

A modern dining room with a wooden table, green chairs, and a patterned tile backsplash. The room features a large window on the left, a wooden table with four green chairs, and a patterned tile backsplash. The floor is covered in a patterned tile with a repeating circular motif. The kitchen area in the background has a dark countertop and a patterned tile backsplash. The lighting is warm and ambient.

Topps Group

Half Year Results 2023

**Analyst and Investor
Presentation**

- 
- **HY23 Highlights**
Rob Parker
 - **Financial Review**
Stephen Hopson
 - **Operational Review**
Rob Parker

A modern kitchen and dining area. In the foreground, a round wooden table with a thick top and two thick legs is set with a white ceramic vase, a glass of water, and a notebook. A green upholstered chair with a dark metal frame is tucked under the table. In the background, a kitchen counter with a white marble backsplash features a brass faucet, a wooden cutting board, and some bottles. To the right, a dark wood cabinet holds a stack of white dishes and books. A large window on the left shows a view of greenery.

HY23 Highlights

Rob Parker

Chief Executive Officer

Omni-channel



Market leading, omni channel domestic specialist with opportunities for profitable growth – serving homeowners, trade customers & contractors

Online Pure Play



Digital only tile, tools and consumables businesses, serving installers and homeowners, delivering rapid growth with £45m+ sales opportunity

Commercial



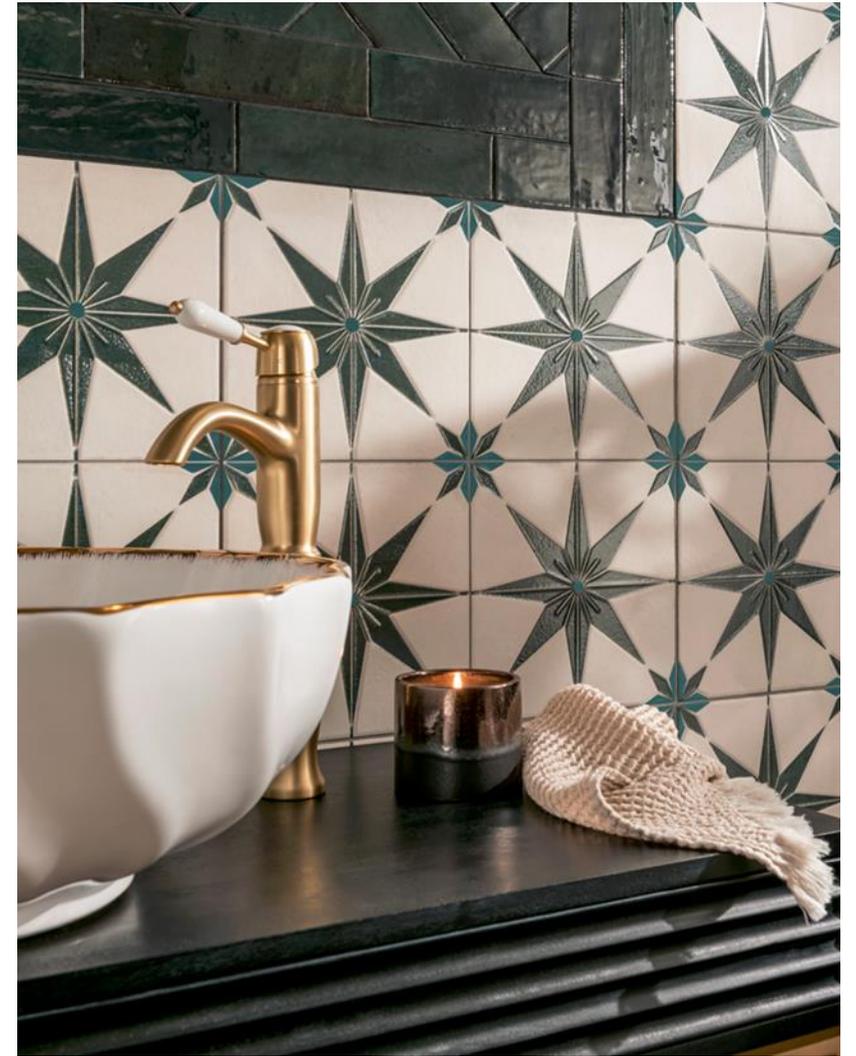
B2B/commercial focus, leveraging Group product offer and serving architects, designers and contractors
5th largest commercial specialist with £20m+ sales opportunity

Goal



20% market share goal – FY22 estimated at 19% and ahead of plan

- Record half-year period for sales
- Strong performance from market-leading, omni-channel Topps Tiles brand
- Excellent performance from Pro Tiler Tools
- As expected, significant inflation impact on H1 but abating
- Supply chain and recruitment pressures easing
- Materially stronger H2 and confident in hitting full year profit expectations*
- Confident of delivering '1 in 5' goal early



A modern bathroom with dark grey stone tiles. In the foreground, a light green ceramic sink sits on a wooden vanity with a white faucet. To the left, a white planter holds a green plant. Above the sink is a large, arched mirror reflecting a window. In the background, a shower area features a white showerhead and a hanging green plant. The wall has white plumbing fixtures.

