24 May 2022

Topps Tiles Plc

Interim Financial Report

Topps Tiles Plc (the "Company", the “Group”, “Topps Tiles Group”), the UK's largest tile specialist, announces its unaudited consolidated interim financial results for the 26 weeks ended 2 April 2022.

Strategic and Operational Highlights

- Record first half turnover of £119 million, supported by ongoing strength of the UK RMI sector and successful growth strategy to deliver goal of ‘1 in 5 by 2025’
- Creation of significant new online pure play business through acquisition of Pro Tiler Limited in March and launch today of Tile Warehouse, a new online-only tile brand targeting the value conscious homeowner
- Store portfolio enhanced through rightsizing, format development and category expansion
- Strong growth in Commercial revenue, up 24% to £5.0 million
- Capital allocation policy updated including increased dividend payments to shareholders, reflecting strong underlying cash generation and confidence in the long-term outlook

Financial Summary

	26 weeks ended 2 April 2022 (H1 2022)	26 weeks ended 27 March 2021 (H1 2021)	Year on year
Statutory Measures			
Group revenue	£119.2 million	£103.2 million	15.5%
Gross margin	56.1%	57.6%	(1.5) ppts
Profit before tax	£5.6 million	£4.0 million	40.0%
Basic earnings per share	2.14p	1.55p	38.1%
Interim dividend per share	1.0p	nil	n/a
Adjusted Measures			
Topps Tiles like-for-like sales year-on-year[1]	19.7%	2.0%	n/a
Adjusted profit before tax[2]	£7.0 million	£5.1 million	37.3%
Adjusted earnings per share[3]	2.79p	2.11p	32.2%
Adjusted net cash[4]	£13.4 million	£15.4 million	£(2.0) million

Financial Highlights

- Topps Tiles like-for-like sales up 22.7% on a two-year basis in the first half, and up 19.7% on a one-year basis
- Group gross margins of 56.1% (H1 2021: 57.6%), reflecting increases in cost of goods being passed through to customers on a pound for pound basis, together with mix changes
- Costs well controlled, with increases due to inflation and normalisation of business rates expense
- Adjusted profit up 37% year on year to £7.0 million
- Increased stock holding to support sales in challenging supply chain environment
- Cash lower due to acquisition of Pro Tiler, investment in working capital and repayment of deferred VAT, however expected to improve by year end
- Interim dividend of 1.0 pence declared (H1 2021: nil)

Current Trading and Outlook

- Trading remains at good levels within the Topps Tiles brand, with like-for-like sales growth of 5.7% in the first seven weeks of the second half
- In the most recent five weeks, where the comparative period in FY21 was not impacted by trading restrictions, sales on a like-for-like basis have been slightly below a very strong period last year, as expected
- Inflationary pressures remain, with gas prices, shipping costs and availability of raw materials still challenged
- Our strong brands, operational flexibility and well capitalised balance sheet leave us well positioned to respond to the more uncertain consumer outlook

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

“The Group has delivered record first half revenues against a backdrop of continued robust demand for home improvements. While supply chain and inflation headwinds strengthened in the period, we are managing these challenges effectively overall and believe we remain well positioned relative to many of our competitors.

“We have continued to develop the Topps Tiles brand, enhancing our store portfolio and introducing a number of new developments to our award-winning website to further strengthen our omni-channel capability.

“We are pleased to announce the launch of Tile Warehouse, a new online-only brand which brings everyday low prices to homeowners. This builds on the acquisition of Pro Tiler Ltd in March and forms the basis for a new, high growth, online-only sales channel, leveraging our core strengths in product, service and scale.

“Looking ahead, we are mindful of the growing burden on consumers from inflation and rising interest rates as well as ongoing supply chain challenges, however, we remain confident in our strategy and medium term growth prospects.”

Notes

Note 1: Topps Tiles like-for-like sales is defined as sales from online and stores within the Topps Tiles brand that have been trading for more than 52 weeks. In H1 2022, like-for-like sales was £111.9 million (H1 2021: £93.5 million), with an average of 310 stores included in the weekly calculation.

Note 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 for more details.

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

Note 4: Adjusted net cash is defined as cash and cash equivalents, less bank loans, before unamortised issue costs. It excludes lease liabilities under IFRS 16.

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INTERIM MANAGEMENT REPORT

The Topps Tiles Group is the largest tile specialist in the UK. The majority of our revenues are generated from the Topps Tiles brand which predominantly serves the RMI market (repairs, maintenance and improvement of UK domestic homes), with sales being made to professional traders such as tilers, builders and contractors, as well as direct to homeowners. Over recent years, we have expanded into the commercial tile market, which approximately doubled the size of our addressable market while staying within our core specialism of tiles, through our Parkside and Strata brands. The commercial market includes tiles supplied for both new build and refurbishment of commercial premises across sectors such as leisure, transport, retail and office buildings, and new build residential housing. In H1 2022, we further expanded and diversified the business with the acquisition of a majority shareholding in Pro Tiler Limited, an online specialist supplier of tiling-related consumables and equipment to trade customers. Also, today we are announcing the launch of our newest brand, Tile Warehouse, an online-only supplier of quality tiles at competitive prices. Targeting the value conscious homeowner, Tile Warehouse has a complementary positioning to the Topps Tiles brand.

All the trading brands within the Group derive benefit from the scale of the business, the specialist focus of our business model and our passion for tiles and closely associated products. 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, direct sales teams and digital platforms. We aim to lead the tile market in environmental matters, including our goal of being carbon neutral in scope 1 and 2 carbon emissions by 2030.

Summary of performance

Following a record year for sales in 2021, H1 2022 has seen a further record period of turnover, with revenues of £119.2 million being the highest the Group has ever delivered in the first half of its financial year. This continued period of excellent top line performance has been supported by the ongoing strength of the UK RMI sector but also demonstrates the success of our growth strategy, as we move towards the achievement of our goal of accounting for £1 in every £5 spent across the UK market for tiles and related products by 2025 ('1 in 5 by 2025'). We will provide an update on progress towards our goal at our year end results, following the publication of the latest set of independent market research reports.

Despite the spread of the Omicron variant, the first half of the financial year was unaffected by trading restrictions relating to Covid-19, unlike both of the previous two years, and our sales performance has reflected this. Like-for-like sales in the Topps Tiles brand were up 21.0% on a two-year basis in the first quarter, with a particularly strong run in to Christmas, and then up 24.4% in the second quarter, giving overall growth in the first half of 22.7% on a two-year basis. The two-year like-for-like growth in the second quarter was flattered by the final week of the comparative period two years ago being impacted by the first UK lockdown; excluding this week, the two-year like-for-like growth in the second quarter was 20.9%. This trading period is the last time that we will quote Topps Tiles like-for-like sales growth on a two-year basis as the comparative period two years ago now coincides with the initial Covid restrictions – our focus will now revert to a one-year measure.

