<u>(5.1)</u>
Change in adjusted net cash	(4.1)	3.7
Adjusted net cash at start of period	23.4	16.2
Adjusted net cash at end of period	19.3	19.9

* Certain items within cash generated by operations and working capital have been re-categorised to enhance comparability between periods.

Cash generated by operations in the first half before working capital movements was £5.9 million (H1 2023: £7.2 million).

million), with the £1.3 million year-on-year movement reflective of the movement in adjusted profit, given that the adjusting items in the period were largely non-cash. The working capital outflow of £1.7 million was driven by a decrease in payables, including a lower VAT creditor, lower accruals for variable pay and lower trade payables, and an increase in trade receivables, as the Group pushes more into offering trade credit. As reported above, inventory was well-controlled with a decrease of £1.2 million over the first half. Capital expenditure and cash tax payments were similar to H1 2023, with interest income slightly higher year on year due to higher interest received on cash balances.

Return on Capital Employed

Lease adjusted returns on capital employed in the first half were 16.4% (H1 2023: 15.5%), based on a reduction in the average capital employed over the half, compared to the previous year. Specifically, lease liabilities have reduced from an average of £101.2 million in H1 2023 to £92.0 million in H1 2024.

Acquisition of remaining shares in Pro Tiler Limited

The Group acquired 60% of the shares in Pro Tiler Limited in March 2022 for £5.3 million on a debt-free, cash-free basis. After a two-year earn out period, Topps Group will shortly acquire the remaining 40% of the shares in the company from the existing shareholders at an agreed multiple of earnings. This is expected to be at a value of £8.7 million, taking the total consideration to £14.0 million on a debt-free, cash free basis. The £8.7 million has been accrued as an employment cost over the two-year period as required under IFRS 3, forming an earn-out provision on the balance sheet.

Over the two-year period, Pro Tiler has generated £2.8 million of post-tax earnings, and the Group's share will be remitted to the plc as a dividend shortly before the conclusion of the earn-out, with the other 40% being paid to the existing shareholders. The Group's share will be £1.7 million, giving an 'all-in' cost of £12.3 million, representing 5.1x the rolling 12-month EBITDA to March 2024 generated by Pro Tiler Limited. There will be a cash outflow in the second half of £9.8 million, being the £8.7 million value of the share purchase, and £1.1 million of dividends due to the current 40% shareholders.

Banking Facilities

The Group maintains a very robust balance sheet, providing resilience and allowing investment in growth opportunities. A £30.0 million revolving credit facility is in place which is committed to October 2026 with extension options for a further year (H1 2023: £30.0 million facility, committed to October 2025). At the half year, none of this facility was drawn (H1 2023: £nil drawn). Based on net cash excluding lease liabilities of £19.3 million, the Group has £49.3 million of headroom to its banking facilities at the period end (H1 2023: £49.9 million).

Forward Guidance

Certain factors will impact the second half, as described below:

- The first half contained a £0.8 million expense relating to holiday pay accruals, which will reverse in the second half, resulting in a £1.6 million increase in half on half profits in the second half;
- The Group's gas expense has increased from approximately £0.4 million in recent years to an estimated £1.0 million this year, of which c £0.8m fell into the first half, resulting in an increase in profits of c £0.6 million in the second half; and
- The increase in the national living wage will impact employment costs in the second half by approximately £0.8 million.

Current Trading and Outlook

The first seven weeks of the second half has seen trading continue in a similar manner to the first half. Group sales were 7.3% lower year-on-year, and like-for-like sales in Topps Tiles were 10.1% lower. Although a number of macroeconomic lead indicators are improving, such as GDP, real wages, inflation, mortgage approvals and consumer confidence, trading results are yet to benefit from these upsidess.

The Group's competitive advantage is driven through a combination of market-leading brands, world-class customer service, specialist expertise, and best in class global sourcing, and these strengths have enabled it to take substantial market share in recent years. Combined with our ambitious new goal and strong balance sheet, the Group remains well-positioned to deliver significant growth in both sales and profits in the medium term.