Financial Review

Stephen Hopson

Chief Financial Officer

Income Statement Highlights - Adjusted Measures

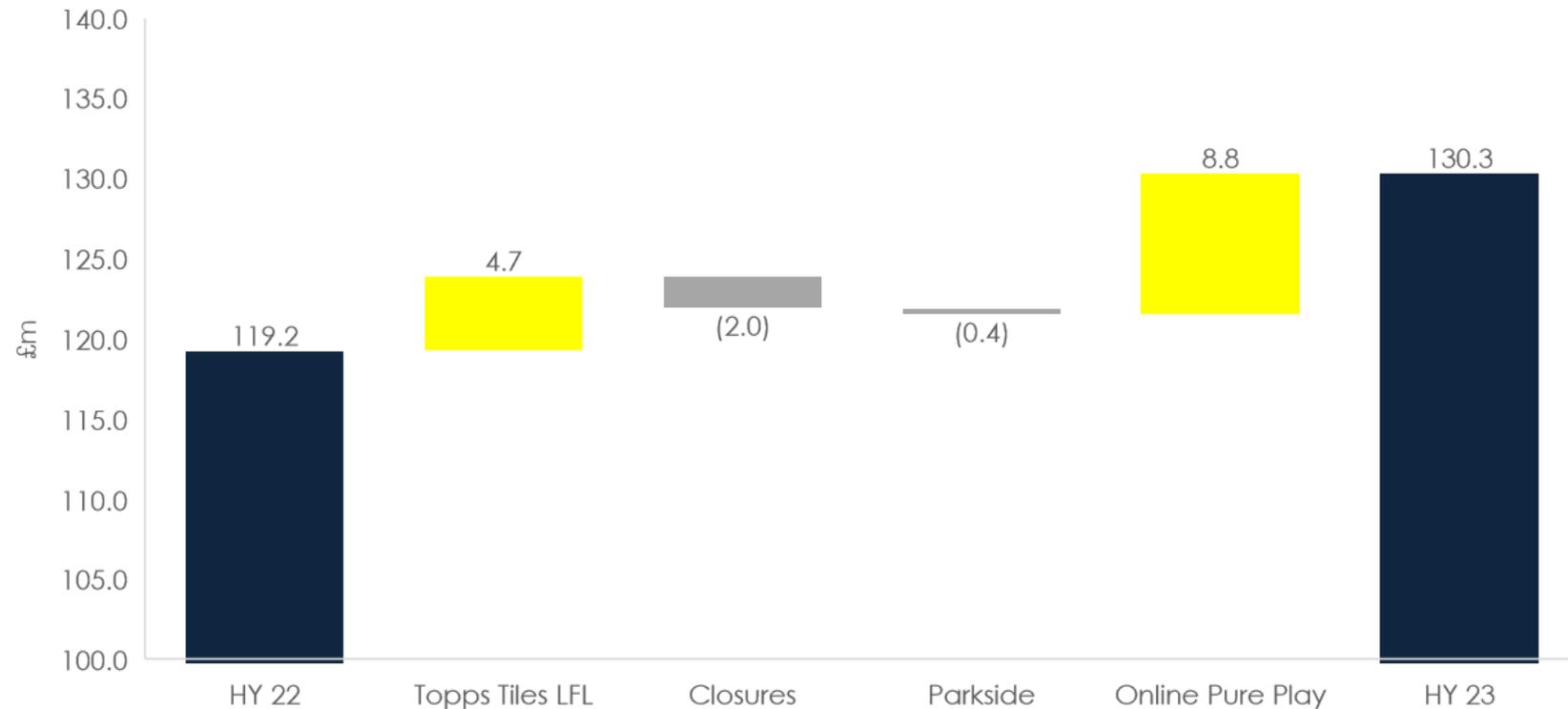
Topps Group

26 weeks ended 1 April 2023

| | HY 23 | HY 22 (restated) | YoY |
|-------------------|--------|---------------------|-----------|
| Sales - £m | 130.3 | 119.2 | +9.3% |
| Gross Profit - £m | 68.7 | 66.9 | +2.7% |
| Gross Margin % | 52.8% | 56.1% | (3.3)ppts |
| Opex - £m | (62.1) | (57.8) | (7.4)% |
| Interest - £m | (2.2) | (1.9) | (15.8)% |
| PBT - £m | 4.4 | 7.1 | (38.0)% |
| Net Margin % | 3.4% | 6.0% | (2.6)ppts |
| EPS - pence | 1.57p | 2.83p | (44.5)% |

- Strong year on year sales growth, led by Topps Tiles and Pro Tiler Tools (acquired in March 2022)
- Group gross profit up 2.7% with gross margin % down 3.3 ppts due to business mix and FX movements
- Adjusted operating expenses increase of 7.4% due to inflation and inclusion of Online Pure Play cost base, partially offset with store closure cost reductions
- Adjusted PBT down as a result of inflation and some one-offs, however confident of materially more profitable H2 and in hitting full year expectations

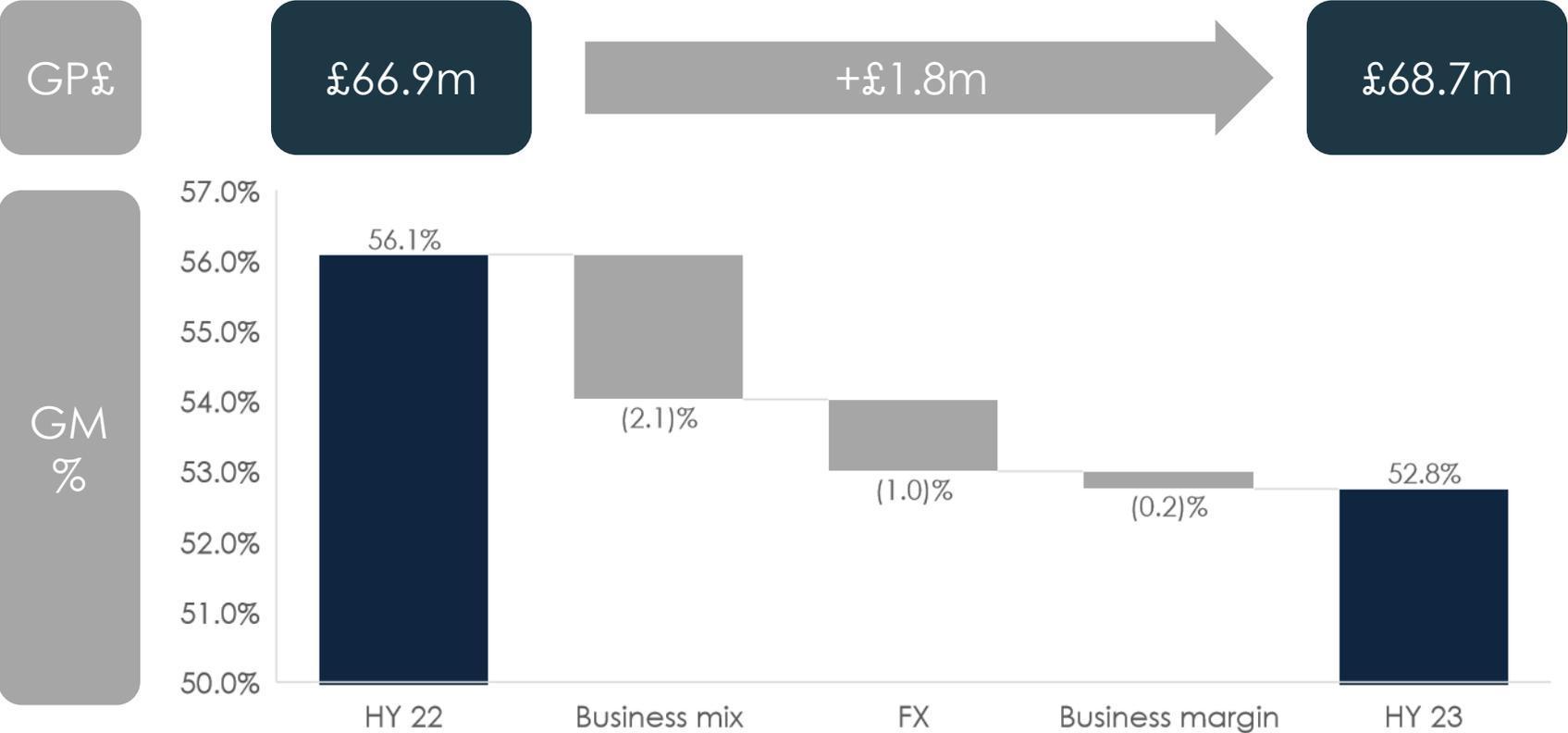
Note - Adjusted measures exclude several items which are either one off in nature or fluctuate significantly from year to year. HY 22 P&L restated by £0.1m of adjusted PBT as a result of IFRIC agenda decision in relation to configuration and customisation expenditure relating to cloud computing arrangements.