On a one-year basis, Topps Tiles like-for-like sales were up 1.0% in the first quarter, against a very strong comparative period in 2021 (FY21: +19.9%), and then up 45.5% in the second quarter, compared to the prior period which included the third national lockdown (FY21: -17.3%), when homeowners were not permitted to enter our Topps Tiles stores. One-year like-for-like sales were up 19.7% in the first half overall.

Commercial sales were up 24% in the first half, as existing customers started to re-order and the customer base grew. The trend was positive across the half, with sales growth of c 21% in the first quarter and c. 26% in the second quarter.

Despite the very strong sales performance across the Group, the first half saw the business face a new set of challenges. The financial year started with significant supply chain disruption, including a national shortage of HGV drivers, major logistical issues in the UK's ports, and a dramatic increase in global shipping costs. The global gas price also rose to many times its historical average, directly impacting the manufacturing cost of tiles around the world. As a result, it was necessary to increase selling prices across many of our ranges at the end of the first quarter. In the second quarter, the tragic events in Ukraine increased gas prices still further, and Ukraine itself is a significant global supplier of clay, limiting the supply of raw materials for many tile manufacturers across Europe and pushing more cost inflation into the market.

Against this exceptional backdrop, we are passing through increases in cost of goods to customers on a pound for pound basis, thereby protecting gross profit whilst continuing to offer customers great value. As a result, our sales prices have increased by a lower percentage than our cost prices over the first half, leading to lower gross margins as a percentage of sales. We will keep our prices under continuous review in what remains a volatile market, always ensuring we remain competitive.

As a result of these supply chain challenges, we have actively invested in our stock holding, which has increased from £32.8 million at year end to £35.6 million at half year in the existing business, together with a further £1.4 million of inventory in Pro Tiler. Despite significant supply chain challenges through the autumn and winter, our significant stock holding, strong relationships with manufacturers and shipping agents, and dedicated supply chain team have maintained good continuity of supply to our stores and customers over the first half, in contrast, we believe, to some parts of the market.

Cost pressures are also impacting our overheads, with our utilities and employment costs increasing, however our firm management of costs continues to be a strength of the Group and the inflationary costs in the first half have been offset by further savings, particularly from our store closure programme. Please see the sections below on Topps Tiles and the Financial Review for more information on this.

The other significant challenge in the first half as been availability of labour. Although the level of staff absence due to Covid-19 has been falling across the first half, our vacancies were higher than we would have liked, reflecting the declining size of the UK workforce set against an economy which was still expanding, and for some people a reassessment of their career choices following the disruption of the last few years. Our turnover of staff has normalised back to pre-Covid levels, but the challenge of recruitment and retention will remain for some time to come.

Overall, our strong sales recovery and tight control of costs led to an increase in adjusted profit before tax of 37.3% to £7.0 million in the first half despite the pressures described above.

The Group's cash balance reduced from £27.8 million of adjusted net cash at year end to £13.4 million at the half year end. The underlying cash generation of the business remains strong and this decrease was largely as a result of a number of one off factors which are fully described in the Financial Review.

Online Pure Play – Pro Tiler Tools and Tile Warehouse

The Topps Tiles brand is an omni-channel business with an award-winning digital presence and a nationwide store network. We see a significant opportunity to add complementary brands to the Group which operate solely online, serving different customer groups with different needs, but always focused on our core specialism of tiles and closely associated products. These businesses can be supported through the Group's scale, flexible supply chain, financial resources and operational expertise, and in turn the rest of the Group can benefit from the knowledge and specialist experience of successful colleagues as they join the Group.

Earlier this year, we acquired Pro Tiler Tools and today we have launched a new online pure play tile brand, Tile Warehouse.

Pro Tiler Tools

As reported in March, in the first half year we acquired 60% of the issued share capital of Pro Tiler Limited, with an option to acquire the remaining 40% in 2024. The bulk of the sales are made through the Pro Tiler Tools brand, with smaller contributions from the Premium Tile Trim and Northants Tools brands. Two of the original family shareholders, Sam and Todd Bucknall, are now employed by the Group and initial performance since the acquisition has been strong. We have consolidated sales of £1.1 million and a small trading profit into the Group accounts at half year from the first three and a half weeks of ownership. In that time, sales were up 36% against last year, and the sales since acquisition are running at a level equivalent to annual sales of over £15 million. On top of what is already an excellent level of sales growth, we see significant opportunity to grow more value in this business over time through leveraging the complementary strengths of Pro Tiler Tools and Topps Tiles, accessing new business opportunities, and buying synergies. Please see the Financial Review section of this document for information on the acquisition accounting for Pro Tiler Limited.

Tile Warehouse

Today, we are launching www.tilewarehouse.co.uk, a new online-only brand which we have built from the ground up to offer homeowners every day low pricing on a focused range of tiles and associated products, with an average price point of less than £20 per square metre. This brand will focus on quality tiles at very competitive prices and will offer a simple brand proposition which will give homeowners the confidence, value and choice to tackle their next tiling project. Tile Warehouse will be complementary to the Topps Tiles brand and will target a different customer group, whilst leveraging the Group's scale, supplier relationships, financial resources and digital know-how, as well as modern web design and technical infrastructure. The brand has been developed at a low cost and initially will be serviced from our existing supply chain facilities to minimise incremental overhead cost to the Group. We intend to invest in digital marketing to achieve rapid growth and therefore expect the brand to be modestly loss making in the first few years as we build scale.

Pro Tiler Tools and Tile Warehouse form the basis of a third sales channel, already of scale and with the potential for fast growth, which attracts a complementary customer group to our store and direct sales channels.

Omni-channel – Topps Tiles

Our omni-channel market leading brand Topps Tiles is the engine of sales, profit and cash generation within the Group. Following an excellent performance last year, sales in the first half year were £113.1 million, up 14% year on year. Our strategy within Topps Tiles is to deliver “Great Experience, Great Product and Great Value” and further progress was made against this in the first half.

The key measure of the experience we offer is our Overall Satisfaction score, which increased significantly in the first half to 89.6% (H1 2021: 87.5%). This is a world class level of customer satisfaction and is especially important in a business such as Topps Tiles, where customers, particularly homeowners, may shop with us relatively infrequently, and value the support and advice that we can offer. For clarity, this means that 89.6% of customers who fill in a survey, which is about thirty thousand data points annually, score us as five out of five, an outstanding result. Our net promoter score in the first half was 85% which we believe is approximately double the average score in UK retail.

Our customer base continues to be a mix of professional fitters (traders) and homeowners. Trade customers represented 58% of our sales in the first half (H1 2021: 58%) and we continue to focus on providing great value and service to these customers, who provide repeat custom and are also an important link to homeowners who prefer to transact through their fitter rather than with us directly. One aspect of our trade business which has been especially strong is our sales of products other than tiles such as adhesives, grouts, and boards, where we have had a good supply of product and offer particularly keen value to our trade customers. This year we have also seen excellent sales growth from a direct sales operation which was set up to offer contractors and trade customers in particular an enhanced service from a central team and which, over the last 12 months, has delivered sales of over £10 million.