Risks and Uncertainties

The Board continues to monitor the key risks and uncertainties of the Group. Since the 2023 Annual Report, the Board has added an additional risk to the risk register concerning political tensions in the Red Sea, which may result in increased cost of goods, or lower availability for products which traditionally were shipped through this area. The Board believes that the other principal risks remain largely as documented in the 2023 Annual Report, by nature and scale. These key risks and uncertainties include: macroeconomic changes and consumer confidence; aging systems; cyber security; inflationary cost increases of goods not for resale; sustainability and climate change; artificial intelligence; development and delivery of group strategy; critical asset failure; health and safety; growth through mergers and acquisitions; quality and ethical sourcing.

Going concern

When considering the going concern assertion, the Board reviews several factors including a review of risks and uncertainties, the ability of the Group to meet its banking covenants and operate within its banking facilities based on current financial plans, along with a detailed review of more pessimistic trading scenarios that are deemed severe but plausible. The two downside scenarios modelled include a moderate decline in sales and a more severe decline in sales, which result in much lower sales and gross profit than the base scenario, resulting in worse profit and cash outcomes. The more severe downside scenario modelled this year was based on a prolonged period of macroeconomic stress in the UK, lasting for more than one year, with sales falling 45% year-on-year across the

macroeconomic stress in the UK, lasting for more than one year, with sales falling 15% year-on-year across the remainder of FY24 and then a further 10% decline year-on-year in FY25, in our main brand, Topps Tiles. The scenario also assumes declines in gross margins across the remainder of FY24 equating to a year-on-year decrease of approximately 0.5 percentage points, followed by a further 1-percentage point decline year-on-year in FY25. This scenario also assumes that variable costs would reduce in line with sales and also includes direct mitigating cost reduction actions, which would be taken if such a downturn occurred.

The Group has already taken a number of actions to strengthen its liquidity over recent years, and the scenarios start from a position of relative strength. The going concern review also outlined a range of additional mitigating actions that could be taken in a severe but plausible trading scenario. These included, but were not limited to, savings on store employee costs, savings on central support costs, reduced marketing activity, a reduction of capital expenditure, management of working capital and suspension of the dividend. The Group's cash headroom and covenant compliance was reviewed against current lending facilities in both the base case and the severe but plausible downside scenarios. The current lending facility, of £30.0 million, was refinanced in October 2022 and expires at the earliest in October 2026.

In all scenarios, the Board has concluded that there is sufficient available liquidity, with no utilisation of the current lending facility, and sufficient covenant headroom for the Group to continue to meet all of its financial commitments as they fall due for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, the Board continues to adopt the going concern basis in preparing the financial statements.

Responsibility Statement

We confirm that to the best of our knowledge:

(a) the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as contained in UK-adopted IFRS;

(b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

(c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

Rob Parker

Chief Executive Officer

21 May 2024

Stephen Hopson

Chief Financial Officer

Condensed Consolidated Statement of Profit or Loss for the 26 weeks ended 30 March 2024

	26 weeks ended 30 March 2024	26 weeks ended 1 April 2023	52 weeks ended 30 September 2023
	£'000	£'000	£'000
Note	(Unaudited)	(Unaudited)	(Audited)
Group revenue	122,774	130,310	262,714
Cost of sales	(56,542)	(61,569)	(123,466)
Gross profit	66,232	68,741	139,248
Distribution and selling costs*	(48,021)	(46,549)	(93,800)
Other operating expenses	(3,850)	(3,634)	(6,846)
Administrative costs	(9,945)	(11,610)	(21,493)
Sales and marketing costs	(3,833)	(3,463)	(6,582)
Other income*	214	402	579
Group operating profit	797	3,887	11,106
Net finance costs	(2,266)	(2,203)	(4,291)
(Loss)/profit before taxation	(1,469)	1,684	6,815
Taxation	3 (514)	(978)	(2,896)
(Loss)/profit for the period	(1,983)	706	3,919
(Loss)/profit is attributable to:			
Owners of Topps Tiles Plc	(2,195)	482	3,206
Non-controlling interests	212	224	713
	(1,983)	706	3,919

* Other income has been reclassified from Distribution and Selling costs, see note 1 for more details

All results relate to continuing operations of the Group.