| | | | | |
|--------------|------------------------|-------------------|---------------------------|------------------|
| Total sales: | Topps Tiles £115.8m | Parkside £4.6m | Online Pure Play £9.9m | Group £130.3m |
|--------------|------------------------|-------------------|---------------------------|------------------|

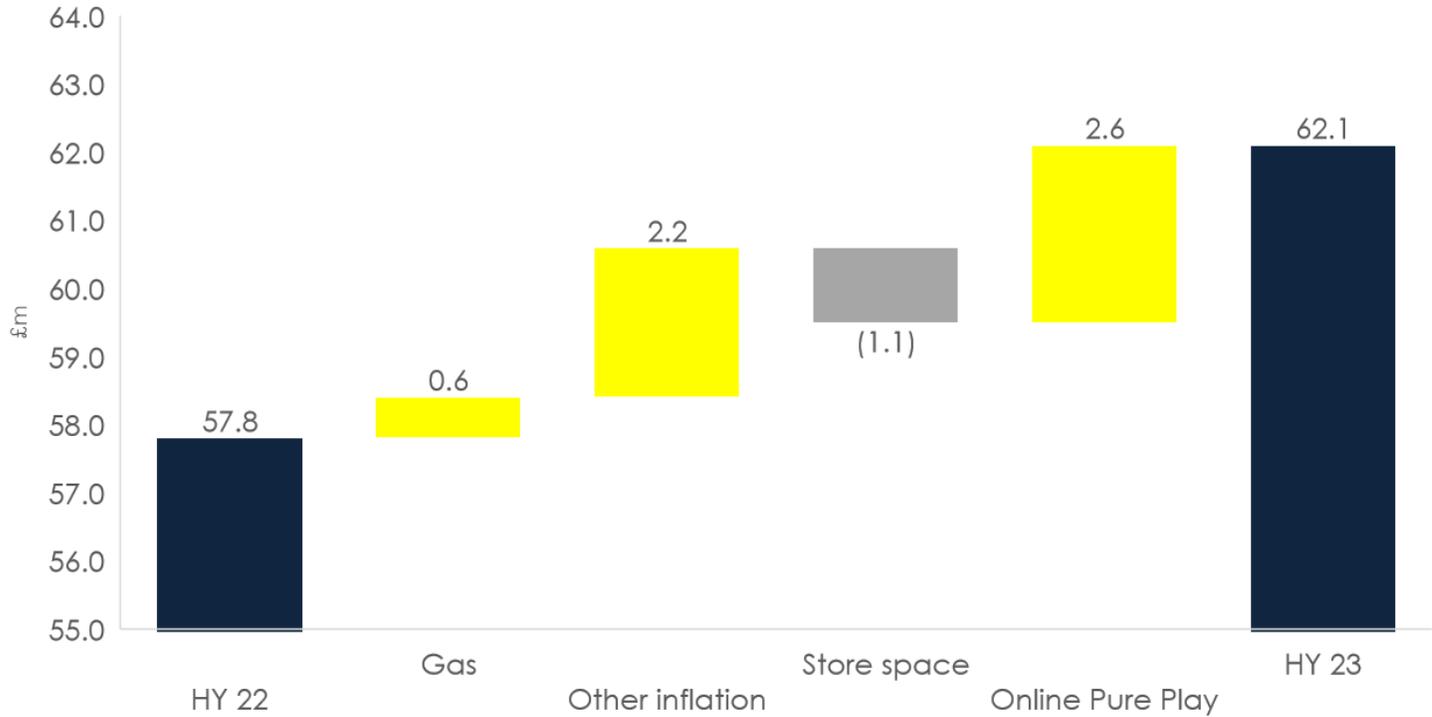
- Strong LFL sales within Topps Tiles brand, LFL +4.3% vs tough comparative period
- Average stores reduced from 314 last year to 304 this year
- Parkside sales down £0.4m with project delays and fewer project starts
- Online Pure Play contributed £9.9m of sales to Topps Group, following acquisition of Pro Tiler in March 2022 (YoY sales growth 40%+) and launch of Tile Warehouse in May 2022

Gross Profit and Margin % Bridge



- Gross profit increased £1.8m, largely due to inclusion of high growth Online Pure Play brands
- Online Pure Play gross margins are c 30% but not dilutive to net margin %
- Significant impact from mark-to-market of FX contracts & retranslation movement - £1.3m or 1.0%pt YoY
- Higher cost of goods now passed on % for %, enabling Topps' margin to improve through the period
- Expectation that Topps Tiles' gross margin % will increase in H2 vs H1