Topps Tiles has continued to develop its digital offer. In the first half, we added additional customer credit options, halved page load speeds, launched a new partnership with Dulux in our room visualiser and increased online visibility of stock levels to customers. We maintained our position as the leading tile specialist in Internet Retailing’s annual “RetailX Top 500” report and were ranked in the top 100 websites across the whole of the UK retail sector. We have also been very active on social media, including launching on TikTok to go alongside all of our other social platforms.

The store experience is central to our omni-channel offer and we now have three store formats within Topps Tiles designed to meet customer needs. 31 of our largest stores are now branded as ‘Topps Tiles Superstores’. These stores have received initial investment on store externals, with further investment in additional ranges, service and amenity planned in the second half to showcase the best of Topps Tiles. We have also developed a ‘Topps Tiles Clearance’ model, now consisting of 14 stores, which provide great value to consumers whilst allowing us to clear mixed batch tiles and discontinued lines. The balance of 267 stores are core stores, which will continue to deliver excellent service and range for our trade and homeowner customers. We will keep the numbers of Superstores, core stores, and Clearance Stores under review, but our current expectation is that there is the potential for more Superstores over time, either through investment, relocation or new sites where appropriate.

During the first half, we closed two stores and opened one, ending the period at 312 Topps stores (2021 year-end: 313 stores). We expect to close another eight stores over the course of the second half, which will bring us close to our target of around 300 stores, down from 372 units at the end of 2017. This closure programme has significantly enhanced Group profits as we have successfully transitioned sales from closed stores to other stores in the area.

Estate management remains a key focus and the first half saw us exit leases in 15 locations out of 26 closed sites, leaving 11 at half year. We expect further lease exits in the second half, leaving only a small number of closed stores within the Group at year end. Our relatively short unexpired lease term to the next break opportunity of 3.2 years (H1 2021: 3.2 years) provides us with good flexibility in managing our estate. Removing strategically important stores, where we have taken steps to extend the lease to provide us with security of tenure, this period reduces even further, to just 2.9 years (H1 2021: 2.9 years).

Commercial – Parkside and Strata

Our Parkside and Strata brands have seen strong year on year sales growth of 24% to £5.0 million in the first half, indicating substantial market share growth in a Commercial new build market which was down 2% in the first half and remains some 24% lower than its level before the Covid pandemic[5]. Despite the recent market declines, our latest estimates are that the commercial market is worth approximately £350 million annually, giving substantial room for these businesses to grow.

Highlights in the first half under our new Managing Director, Dan Little, include continued success in the retail, hotel, restaurant, residential and infrastructure sectors, where we have retained existing clients through the commercial slow down and added more than 50 new clients in the first half. We have established our partnership with Stratis, the pre-eminent tile distributor into the commercial sector in Scotland. In addition, we are focusing on our systems and processes to provide a seamless service to our clients. Our product offering continues to expand, now including Aquatechnica™, a full technical range for swimming pools, as well as a full range of outdoor tiles suitable for the Commercial market through our Everscape™ brand.

This improved sales performance led to a reduction in trading losses to £0.7 million in the first half (H1 2021: losses of £0.9 million), with gross margins challenged due to cost price increases but improving as the half progressed. We now expect our Commercial business to break even in the second half of the year and then move into profit next year.

Note 5: Source – ONS "Output in the Construction Industry", value non-seasonally adjusted data, Private Commercial New Work, March 2022 data.

Leading Product

As the UK's leading tile specialist, our expertise in the ranging, sourcing and procurement of tiles on a global basis is a core part of our competitive advantage. This advantage has been more important than ever in the last year given the global challenges in shipping, the national shortage of HGV drivers in the UK, the impact of high gas prices on the tile supply chain and the war in Ukraine. Economic pressures on producers have been so severe that in some cases factories have reduced or paused manufacturing.

Our response to this has been to secure stock early and to work closely with our manufacturing and shipping partners to ensure continuity of supply. We have increased our stock holding across Topps Tiles and the Commercial brands from £32.8 million at year end to £35.6 million at half year, an increase of 9%. We sourced 66% of our supply from our strategic supplier base (H1 2020: 64%) with the strength of these relationships partially protecting us from stock shortages. We have also re-sourced major ranges out of countries which have become uneconomic and will continue to do so while the supply situation remains volatile.

We also continue to work hard to retain our core competitive advantage through product knowledge, innovation and deep supplier relationships. In the first half, we have delivered 13 new product introductions into the Topps Tiles business, curated an entirely new range for the Tile Warehouse business, extended our highly successful outdoor range Everscape™, and rolled out our Luxury Vinyl Tile offer across the whole of the Topps Tiles store estate. 73% of our sales within Topps Tiles are from ranges which are either own brand or exclusive to us and this remains key to our differential.

Leading People

The Group's success is underpinned by industry-leading levels of capability and engagement from our colleagues. Our product is both a building material, requiring technical knowledge, and a decorative item, requiring inspirational selling, and we need our employees to be able to work and communicate effectively across both areas. Following a period of low staff turnover during the period of the pandemic, it has normalised back to pre-Covid levels, and the wider employment market in the UK is very tight. As a result, the challenge of recruitment and retention is a key focus for the Group.

Our compensation strategy for our Topps Tiles colleagues is based on the National Living Wage for our service specialists as a base wage, plus a further c.£2,500 per year in commission, and pension contributions plus an employee discount scheme. In addition, our employer brand is strengthened by Topps Tiles colleagues not having to work evenings, late nights or over Christmas – all of which are common in retail and hospitality. Our culture, based around small teams, is also a big part of the attraction of working for the Topps Tiles Group.

The success of our Leading People strategy is evidenced by our customer satisfaction scores, discussed in the Topps Tiles section above, and seen directly in our Employee Engagement scores which we measure through our annual

MyVoice staff survey. Overall engagement was at 80% in the last annual survey (2021: 80%) compared to the UK average of 68%.

Specific areas of focus in the first half of the year have been improved support for mental health through a new outsourced partner, an improved induction programme for colleagues joining Topps Tiles, a focus on driver recruitment and improvements in our recruitment platform.

Environmental Leadership

In our last Annual Report, we set out our goal of making the business carbon neutral in terms of scope 1 and 2 emissions by 2030. Our plan has five elements: a) governance; b) minimise waste and maximise recycling; c) reduce carbon emissions; d) drive product innovation and the use of recycled materials; and finally, e) the use of high quality and auditable carbon offsets. While the advent of war in Europe and extreme levels of cost inflation have resulted in some of our suppliers needing to prioritise other areas in the short term, good progress was made towards our goal in a number of areas over the first half of this year.