Earnings per ordinary share

- Basic	5	(1.12p)	0.25p	1.63p
- Diluted	5	(1.10p)	0.24p	1.61p

There are no other recognised gains and losses for the current and preceding financial periods other than the results shown above. Accordingly, a separate Condensed Consolidated Statement of Comprehensive Income has not been prepared.

Condensed Consolidated Statement of Financial Position

as at 30 March 2024

		30 March 2024	1 April 2023	30 September 2023
		£'000	£'000	£'000
	Note	(Unaudited)	(Unaudited)	(Audited)
Non-current assets				
Goodwill		2,101	2,101	2,101
Intangible assets		4,458	5,087	4,755
Property, plant and equipment		18,793	19,998	19,306
Other financial assets		1,691	1,700	1,847
Deferred tax assets		84	152	68
Right-of-use assets		74,910	86,329	80,921
		102,037	115,367	108,998
Current assets				
Inventories		35,130	38,842	36,351
Other financial assets		320	487	327
Trade and other receivables		6,599	6,160	5,284
Derivative financial instruments		-	-	74
Current tax asset		976	122	-
Cash and cash equivalents		19,319	19,911	23,368
		62,344	65,522	65,404
Total assets		164,381	180,889	174,402
Current liabilities				
Trade and other payables		(43,599)	(50,047)	(45,066)
Lease liabilities		(16,868)	(17,420)	(15,649)
Derivative financial instruments		(200)	(158)	-
Current tax liabilities		-	-	(368)
Provisions		(8,985)	(346)	(5,865)
Total current liabilities		(69,652)	(67,971)	(66,948)
Net current liabilities		(7,308)	(2,449)	(1,544)
Non-current liabilities				
Lease liabilities		(72,543)	(82,096)	(78,853)
Provisions		(2,441)	(5,483)	(2,213)
Total liabilities		(144,636)	(155,550)	(148,014)
Net assets		19,745	25,339	26,388
Equity				
Share capital	8	6,556	6,556	6,556
Share premium		2,636	2,636	2,636

Condensed Consolidated Statement of Changes in Equity

Condensed Consolidated Statement of Changes in Equity (continued)
For the 26 weeks ended 1 April 2023

[illegible]

Issue of share capital	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	(5,104)	-	(5,104)
Own Shares disposed of in the period	-	-	223	-	-	-	(216)	-	7
Credit to equity for equity-settled share based payments	-	-	-	-	675	-	-	-	675
Deferred tax on share-based payment transactions	-	-	-	-	-	-	6	-	6
Non-controlling interest on business combination	-	-	-	-	-	-	-	-	-
Balance at 1 April 2023 (Unaudited)	6,556	2,636	(192)	(399)	5,837	20,359	(12,151)	2,693	25,339

Equity attributable to equity holders of the parent

**Balance at
30 September
2023**

(Audited)	6,556	2,636	(112)	(399)	6,035	20,359	(11,869)	3,182	26,
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Condensed Consolidated Cash Flow Statement
for the 26 weeks ended 30 March 2024

	26 weeks ended 30 March 2024	26 weeks ended 1 April 2023	52 weeks ended 30 September 2023
	£'000	£'000	£'000
	(Unaudited)	(Unaudited)	(Audited)
Cash flow from operating activities			
(Loss)/profit for the period	(1,983)	706	3,919
Taxation	514	978	2,896
Finance costs	2,620	2,301	4,699
Finance income	(354)	(98)	(408)
Group operating profit	797	3,887	11,106
Adjustments for:			
Depreciation of property, plant and equipment	2,251	2,686	5,024
Depreciation of right-of-use assets	8,865	9,012	18,157
Amortisation of intangible assets	339	386	767
Loss on disposal of property, plant and equipment and intangibles	25	69	224
Loss/(gain) on sublease	(153)	101	(240)
Impairment of property, plant and equipment	23	54	91
Impairment of right-of-use assets	569	5	346
Loss/(gain) on lease disposal	660	(240)	(100)
Share option charge	94	675	873
Increase in earn out liability and other provisions*	3,207	1,633	3,780
Non-cash loss on derivative contracts	274	676	444
(Increase)/decrease in receivables	(1,404)	(139)	761
(Increase)/decrease in inventories*	1,221	(237)	2,255
Increase/(decrease) in payables*	(1,526)	6,085	1,079
Cash generated by operations	15,242	24,653	44,567
Interest paid	(67)	(82)	(161)
Interest received on operational cash balances	351	50	305
Interest element of lease liabilities paid	(2,294)	(1,997)	(4,176)
Taxation paid	(1,858)	(1,991)	(3,301)
Net cash from operating activities	11,374	20,633	37,234
Investing activities			
Interest received on sublease assets	29	29	58
Receipt of capital element of sublease assets	318	213	555
Purchase of property, plant, equipment	(1,802)	(1,931)	(4,017)
Direct costs relating to right-of-use assets	(84)	-	(133)
Purchase of intangibles	(42)	(50)	(99)
Proceeds on disposal of property, plant and equipment	9	-	25
Net cash used in investment activities	(1,572)	(1,739)	(3,611)
Financing activities			
Payment of capital element of lease liabilities	(9,081)	(9,977)	(18,841)
Dividends paid	(4,717)	(5,104)	(7,462)