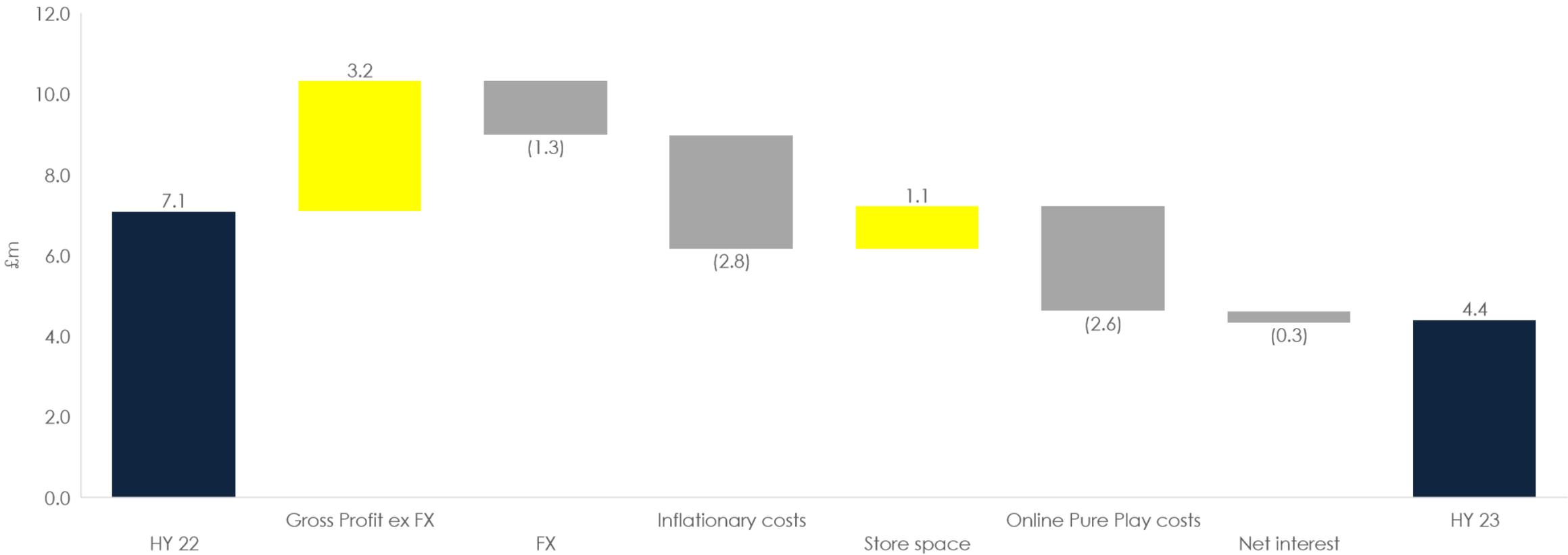
Adjusted Operating Expenditure Bridge



- Operating costs increased 7.4% YoY compared to sales increase of 9.3%
- Inflationary increases of £2.8m (c. 4.8%), led by utilities (gas) and employment costs incl NLW
- Average of 304 Topps Tiles stores vs 314 in the prior year generating £1.1m reduction in costs in H1
- Introduction of cost base for both Pro Tiler Tools and Tile Warehouse increased costs by £2.6m YoY
- Increased marketing, holiday pay accrual and commission payments offset with other savings
- Inflationary costs weighted to H1 (gas) and some items reverse entirely in H2 (holiday pay accrual)

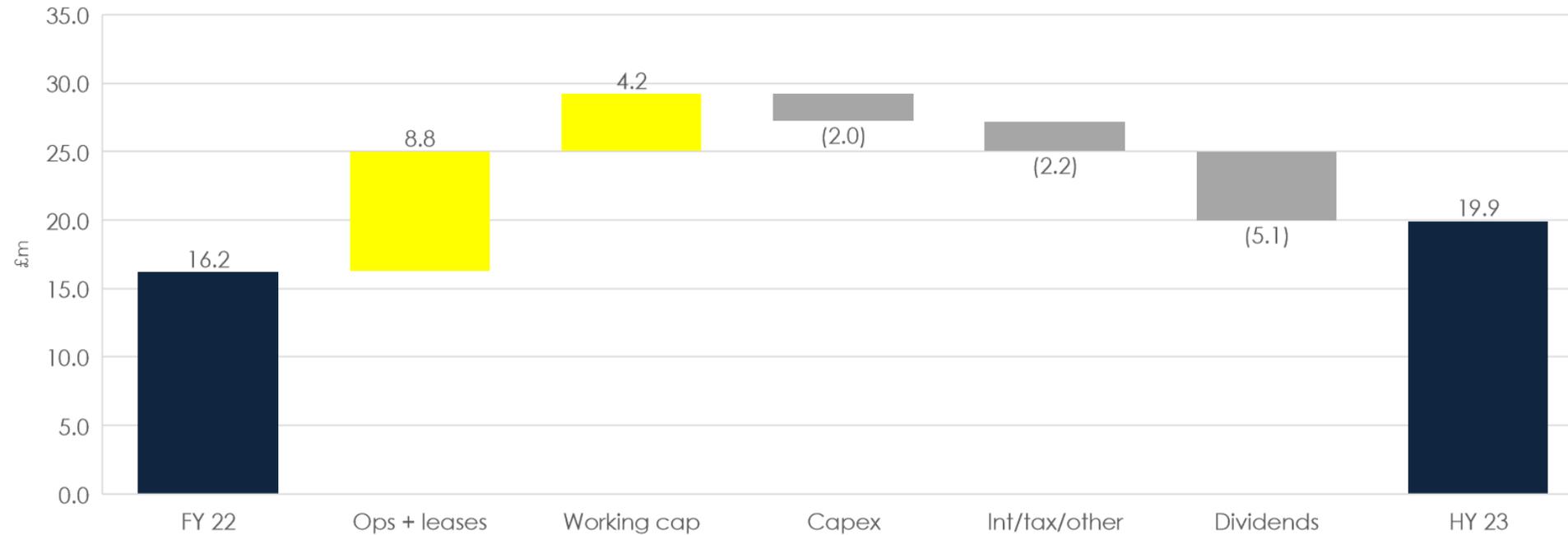
Note – HY 22 adjusted opex restated by £0.1m as a result of IFRIC agenda decision in relation to configuration and customisation expenditure relating to cloud computing arrangements

Adjusted Profit Before Tax Bridge



- Strong profit growth from gross profit increases in Topps and Online Pure Play
- FX swing due to MTM of forward currency contracts and retranslation movement
- Inflationary costs significant drag on H1 profitability, partially offset with store space savings
- Operational cost base now included for new businesses: Pro Tiler Tools and Tile Warehouse
- Profit expected to be materially higher in H2