At a Group level, all our electricity is now sourced from renewable sources. We are trialling our first Liquefied Natural Gas fuelled truck and upgraded the rest of our fleet to Euro 6 engines and have adopted route optimisation planning software to minimise milage. In addition, we have committed to WRAP’s UK Plastic Pact which seeks to eliminate or reduce plastic waste. Our Commercial businesses lead the way for the Group on environmental matters, and in this part of the business we are ISO14001 accredited, we have a formal environmental policy, we partner with the Word Land Trust, we operate a donation scheme whereby we donate funds to environmental causes when customers purchase products with high recycled content, and we specify a minimum of 20% recycled content in all new products. In the Topps Tiles business, we have completed our roll out of LED lighting, we now display the recycled content on product price tickets in stores, we have launched our new environmental adhesive product range (Regenr8) and our most recent store opening reused 98% of the fixturing from previous stores.

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 2 April 2022 is set out in the table below, together with the prior year performance data. The source of data and calculation methods are consistent with those used in the 2021 Annual report. Further information on adjusted performance measures can be found in the Financial Review section below.

	26 weeks to 2 April 2022	26 weeks to 27 March 2021	Year on year
Financial KPIs			
Group revenue growth year-on-year	15.5%	(2.8)%	n/a
Topps Tiles like-for-like sales year-on-year*	19.7%	2.0%	n/a
Group gross margin	56.1%	57.6%	(1.5) ppts
Adjusted profit before tax*	£7.0 million	£5.1 million	37.3%
Adjusted earnings per share*	2.79p	2.11p	32.2%
Adjusted net cash*	£13.4 million	£15.4 million	£(2.0) million
Inventory days	127	138	(11)
Non-financial KPIs			
Topps Tiles customer overall satisfaction score	89.6%	87.5%	2.1 ppts
Colleague turnover	37.8%	21.4%	16.4 ppts
Number of Topps Tiles stores at period end	312	331	(19)

* as defined in the Financial Review

FINANCIAL REVIEW

Adjusted Measures

The Group's management uses adjusted performance measures, to plan for, control and assess the performance of the Group.

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

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.

An analysis of movements from adjusted profit before tax to statutory profit before tax is shown below, noting that we have adjusted the presentation of adjusting items to include IFRS 16 in both periods, restating the H1 2021 comparative to be on a consistent basis:

	H1 2022 £m	**H1 2021 £m**
Adjusted profit before tax	**7.0**	**5.1**
Property		
- Impairment of PPE & ROU assets and gain on lease disposals	0.1	(1.4)
- Vacant property and closure costs	(1.0)	(0.7)
	(0.9)	**(2.1)**
Other		
- Tile Warehouse start-up costs and Pro Tiler Limited acquisition expenses	(0.3)	nil
- Pro Tiler Limited – remuneration cost relating to future share purchase	(0.2)	nil
- Coronavirus Job Retention Scheme support – to be repaid	nil	1.0
	(0.5)	**1.0**
Statutory profit before tax	**5.6**	**4.0**

Adjusted earnings per share is defined as earnings per share, adjusted for the post-tax impact of the items listed above.

Adjusted net cash is defined as cash and cash equivalents, less bank loans, before unamortised issue costs. It excludes lease liabilities under IFRS 16.

Acquisition of Pro Tiler Limited

The Group acquired a controlling 60% shareholding of Pro Tiler Limited on 9 March 2022, for consideration of £5.3 million in cash, plus a closing adjustment of £0.3 million. The Group intends to acquire the remaining 40% of the issued share capital from March 2024, based on an agreed multiple of profits for the 12-month period to March 2024.

On acquisition, the Group recognised tangible assets of £1.7 million, including £0.9 million of net cash, £0.2 million of net working capital and £0.6 million of fixed assets, and intangible assets consisting of the brand value of £4.1 million net of deferred tax and goodwill of £2.1 million, together with a non-controlling interest of £2.3 million. The acquisition accounting will be finalised over the forthcoming period in line with IFRS 3, and the brand asset will be amortised in line with our accounting policies.

The proposed purchase of the remaining 40% of shares in Pro Tiler Limited will be accounted for as a remuneration expense rather than contingent consideration, as required by IFRS 3, due to certain conditions placed on the selling shareholders to remain employed by the Group during this time. This expense will be treated as an adjusting item over the next two years and will therefore reduce the Group's statutory profit in forthcoming trading periods. This expense is not treated as a deductible expense for corporation tax purposes and therefore the Group's effective rate of corporation tax will increase in FY22 and the next two financial years as a result of this accounting treatment.

The Group has consolidated the financial performance of Pro Tiler Limited from the date of acquisition, including revenue of £1.1 million and a small trading profit recognised in adjusted profit. Acquisition costs of £0.2 million and remuneration costs of £0.2 million in relation to the 40% share purchase were treated as adjusting items within statutory profit.

Capital Allocation and Dividend Policy

The Topps Tiles Group is a highly cash generative organisation, with cash conversion[6] over the period from FY10 to FY21 of 77%. Over this time, the cash position of the Group has improved from a net debt of £49 million at the end of FY10 to a net cash position of £28 million at the end of FY21, excluding lease liabilities. Even over the last three years, the cash generation of the Group has remained positive due to tight operational controls, the sale and leaseback of our head office and warehousing facilities in FY20 and our decision to suspend dividend payments as the global pandemic closed down the economy in the same year. We expect good levels of operational cash generation in future years, subject to the macroeconomic environment.

This improvement in cash has been achieved for the most part whilst the Group has been maintaining or increasing its dividend payments, from an EPS cover of approximately four times a decade ago to the current policy of a two times cover.

Moving forward, our capital allocation policy will prioritise the following:

1) Business resilience – we are an operationally geared business with significant lease liabilities and our balance sheet and banking facilities must be strong enough to withstand cyclical economic downturns and unexpected shocks like Covid-19;
2) Investment in the core business – we operate a physical store estate which requires investment to remain attractive to customers, and we will support our strategy through merchandising, store refits and relocations;
3) Value creative opportunities – we believe it is beneficial to retain some cash to take advantage of value creation opportunities, such as bolt on M&A deals or other investments in growth;
4) Dividends – we recognise that equity has a cost, and we understand the importance of regular dividend payments to our shareholders.

The Board intends to increase the dividend payout ratio over the next two years from around 50% of adjusted earnings per share to around 67% (equivalent to reducing dividend cover from 2x to 1.5x). This policy will have some flexibility and, in particular, we do not plan to decrease dividend payments year on year due to any short-term performance or macroeconomic issues, even if that means further increasing the payout ratio in some years. However, the Group will only pay dividends based on earnings made in the year, and therefore there is an upper bound on dividend payments of 100% of annual adjusted earnings per share, equivalent to a minimum dividend cover of 1.0x. Interim dividends will be set at one third of the full year dividend from the previous year. Even after these increased dividend payments, our expectations are that the level of lease adjusted net debt to EBITDA will continue to fall modestly over time, and if lease adjusted net debt falls below 1x adjusted EBITDA then we will return excess cash to shareholders[7].

The Board is declaring an interim dividend of 1.0 pence per share (H1 2021: nil). The shares will trade ex-dividend on 9 June 2022 and the dividend will be paid on 15 July 2022.