Financing arrangement fees	-	(150)	(200)
Purchase of own shares	(53)	-	-
Receipt on disposal of own shares	-	7	7
Net cash used in financing activities	(13,851)	(15,224)	(26,496)
Net increase/(decrease) in cash and cash equivalents	(4,049)	3,670	7,127
Cash and cash equivalents at beginning of period	23,368	16,241	16,241
Cash and cash equivalents at end of period	19,319	19,911	23,368

* Certain items within cash generated by operations for the 26 weeks ended 1 April 2023 have been re-categorised to enhance comparability between periods

1. General information

The interim report was approved by the Board on 21 May 2024. The financial information for the 52 week period ended 30 September 2023 has been based on information in the audited financial statements for that period.

The comparative figures for the 52 week period ended 30 September 2023 are an abridged version of the Group's full financial statements and, together with other financial information contained in these interim results, do not constitute statutory financial statements of the Group as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that 52 week period has been delivered to the Registrar of Companies. The auditor has reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under s498 (2) or (3) of the Companies Act 2006.

This condensed set of consolidated financial statements has been prepared for the 26 weeks ended 30 March 2024 and the comparative period has been prepared for the 26 weeks ended 1 April 2023.

The interim financial statements have not been audited or reviewed by auditors pursuant to the Auditing Practices Board guidance on "Review of interim financial information" and do not include all of the information required for full annual financial statements.

Basis of preparation and accounting policies

The financial statements of Topps Tiles Plc have been prepared in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006 and the disclosure guidance and transparency rules sourcebook of the United Kingdom's Financial Conduct Authority. The unaudited condensed consolidated set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union and in conformity with the requirements of the Companies Act 2006. The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements.

New and amended standards adopted by the Group

The Group continues to monitor the potential impact of other new standards and interpretations which have been or may be endorsed and require adoption by the Group in future reporting periods.

Going concern

When considering the going concern assertion, the Board reviews several factors including a review of risks and uncertainties, the ability of the Group to meet its banking covenants and operate within its banking facilities based on current financial plans, along with a detailed review of more pessimistic trading scenarios that are deemed severe but plausible. The two downside scenarios modelled include a moderate decline in sales and a more severe decline in sales, which result in much lower sales and gross profit than the base scenario, resulting in worse profit and cash outcomes. The more severe downside scenario modelled this year was based on a prolonged period of macroeconomic stress in the UK, lasting for more than one year, with sales falling 15% year-on-year across the remainder of FY24 and then a further 10% decline year-on-year in FY25, in our main brand, Topps Tiles. The scenario also assumes declines in gross margins across the remainder of FY24 equating to a year-on-year decrease of approximately 0.5 percentage points, followed by a further 1-percentage point decline year-on-year in FY25. This scenario also assumes that variable costs would reduce in line with sales and also includes direct mitigating cost reduction actions, which would be taken if such a downturn occurred.