Note – HY 22 adjusted PBT restated by £0.1m as a result of IFRIC agenda decision in relation to configuration and customisation expenditure relating to cloud computing arrangements



- Strong operating cash flows pre-WC - £8.8m after adjusting for non-cash items within PBT
- Working capital inflow of £4.2m, driven by increased trade payables and VAT creditor
- Stock days reduced from 126 at year end to 117 at half year – inventory increase of £0.2m vs FY
- Capex of £2.0m largely spent on Topps Tiles stores: re-fit, re-site, re-gear
- Final dividend of 2.6p per share from FY 2022 paid in HY 2023 at a cost of £5.1m
- Interim dividend of 1.2p declared (2022: 1.0p)
- Strong balance sheet - £49.9m of headroom including unused £30m borrowing facility

Note: Adjusted net cash / debt excludes lease liabilities under IFRS 16. 'Ops + leases' is equal to cash generated by operations before working capital movements, less the interest and capital elements of lease payments.

Income Statement

- H2 profit materially stronger than H1
 - Gas expense c £1.7m in H1 (largely heating), reduced to c £0.7m in H2 – swing of £1.0m
 - Holiday pay accrual of £0.9m in H1, credit of £0.9m in H2 – swing of £1.8m
 - Gross margins in Topps Tiles higher in H2 than in H1
 - Online Pure Play expected to contribute more profit in H2 than H1
- Confident in hitting market expectations for the full year*
- Pro Tiler Ltd share purchase provision increase continues c £1.7m every 6 months until March 2024 – removed from adjusted PBT and not tax-deductible

Cash Flow

- Full year capex £5m-£6m including core investment plans
- Core assumption of neutral working capital movements except based on period end timing

General

- Store closure programme now complete, a handful of relocations each year
- Full year dividends to be set at 67% of adjusted EPS, but not reducing YoY (up to a limit of 100% of adj EPS)



Operational Review

Rob Parker
Chief Executive Officer



Omni-channel

- Record H1 sales
- Continued strategic progress – category expansion, formats & portfolio
- Store densities +30% vs 2019
- World class customer service



Online Pure Play

- New website catering to value-conscious homeowners
- Year 1 focus on learn & refine
- Trading loss through early stage PPC investment
- £15m+ sales ambition



Commercial

- Tougher H1 with sales contracting
- Performance below expectations, business improvement programme in place for H2
- B2B remains key strategic opportunity
- £20+ sales ambition



Online Pure Play

- 60% owned, fully owned from Apr 24
- Very strong continued growth – 40%+ YoY
- Further opportunities by leveraging digital skillset – warmfloorstore.co.uk launched
- £30m+ sales ambition



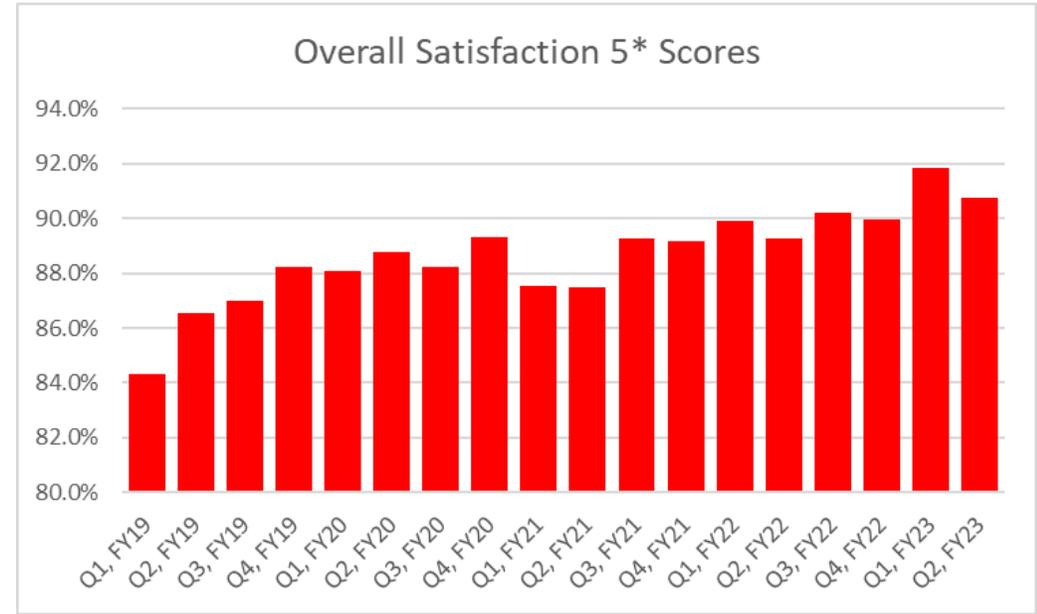
Leading Product

- Key source of competitive advantage – we are experts in ranging and sourcing of tiles and associated products on a global basis
- Supply chain challenges now abating, product availability (98%) and movement of goods normalised
- Continued pipeline of NPD and iterative change with 32 new products launched H1 – over 35% developed by us
- Category expansions delivering growth – Outdoor, LVT, Shower Panels and XL Tiles
- Owned brand strategy continues to develop – significant for both coverings and essentials



Leading People

- World class customer service at heart of offer – overall satisfaction rate of 91%*
- Employment market improving & vacancies reduced - greater focus on recruitment & retention - the 'Topps deal'
- Group turnover down to 34% (-3.8% on LY). Turnover in key role of store manager down significantly
- Colleague development and progression - 60% of promotions into management positions filled internally
- Colleague engagement strong at 80% (UK average 68%)



*Overall satisfaction is measured as customers scoring us as 5 out of 5 for satisfaction

Environmental Leadership

- Goal to be carbon neutral by 2030 (scope I and II emissions), or earlier
- Scope I and II = 4,800 tonnes of carbon generated annually
- Internal governance will focus on carbon balancing and circularity
- Target of 10% reduction in tile waste FY23
- Solar panels now installed at main site – will generate 70% of electricity needs (340,000 kwh)
- Increasing focus on scope III – TCFD commitment to report by FY24