Note 6: 'Cash conversion' is defined as the sum of the change in net debt / cash, before interest and dividend payments, and also excluding the proceeds of £18 million relating to the sale and lease back of the Group's head office and warehousing facilities in FY20, compared to the sum of the Group's adjusted operating profit.

Note 7: Lease adjusted net debt is defined as cash and cash equivalents, less bank loans, before unamortised issue costs plus current and non-current lease liabilities. EBITDA refers to the last twelve months adjusted operating profit, before depreciation and amortisation, including depreciation of right of use assets. At the half year, lease adjusted net debt was £93.2 million and EBITDA was £46.2 million, hence lease adjusted net debt to EBITDA was 2.0x.

Statement of Financial Performance

Total revenue for the 26 weeks ended 2 April 2022 increased by 15.5% year on year to £119.2 million (2021: £103.2 million), which is the highest revenue ever delivered by the Group in the first half of a financial year. The prior year was impacted by trading restrictions related to the Covid-19 pandemic in the second quarter, when homeowners were unable to visit our stores and registered traders were only allowed to enter to visit the trade counter.

The Topps Tiles brand delivered revenue of £113.1 million, up 14.1% year on year. Like-for-like sales were up 19.7% on a one-year basis, with an average of 314 stores trading this year compared to 339 in the same period last year. On a two-year basis, like-for-like sales were up 22.7%. Sales to our Commercial customers were up 24% year on year to £5.0 million. Pro Tiler Limited contributed revenue of £1.1 million in the brief period since acquisition.

Total gross margin was 56.1%, a decrease from 57.6% in the prior year. Gross margin in the Topps Tiles brand decreased from 58.5% in the prior year to 57.4% in the current year. As noted above, there have been exceptional increases in cost of goods this year and we are passing them on to customers on a pound for pound basis, protecting gross profits but leading to lower gross margins as a percentage of sales. There have also been mix changes, including particularly good sales growth in new product areas such as outdoor and luxury vinyl tiles, which attract a lower gross margin but are incremental to the Group. Finally, new businesses such as Pro Tiler Tools and our Commercial business run at a lower gross margin than the Topps Tiles brand and, as they continue to grow, this will reduce Group gross margins. Providing a slight offset to these factors, the high impact of delivery costs last year when the stores were closed has somewhat reversed. The impact of foreign exchange movements on cost of goods sold in the first half was a gain of £0.5 million.

Adjusted operating expenses in the period were £57.9 million, compared to £52.3 million in the prior period. The main drivers of changes in adjusted operating expenses were as follows:

	£ million
H1 2021 adjusted operating expenses	**52.3**
Reversal of H1 2021 business rates relief	4.4
Holiday pay accrual	1.4
Increased utilities expense	0.8
Other regulatory and inflationary cost increases	2.1
Profit share	0.6
Reduced store space	(2.5)
Other savings	(1.2)
H1 2022 adjusted operating expenses	**57.9**

After including the adjusting items described above, total operating costs were £59.3 million (H1 2021: £53.4 million).

Interest on bank loans and overdrafts, net of bank interest receivable, was £0.2 million (H1 2021: £0.2 million). Net finance costs for the Group including interest on the IFRS 16 lease liabilities was £1.9 million (H1 2021: £2.1 million).

Adjusted profit before tax was £7.0 million (H1 2021: £5.1 million), representing an increase of 37.3% on the prior year. The Group's adjusted profit before tax margin was 5.9% (H1 2021: 4.9%).

Statutory profit before tax, after including the adjusting items described above, was £5.6 million, compared to £4.0 million last year.

The effective tax rate for the 26 weeks to 2 April 2022 was 25.4% (H1 2021: 24.1%). Tax rates are based on expectations for the full year and are impacted by items which are not deductible for corporation tax purposes.

Basic earnings per share were 2.14 pence (H1 2021: 1.55 pence). Adjusting for the post-tax impact of the adjusting items detailed above, adjusted earnings per share in the first half year were 2.79 pence (H1 2021: 2.11 pence), an increase of 32.2%.

Statement of Financial Position

Capital Expenditure

Capital expenditure in the period was £1.1 million (H1 2021: £2.5 million). The majority of this related to store improvements, merchandising and maintenance capital, together with one new opening.

The Board expects capital expenditure in the full year to be between £5 million and £6 million, including further relocations and merchandising for new products in the core Topps Tiles stores, together with further investment into our Superstores. Any acquisitions that the Group may consider as part of its growth plans would be additional to this guidance.

Inventory

Inventory at the period end was £37.0 million (H1 2021: £32.0 million) including £1.4 million held within Pro Tiler Limited, representing 127 days turnover (H1 2021: 138 days turnover). Excluding the Pro Tiler inventory, inventory was £35.6 million. At the last year end, inventory was £32.8 million, representing 123 days turnover, and the higher current levels of stock reflect a decision to hold additional stock given the ongoing supply chain challenges.

Cash flow

On a statutory basis, net cash from operating activities was £6.6 million, compared to £1.3 million in the prior half year period.

The table below analyses changes in adjusted net cash flow:

	H1 2022 £m	H1 2021 £m
Cash generated by operations before WC movements	20.1	21.2
Changes in working capital	(9.5)	(17.7)
Interest including interest element of lease liabilities	(1.9)	(2.2)
Tax	(2.1)	-
Net cash from operating activities	**6.6**	**1.3**
Acquisition, net of cash acquired	(4.4)	-
Capital expenditure excluding investments	(1.1)	(2.5)
Disposals	0.1	1.7
Payment of capital element of lease liabilities	(9.8)	(11.7)
Other	0.3	0.6
Free cash flow	**(8.3)**	**(10.6)**
Dividends	(6.1)	-
Change in adjusted net cash	**(14.4)**	**(10.6)**
Adjusted net cash at start of period	27.8	26.0
Adjusted net cash at end of period	13.4	15.4

Adjusted net cash decreased by £14.4 million over the first half year (H1 2021: reduction of £10.6 million). This decrease included a number of factors which are useful to disclose separately:

- we repaid VAT of £2.1 million deferred from 2020 as part of the Government's Covid-19 support package – this deferred VAT is now fully repaid;
- we paid a dividend of £6.1 million representing the full year dividend from FY21 (normally only the final dividend would be paid during the first half of the following year);
- we acquired 60% of the equity of Pro Tiler Limited, leading to a cash outflow of £4.4 million;
- we increased our stock balance during the first half by £2.8 million (excluding stock held in Pro Tiler).

Cash and cash equivalents at the period end were £13.4 million (H1 2021: £15.4 million) with nil borrowings (H1 2021: nil), resulting in adjusted net cash of £13.4 million (H1 2021: £15.4 million).

Return on Capital Employed

Lease adjusted returns on capital employed in the first half were 15.6%, based on the average capital employed over the half and the annualised profit delivered in the first half of the year.