The Group has already taken a number of actions to strengthen its liquidity over the recent years, and the scenarios start from a position of relative strength. The going concern review also outlined a range of additional mitigating actions that could be taken in a severe but plausible trading scenario. These included, but were not limited to, savings on store employee costs, savings on central support costs, reduced marketing activity, a reduction of capital expenditure, management of working capital and suspension of the dividend. The Group's cash headroom and covenant compliance was reviewed against current lending facilities in both the base case and the severe but plausible downside scenarios. The current lending facility, of £30.0 million, was refinanced in October 2022 and expires at the earliest in October 2026. In all scenarios, the Board has concluded that there is sufficient available liquidity, with no utilisation of the current lending facility, and sufficient covenant headroom for the Group to continue to meet all of its financial commitments as they fall due for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, the Board continues to adopt the going concern basis in preparing the financial statements.

Reclassification of Lease Income and Finance Lease Income

During the period to 30 September 2023, the Group reclassified income received as a lessor set out in the Consolidated Statement of Profit or Loss from distribution and selling costs into other income. This reclassification has been reflected in the Consolidated Statement of Profit or Loss for the period ended 1 April 2023 resulting in an increase of £402,000 in distribution and selling costs and a corresponding entry into other income of £402,000. There is no impact on operating profit for the 26 weeks to 1 April 2023 as presented, however, the updated presentation more clearly discloses the income received where the Group acts as a lessor from both operating and finance leases. There is no impact on the Consolidated Statement of Financial Position or the Consolidated Cash Flow Statement.

2. Business segments

The Group trades in three related sectors, which are Omni-Channel, Commercial and Online Pureplay. The Board receives monthly financial information at this level and uses this information to monitor performance, allocate resources and make operational decisions. The Group sells tiles and tile-associated products in each of these sectors, predominantly to UK-based retail, trade and commercial customers, and offers a range of delivery and collection options for orders.

Revenue can be split by the following geographical regions:

	26 weeks ended 30 March 2024 £'000 (Unaudited)	26 weeks ended 1 April 2023 £'000 (Unaudited)	52 weeks ended 30 September 2023 £'000 (Audited)
UK	122,444	130,003	262,315
EU	179	255	267
Rest of World	151	52	132
Total	122,774	130,310	262,714

3. Taxation

	26 weeks ended 30 March 2024 £'000 (Unaudited)	26 weeks ended 1 April 2023 £'000 (Unaudited)	52 weeks ended 30 September 2023 £'000 (Audited)
Current tax - debit for the period	513	1,010	2,768
Current tax - adjustment in respect of prior periods	-	-	74
Deferred tax - debit / (credit) for the period	1	(32)	(64)
Deferred tax - adjustment in respect of previous periods	-	-	118
Effect of tax rate change on opening balance	-	-	-
	514	978	2,896

4. Interim dividend

An interim dividend of 1.20p (2023: 1.20p) per ordinary share has been declared. A final dividend of 2.40p per ordinary share was approved and paid in the period, in relation to the 52-week period ended 30 September 2023.

5. Earnings per share

The calculation of earnings per share is based on the earnings for the financial period attributable to equity shareholders and the weighted average number of ordinary shares.

	26 weeks ended 30 March 2024 (Unaudited)	26 weeks ended 1 April 2023 (Unaudited)	52 weeks ended 30 September 2023 (Audited)
Weighted average number of issued shares for basic earnings per share	196,681,818	196,681,818	196,681,818
Weighted average impact of treasury shares for basic earnings per share	(108,287)	(525,062)	(381,300)
Total weighted average number of shares for basic earnings per share	196,573,531	196,156,756	196,300,518
Weighted average number of shares under option	2,616,664	1,025,157	2,973,070
For diluted earnings per share	199,190,195	197,181,913	199,273,588
	£'000	£'000	£'000
(Loss)/profit for the period	(2,195)	482	3,206
Adjusting items	4,221	2,605	5,599
Adjusted profit for the period	2,026	3,087	8,805
Earnings per ordinary share - basic	(1.12p)	0.25p	1.63p
Earnings per ordinary share - diluted	(1.10p)	0.24p	1.61p
Earnings per ordinary share - adjusted	1.03p	1.57p	4.49p

The calculation of the basic and diluted earnings per share used the denominators as shown above for both basic and diluted earnings per share.