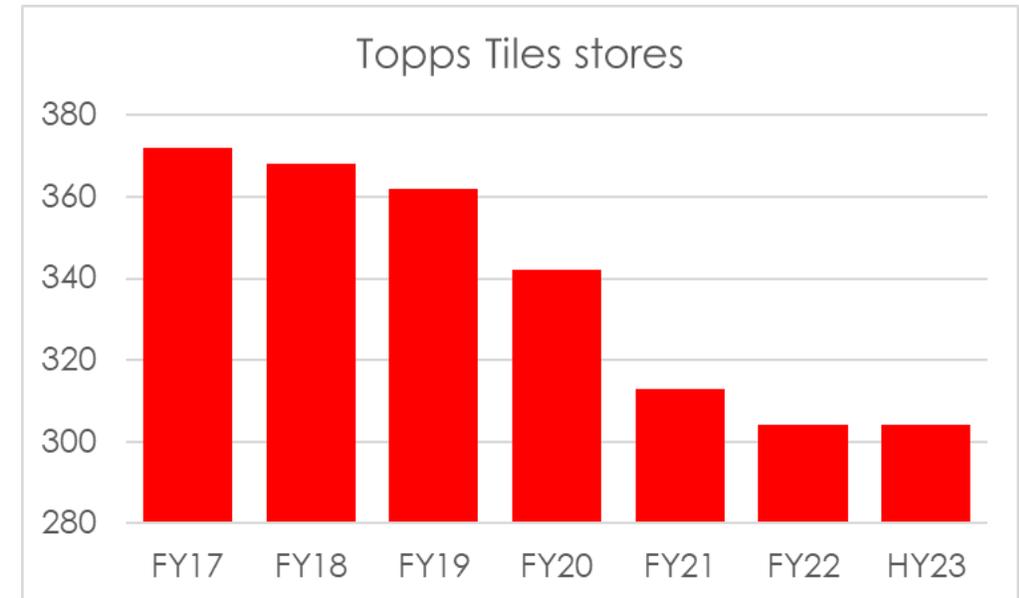


Topps Tiles

Topps Tiles Summary

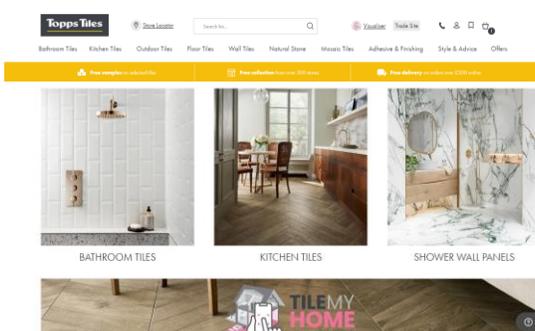
Investment case - market leading, omni channel specialist with *opportunities for profitable growth*

- Celebrating 60 years of trading - tiles for everyone since 1963
- World class customer service scores – 90%+ 5* ratings
- Award winning website with market leading traffic – 170,000 visitors pw
- National coverage with c.300 stores – weekly sales per store +30% vs 2019
- Driving growth through category extensions, store formats and stronger value
- Professional installers and homeowners served from same space – often working together (referrals, traders’ showroom, store collections)



Topps Tiles – One Brand, Two Customer Groups

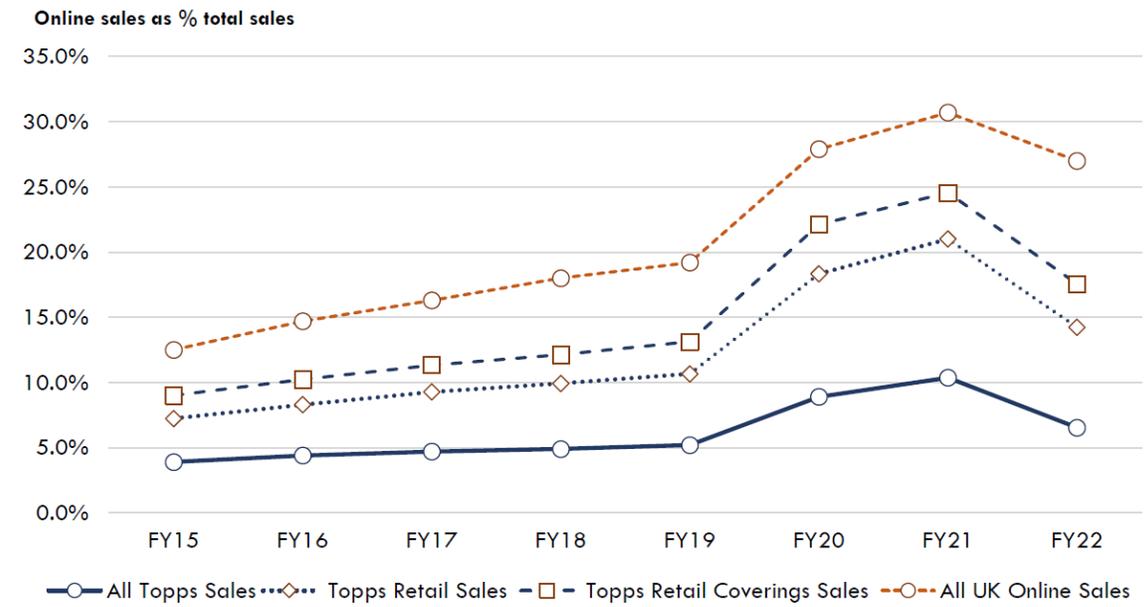
| | Trade (59% of sales) | Homeowner (41% of sales) |
|-------------------------------------|--|---|
| Role of digital | 5k visitors p/w* Dedicated trade website / app / C&C | 165k visitors p/w* Vital for research and inspiration |
| Role of store | 35k visitors p/w* Strong preference for store National coverage is key | 130k visitors p/w* Consideration, advice, support |
| % of sales transacted online | Low | 18% of tile sales |
| Role of store teams | Relationships, knowledge, technical advice and service | Advice, inspiration, service, after sales |
| Brand awareness | Topps Tiles awareness – high Product brand awareness – high | Topps Tiles awareness – high Product brand awareness – low |
| Shopping frequency | Frequent | Infrequent |
| Price competitiveness | Key | Important |