Banking Facilities

The Group has a £39.0 million revolving credit facility in place which is committed to July 2023 (H1 2021: £39.0 million). At the half year, none of this was drawn (H1 2021: £nil). As a result, the Group had £39.0 million of undrawn committed banking facilities at the end of the financial year. The Group will be discussing the refinancing of its credit facility with its banks over the next few months.

Current Trading and Outlook

Trading remains at good levels within the Topps Tiles brand, with like-for-like sales growth of 5.7% in the first seven weeks of the second half. In the most recent five weeks, where the comparative period in FY21 was not impacted by trading restrictions, sales on a like-for-like basis have been slightly below a very strong period last year, as expected.

The consumer outlook remains uncertain. In the tiling industry, upward pressures on cost of goods remain from high levels of energy prices, shipping costs and other raw materials, and ensuring good availability of product remains a key area of focus for the Group. Across the wider economy, the well documented pressures on the consumer from rising inflation and falling confidence may impact consumer spending at some stage. However, the Group is well positioned given the strength of our brands, operational flexibility and well capitalised balance sheet.

Risks and Uncertainties

The Board continues to monitor the key risks and uncertainties of the Group. The risk around falling consumer demand based on the current high levels of inflation, falling consumer confidence and the risk of the UK entering a period of low growth or even a recession has significantly increased in importance since the 2021 Annual Report and Accounts, with other risks documented in that document as relevant now as they were at the time the Report was published. These key risks and uncertainties include: supply chain – short-term pressure and long-term outlook; macroeconomic and consumer confidence; corporate reputation – sustainability; delivery optimisation; attracting and retaining talent/loss of key personnel; Covid-19 – further trading restrictions; cyber security; appropriate customer offer; value erosion through M&A; major reputational damage; delivery of commercial strategy; and store portfolio.

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 a more pessimistic trading scenario that was deemed severe but plausible. The more pessimistic trading scenario was based on a 15% decline in the tile market in which we operate, taking it back down to 2018 levels but with significant inflationary pressures remaining over the course of 2022 and 2023. This results in much lower sales and margins than the base scenario, resulting in worse profit and cash outcomes.

The Group has already taken a number of actions to strengthen its liquidity during the Covid-19 pandemic, including the sale and leaseback of the Group's head office and central warehouse buildings in Enderby in June 2020, and therefore the scenarios start from a position of relative strength. The going concern review also outlined a range of other 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 scenario. The current lending facility was refinanced in July 2018 and expires in July 2023. In all scenarios, the Board has concluded that there is sufficient available liquidity and 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 statement. 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

Stephen Hopson

Chief Financial Officer

24 May 2022

Condensed Consolidated Statement of Financial Performance
for the 26 weeks ended 2 April 2022

	Note	**26 weeks ended 2 April 2022 £'000 (Unaudited)**	26 weeks ended 27 March 2021 £'000 (Unaudited)	53 weeks ended 2 October 2021 £'000 (Audited)
Group revenue		**119,222**	103,247	227,997
Cost of sales		**(52,366)**	(43,738)	(97,297)
Gross profit		**66,856**	59,509	130,700
Distribution and selling costs		**(44,929)**	(39,248)	(83,591)
Other operating expenses		**(1,549)**	(3,682)	(6,100)
Administrative costs		**(10,288)**	(8,151)	(18,100)
Sales and marketing costs		**(2,579)**	(2,350)	(4,564)
Group operating profit		**7,511**	6,078	18,345
Net finance costs		**(1,908)**	(2,099)	(4,071)
Profit before taxation		**5,603**	3,979	14,274
Taxation	3	**(1,423)**	(960)	(3,370)
Profit for the period		**4,180**	3,019	10,904
Profit/(loss) is attributable to:				
Owners of Topps Tiles Plc		**4,176**	3,041	10,876
Non-controlling interests		**4**	(22)	28
		4,180	3,019	10,904

All results relate to continuing operations of the Group.

Earnings per ordinary share				
- Basic	5	**2.14p**	1.55p	5.59p
- Diluted	5	**2.10p**	1.55p	5.52p

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 2 April 2022

	Note	**2 April 2022 £'000 (Unaudited)**	27 March 2021 £'000 (Unaudited)	2 October 2021 £'000 (Audited)
Non-current assets				
Goodwill	9	**2,118**	**-**	-
Intangible assets		**6,603**	1,006	1,243
Property, plant and equipment		**21,755**	25,296	23,680
Other financial assets		**2,104**	2,463	2,335
Deferred tax assets		**243**	1,333	407
Right-of-use assets		**91,817**	97,200	95,418
		124,640	127,298	123,083
Current assets				
Inventories		**36,989**	31,966	32,758
Other financial assets		**458**	667	518
Trade and other receivables		**5,618**	4,051	4,538
Cash and cash equivalents		**13,415**	15,351	27,789
		56,480	52,035	65,603
Total assets		**181,120**	179,333	188,686
Current liabilities				
Bank loans	6	**(4)**	-	-
Trade and other payables		**(43,245)**	(42,832)	(47,425)
Lease liabilities		**(19,641)**	(24,483)	(19,521)
Current tax liabilities		**(2,461)**	(2,000)	(2,027)
Provisions		**(346)**	(498)	(353)
Total current liabilities		**(65,697)**	(69,813)	(69,326)
Net current liabilities		**(9,217)**	(17,778)	(3,723)
Non-current liabilities				
Bank loans	6	**-**	-	-
Lease liabilities		**(86,965)**	(90,386)	(91,817)
Provisions		**(2,027)**	(1,835)	(1,969)
Total liabilities		**(154,689)**	(162,034)	(163,112)
Net assets		**26,431**	17,299	25,574
Equity				
Share capital	8	**6,556**	6,548	6,555
Share premium		**2,636**	2,492	2,625
Own shares		**(1,216)**	(1,351)	(1,216)
Merger reserve		**(399)**	(399)	(399)
Share-based payment reserve		**5,053**	4,191	4,642
Capital redemption reserve		**20,359**	20,359	20,359
Accumulated losses		**(8,874)**	(14,491)	(6,992)
Capital and reserves attributable to owners of Topps Tiles Plc		**24,115**	17,349	25,574
Non-controlling interests		**2,316**	(50)	-
Total equity		**26,431**	17,299	25,574

Condensed Consolidated Statement of Changes in Equity

For the 26 weeks ended 2 April 2022

	Equity attributable to equity holders of the parent								
	Share capital £'000	**Share premium £'000**	**Own shares £'000**	**Merger reserve £'000**	**Share-based payment reserve £'000**	**Capital redemption reserve £'000**	**Accum-ulated losses £'000**	**Non-controlling interest £'000**	**Total equity £'000**
Balance at 2 October 2021 (Audited)	6,555	2,625	(1,216)	(399)	4,642	20,359	(6,992)	-	25,574
Profit and total comprehensive income for the period	-	-	-	-	-	-	4,176	4	4,180
Issue of share capital	1	11	-	-	-	-	-	-	12
Dividends	-	-	-	-	-	-	(6,058)	-	(6,058)
Credit to equity for equity-settled share based payments	-	-	-	-	411	-	-	-	411
Non-controlling interest on business combination	-	-	-	-	-	-	-	2,312	2,312
Balance at 2 April 2022 (Unaudited)	**6,556**	**2,636**	**(1,216)**	**(399)**	**5,053**	**20,359**	**(8,874)**	**2,316**	**26,431**