Adjusted earnings per share for the 26 weeks ended 30 March 2024 were calculated after adjusting for the post-tax impact of the following items: vacant property and closure costs of £0.3m (2023: £0.6m), impairment of right-of-use assets and lease exit gains and losses of £0.8m cost (2023: £0.1m gain), Pro Tiler Limited share purchase expense

of £3.1m (2023: £1.7m) and restructuring and other one-off costs of nil (2023: £0.4m).

6. Bank loans

	26 weeks ended 30 March 2024 £'000 (Unaudited)	26 weeks ended 1 April 2023 £'000 (Unaudited)	52 weeks ended 30 September 2023 £'000 (Audited)
Bank loans (all sterling)	-	-	-
The borrowings are repayable as follows:			
On demand or within one year	-	-	-
In the second year	-	-	-
In the third to fifth year	-	-	-
	-	-	-
Less: total unamortised issue costs	(213)	(250)	(200)
	(213)	(250)	(200)
Issue costs to be amortised within 12 months	125	100	

The Group has a revolving credit facility to October 2026 of £30.0 million. As at 30 March 2024, £nil of this facility was drawn (1 April 2023: £nil). The loan facility contains financial covenants, which are tested on a bi-annual basis. The Group did not breach any covenants in the period.

7. Financial instruments

The Group has the following financial instruments which are categorised as fair value through profit and loss:

	Carrying value and fair value		
	26 weeks ended 30 March 2024 £'000 (Unaudited)	26 weeks ended 1 April 2023 £'000 (Unaudited)	52 weeks ended 30 September 2023 £'000 (Audited)
Financial assets			
Fair value through profit and loss	(200)	(158)	74
Financial liabilities			
Fair value through profit and loss	-	-	-

The fair values of financial assets and financial liabilities are determined as follows:

Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

The fair values are therefore categorised as Level 2 (2023: Level 2), based on the degree to which the fair value is observable. Level 2 fair value measurements are those derived from inputs other than unadjusted quoted prices in active markets (Level 1 categorisation) that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

At 30 March 2024 the fair value of the Group's currency derivatives is a loss of £200,000 within trade and other receivables (1 April 2023: £158,000). These amounts are based on the market value of equivalent instruments at the Statement of Financial Position date.

Losses of £274,000 are included in cost of sales in the 26 weeks ended 30 March 2024 (26 weeks ended 1 April 2023: £676,000).

8. Share capital

The issued share capital of the Group as at 30 March 2024 amounted to £6,556,000 (1 April 2023: £6,556,000). The number of shares at 30 March 2024 were 196,681,818 (1 April 2023: 196,681,818).

9. Seasonality of sales

Historically there has not been any material seasonal difference in sales between the first and second half of the reporting period, with approximately 50% of annual sales arising in the period from October to March.

10. Related party transactions

MS Galleon AG is a related party by virtue of their 29.8% shareholding (58,569,649 ordinary shares) in the Group's total voting rights (1 April 2023: 29.8% shareholding).

MS Galleon AG is the owner of Cersanit, a supplier of ceramic tiles with whom the Group made purchases of £474,000 during the first half of the year which is 0.8% of cost of goods sold (2023: purchases of £659,000 during the first half of the year which is 1.1% of cost of goods sold).

An amount of £262,000 was outstanding with Cersanit at 30 March 2024 (1 April 2023: £303,000). All transactions were conducted on commercial arm's length terms.

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note, in accordance with the exemption available under IAS 24.

11. Pro Tiler acquisition

The Group acquired a controlling 60% shareholding of Pro Tiler Limited on 9 March 2022, for total consideration of £5.5 million, of which £5.3 million was cash paid. The Group will acquire the remaining 40% of the issued share

capital early in the second half of 2024, based on an agreed multiple of profits for the 12-month period to March 2024. At the balance sheet date, the value of the earn-out provision totalled £8.7m. In addition, immediately prior to the acquisition of the remaining 40% of Pro Tiler Limited, a dividend of £1.1m is expected to be declared and paid to the outgoing 40% shareholders of Pro Tiler Limited, representing 40% of the post-tax profits of the business in the period between March 2022 and March 2024.



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