* Indicative visitor numbers in stores and through digital platforms per week

Homeowner

- Market leading website important for homeowner – 3x traffic of next largest competitor and 18% sales penetration
- True omni channel experience – 98% of sales involve a store (research, advice, purchase, collection)
- Samples – c.4,000 pw online – est. 40% conversion to order
- Infrequently shopped means service key – world class with 90%+ of customers scoring 5 out of 5
- Strong customer representation from more affluent demographic – key strength
- Brand strength – Topps Tiles 77% awareness (2.5x next specialist)



WE'RE THE
UK's No.1
TILE SPECIALIST

EST. 1963
WITH OVER 60
YEARS' EXPERIENCE

98% OF OUR
CUSTOMERS
LOVE US

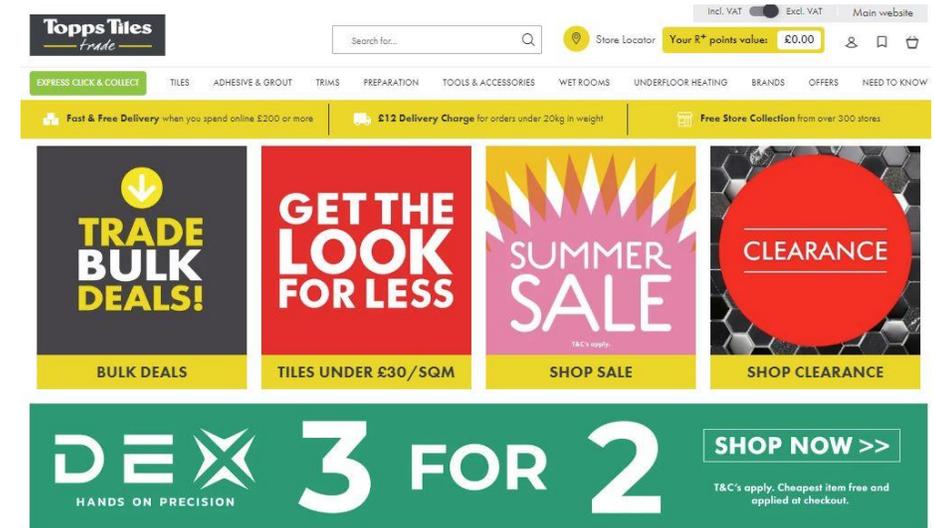
All UK Online Sales data means the ONS data set "Internet sales as a percentage of total retail sales (ratio) (%)".

Topps Retail Coverings Sales means tile sales made to homeowners transacted online expressed as a % of total tile sales made to homeowners in the Topps Tiles brand.

Topps Retail Sales means sales made to homeowners transacted online expressed as a % of total sales made to homeowners in the Topps Tiles brand.

All Topps Sales means the % of sales transacted online expressed as a % of total sales across both homeowner and trade customer groups in the Topps Tiles brand.

- Large customer base - 120,000 active in last 12 months (c.200,000 registered) – 59% of sales
- Merchant focus - professional installers account for c.59% of sales (H1)
- Trader base works in harmony with homeowner – mutual referrals key
- Competitiveness on branded/commoditised consumables & tools key (trade pricing, bulk/pallet deals, loyalty scheme)
- Dedicated contracts team – delivering sales of £7.0m (+23% YoY)



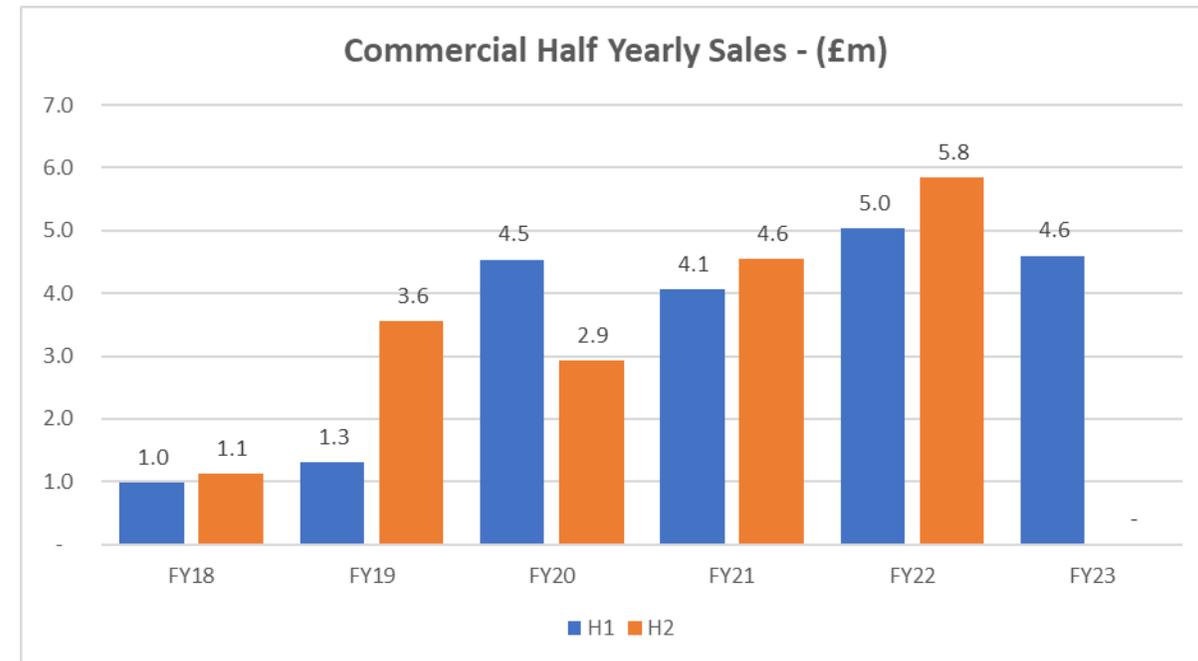


Commercial

PARKSIDE
ARCHITECTURAL TILES

Investment case – B2B focus, leveraging Group product offer, £20m+ sales opportunity

- Strategic rationale for B2B operation – commercial/contractor represents c.50% of UK market
- Commercial new build market remains 27% below pre-Covid levels (volume basis)
- Sector specialism developed across Residential, Retail & Leisure, Hotels, Infrastructure and Transport
- Q4 FY22 business traded at breakeven, H1 has been tougher with £0.4m sales decline
- Performance below expectations and business improvement plan now launched