For the 26 weeks ended 27 March 2021

	Equity attributable to equity holders of the parent								
	Share capital £'000	**Share premium £'000**	**Own shares £'000**	**Merger reserve £'000**	**Share-based payment reserve £'000**	**Capital redemption reserve £'000**	**Accum-ulated losses £'000**	**Non-controlling interest £'000**	**Total equity £'000**
Balance at 26 September 2020 (Audited)	6,548	2,492	(1,483)	(399)	3,965	20,359	(17,400)	(28)	14,054
Profit and total comprehensive income for the period	-	-	-	-	-	-	3,041	(22)	3,019
Own shares issued in the period	-	-	132	-	-	-	(132)	-	-
Credit to equity for equity-settled share based payments	-	-	-	-	226	-	-	-	226
Balance at 27 March 2021 (Unaudited)	**6,548**	**2,492**	**(1,351)**	**(399)**	**4,191**	**20,359**	**(14,491)**	**(50)**	**17,299**

For the 53 weeks ended 2 October 2021

	Equity attributable to equity holders of the parent								
	Share capital £'000	**Share premium £'000**	**Own shares £'000**	**Merger reserve £'000**	**Share-based payment reserve £'000**	**Capital redemption reserve £'000**	**Accum-ulated losses £'000**	**Non-controlling interest £'000**	**Total equity £'000**
Balance at 26 September 2020 (Audited)	6,548	2,492	(1,483)	(399)	3,965	20,359	(17,400)	(28)	14,054
Profit and total comprehensive expense for the period	-	-	-	-	-	-	10,876	28	10,904
Dividends	-	-	-	-	-	-	-	-	-
Issue of share capital	7	133	-	-	-	-	-	-	140
Own shares issued in the period	-	-	267	-	-	-	(267)	-	-
Credit to equity for equity-settled share based payments	-	-	-	-	677	-	-	-	677
Deferred tax on share-based payment transactions	-	-	-	-	-	-	(47)	-	(47)
Acquisition of non-controlling interest on business combination	-	-	-	-	-	-	(154)	-	(154)
Balance at 2 October 2021 (Audited)	**6,555**	**2,625**	**(1,216)**	**(399)**	**4,642**	**20,359**	**(6,992)**	**-**	**25,574**

Condensed Statement of Cash Flows
for the 26 weeks ended 2 April 2022

	26 weeks ended 2 April 2022 £'000 (Unaudited)	26 weeks ended 27 March 2021 £'000 (Unaudited)	53 weeks ended 2 October 2021 £'000 (Audited)
Cash flow from operating activities			
Profit for the period	**4,180**	3,019	10,904
Taxation	**1,423**	960	3,370
Finance costs	**1,945**	2,146	4,158
Finance income	**(37)**	(47)	(87)
Group operating profit	**7,511**	6,078	18,345
Adjustments for:			
Depreciation of property, plant and equipment	**2,830**	3,240	6,268
Depreciation of right-of-use assets	**9,181**	10,659	20,508
Amortisation of intangible assets	**199**	91	186
Loss on disposal of property, plant and equipment	**-**	237	1,736
Loss on sublease	**36**	145	134
Impairment charge/(reversal) of property, plant and equipment	**427**	730	(604)
Impairment of right-of-use assets	**1,771**	687	2,402
Gain on lease disposal	**(2,265)**	(937)	(2,563)
Share option charge	**411**	226	677
(Increase)/decrease in receivables	**456**	(819)	7
Increase in inventories	**(2,795)**	(2,629)	(3,421)
Decrease in payables	**(7,117)**	(14,255)	(11,209)
Cash generated by operations	**10,645**	3,453	32,466
Interest paid	**(138)**	(258)	(468)
Interest element of lease liabilities paid	**(1,777)**	(1,901)	(3,728)
Taxation paid	**(2,085)**	-	(1,535)
Net cash from operating activities	**6,645**	1,294	26,735
Investing activities			
Interest received	**4**	7	11
Interest received on sublease assets	**34**	40	76
Receipt of capital element of sublease assets	**247**	372	629
Purchase of property, plant, equipment	**(938)**	(2,298)	(4,221)
Purchase of intangibles	**(192)**	(178)	(513)
Proceeds on disposal of property, plant and equipment	**131**	1,749	2,096
Acquisition of subsidiary, net of cash acquired	**(4,436)**	-	(154)
Net cash used in investment activities	**(5,150)**	(308)	(2,076)
Financing activities			
Payment of capital element of lease liabilities	**(9,822)**	(11,653)	(23,026)
Dividends paid	**(6,058)**	-	-
Proceeds from issue of share capital	**11**	-	133
Repayment of bank loans	**-**	(5,000)	(4,995)
Net cash used in financing activities	**(15,869)**	(16,653)	(27,888)
Net decrease in cash and cash equivalents	**(14,374)**	(15,667)	(3,229)
Cash and cash equivalents at beginning of period	**27,789**	31,018	31,018
Cash and cash equivalents at end of period	**13,415**	15,351	27,789

1.General information

The interim report was approved by the Board on 24 May 2021. The financial information for the 53 week period ended 2 October 2021 has been based on information in the audited financial statements for that period.

The comparative figures for the 53 week period ended 2 October 2021 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 53 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 2 April 2022 and the comparative period has been prepared for the 26 weeks ended 27 March 2021.

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 annual financial statements of Topps Tiles Plc are prepared in accordance with IFRSs as adopted by the European Union. 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 a more pessimistic trading scenario that was deemed severe but plausible. The more pessimistic trading scenario was based on a 15% decline in the tile market in which we operate, taking it back down to 2018 levels but with significant inflationary pressures remaining over the course of 2022 and 2023. This results in much lower sales and margins than the base scenario, resulting in worse profit and cash outcomes.

The Group has already taken a number of actions to strengthen its liquidity during the Covid-19 pandemic, including the sale and leaseback of the Group's head office and central warehouse buildings in Enderby in June 2020, and the scenarios start from a position of relative strength. The going concern review also outlined a range of other 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 scenario. The current lending facility was refinanced in July 2018 and expires in July 2023. In all scenarios, the Board has concluded that there is sufficient available liquidity and 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 statement. Accordingly, the Board continues to adopt the going concern basis in preparing the financial statements.

2. Business segments

The Group has one reportable segment in accordance with IFRS 8 – Operating Segments, which encompasses the Topps Tiles Group revenue generated instore and online from retail and commercial customers. The Board receives monthly financial information at this level and uses this information to monitor performance, allocate resources and make operational decisions. All revenue is derived from the UK and is from one class of business.

3. Taxation

	26 weeks ended 2 April 2022 £'000 (Unaudited)	26 weeks ended 27 March 2021 £'000 (Unaudited)	53 weeks ended 2 October 2021 £'000 (Audited)
Current tax – debit for the period	**1,520**	887	2,418
Deferred tax – (credit) / debit for the period	**(97)**	73	1,234
Deferred tax – adjustment in respect of previous periods	**-**	-	145
Effect of tax rate change on opening balance	**-**	-	(427)
	1,423	960	3,370

4. Interim dividend

An interim dividend of 1.00p (2021: £nil) per ordinary share has been declared. A final dividend of 3.10p per ordinary share was approved paid in the period, in relation to the 53 week period ended 2 October 2021.

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 2 April 2022 (Unaudited)	26 weeks ended 27 March 2021 (Unaudited)	53 weeks ended 2 October 2021 (Audited)
Weighted average number of issued shares for basic earnings per share	**196,680,195**	196,443,323	196,508,867
Weighted average impact of treasury shares for basic earnings per share	**(1,259,275)**	(1,454,958)	(1,344,844)
Total weighted average number of shares for basic earnings per share	**195,420,920**	194,988,365	195,164,023
Weighted average number of shares under option	**3,171,408**	321,247	2,274,713
For diluted earnings per share	**198,592,328**	195,309,612	197,438,736
	£’000	£’000	£’000
Profit for the period	**4,176**	3,019	10,904
Adjusting items	**1,277**	1,093	1,067
Adjusted profit for the period	**5,453**	4,112	11,971
Earnings per ordinary share – basic	**2.14p**	1.55p	5.59p
Earnings per ordinary share – diluted	**2.10p**	1.55p	5.52p
Earnings per ordinary share – adjusted	**2.79p**	2.11p	6.13p

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 2 April 2022 were calculated after adjusting for the post-tax impact of the following items: impairment of property, plant, equipment of £380,000 (2021: £643,000), vacant property costs for stores closed as part of store reduction programme of £772,000 (2021: £1,026,000), project and acquisition costs of £497,000 (2021: £nil), IFRS 16 one off credits including the impairment of closure programme stores of £372,000 (2021: £236,000 cost) and furlough claim to be repaid in the second half of £nil (2021: £812,000).

6. Bank loans

	26 weeks ended 2 April 2022 £'000 (Unaudited)	26 weeks ended 27 March 2021 £'000 (Unaudited)	53 weeks ended 2 October 2021 £'000 (Audited)
Bank loans (all sterling)	**(4)**	-	(106)
The borrowings are repayable as follows:			
On demand or within one year	**(4)**	-	-
In the second year	**-**	-	-
In the third to fifth year	**-**	-	-
	-	-	-
Less: total unamortised issue costs	**(76)**	(56)	(106)
	(76)	(56)	(106)
Issue costs to be amortised within 12 months	**64**	50	36

The Group has a revolving credit facility to June 2023 of £39.0 million. As at 2 April 2022, £nil of this facility was drawn (2021: £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 2 April 2022 £'000 (Unaudited)	26 weeks ended 27 March 2021 £'000 (Unaudited)	53 weeks ended 2 October 2021 £'000 (Audited)
Financial assets			
Fair value through profit and loss	**54**	-	63
Financial liabilities			
Fair value through profit and loss	**-**	324	-

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 (2021: 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 2 April 2022 the fair value of the Group's currency derivatives is a gain of £54,000 within trade and other receivables (2021: £324,000 loss). These amounts are based on the market value of equivalent instruments at the Statement of Financial Position date.

Losses of £9,000 are included in cost of sales (2021: £348,000 loss).

8. Share capital

The issued share capital of the Group as at 2 April 2022 amounted to £6,556,000 (27 March 2021: £6,548,000). During the period the Group issued 19,687 shares (27 March 2021: nil shares), and therefore the number of shares at 2 April 2022 were 196,681,818 (27 March 2021: 196,443,323).

9. Acquisition of subsidiaries

The Group acquired a controlling 60% shareholding of Pro Tiler Limited on 9 March 2022, for consideration of £5.3 million in cash, plus a closing adjustment of £0.3 million. The Group intends to acquire the remaining 40% of the issued share capital from March 2024, based on an agreed multiple of profits for the 12-month period to March 2024.

The Group performed a purchase price allocation exercise on Pro Tiler Limited to restate assets and liabilities at their fair value. Separately identifiable intangible assets were recognised in relation to Pro Tiler's brand.

On acquisition, the Group recognised tangible assets of £1.7 million, including £0.9 million of net cash, £0.2 million of net working capital and £0.6 million of fixed assets, and intangible assets consisting of the brand value of £4.1 million net of deferred tax and goodwill of £2.1 million, together with a non-controlling interest of £2.3 million. The brand asset will be amortised in line with our accounting policies.

The proposed purchase of the remaining 40% of shares in Pro Tiler Limited will be accounted for as a remuneration expense rather than contingent consideration, as required by IFRS 3, due to certain conditions placed on the selling shareholders to remain employed by the Group during this time. This expense will be treated as an adjusting item over the next two years and will therefore reduce the Group's statutory profit in forthcoming trading periods. This expense is not treated as a deductible expense for corporation tax purposes and therefore the Group's effective rate of corporation tax will increase in FY22 and the next two financial years as a result of this accounting treatment.

Acquisition costs of £0.2 million and remuneration costs of £0.2 million in relation to the 40% share purchase were treated as adjusting items within statutory profit.

The fair value of the net assets acquired and liabilities assumed at the acquisition date were:

	£'000
Property, Plant and Equipment	565
Inventories	1,436
Trade and other receivables	463
Trade and other payables	(1,637)
Loan	(5)
Cash and cash equivalents	900
Brand valuation	5,367
Deferred tax	(1,310)
Non-controlling interest	(2,311)
Fair value of assets acquired	**3,467**
Total consideration	**5,585**
Goodwill	**2,118**

The net cash outflow in the cash flow statement in the period was as follows:

	£'000
Cash consideration	5,336
Cash acquired	(900)
Net cash outflow in the cash flow statement	**4,436**

Since the date of control, the following amounts have been included within the Group's financial statements for the period:

	£'000
Revenue	1,068
Profit before tax	16

Had the acquisition been included from the start of the period, £6,545,000 of revenue and £157,000 of profit before tax would have been included in the Group's financial statements for the period.

10. 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.

11. Related party transactions

MS Galleon AG is a related party by virtue of their 21.1% shareholding (41,234,924 ordinary shares) in the Group's issued share capital (27 March 2021: 20.0% shareholding).

MS Galleon AG is the owner of Cersanit, a supplier of ceramic tiles with whom the Group made purchases of £424,000 during the first half of the year which is 0.8% of cost of goods sold (27 March 2021: purchases of £163,000 during the first half of the year which is 0.4% of cost of goods sold).

An amount of £205,000 was outstanding with Cersanit at 2 April 2022 (27 March 2021: £7,000). 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.