Online Pureplay

PROTILERTOOLS

**NORTHANTS
TOOLS**

 Premium
Tile Trim

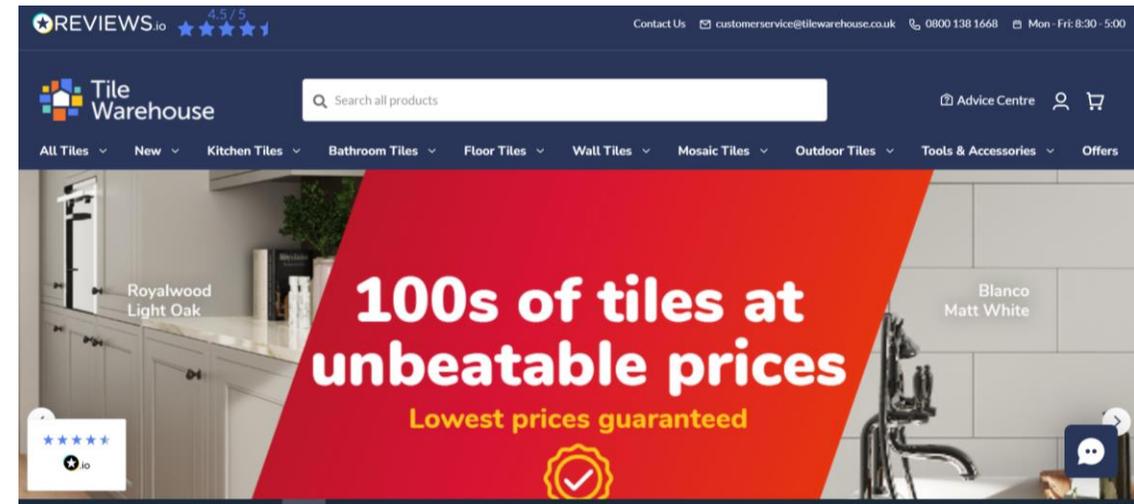
 WarmFloor
Store

 Tile
Warehouse



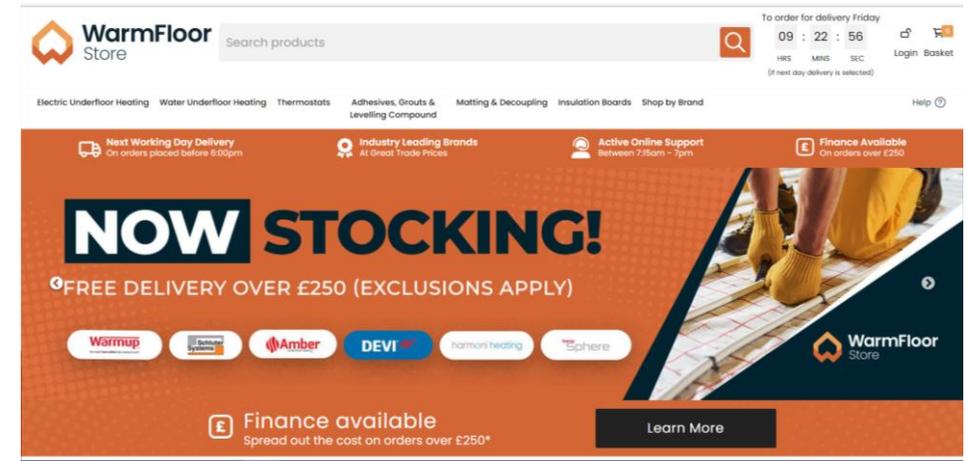
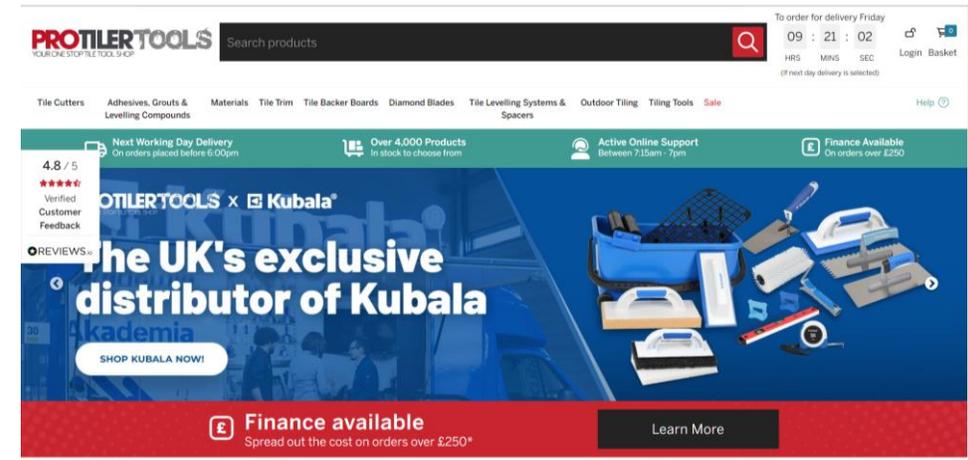
Investment case – £100m+ online market, value positioning complimentary to Topps Tiles

- New digital brand launched May '22
- Consumer brand separate to Topps Tiles – homeowner focus, online, value orientated, narrow range, delivery
- Year one focus on learn & refine – SEM strategy, customer offer, systems
- Requires PPC investment to drive traffic and sales
- Working with social media influencer, 'Proper DIY', on bespoke 'how to' content
- £15m+ sales ambition within 5 years



Investment case – trade focused, digital only consumables & tools business with strong growth opportunity

- Complementary to existing Group operations
- Core digital skillset with opportunities to leverage into new channels
- Pro Tiler Tools seen as expert by trade customers – tilers selling to tilers – 4.8* reviews
- Strong growth in first 12 months of Topps Group ownership >40%
- Trade brands key – leveraging Group and creating exclusivity through scale
- Warmfloorstore launched March '23 – wet & dry UFH options with support from key suppliers
- Confident in £30m+ sales opportunity



■ Summary

- Record H1 sales at £130.3m
- Clear '1 in 5' goal and growth strategy means business continues to develop and diversify
- Topps Tiles business evolving and delivering sustained LFL growth
- Digital pureplay growing rapidly – offers significant scale and profit upside

■ Current Trading and Outlook

- Topps Tiles like-for-like sales in the last 7 weeks +4.1% underlying*
- Gross margin H2 outlook improved
- Inflation, supply chain and recruitment pressures easing
- Materially stronger profit in H2
- Confidence in FY expectations & outlook beyond



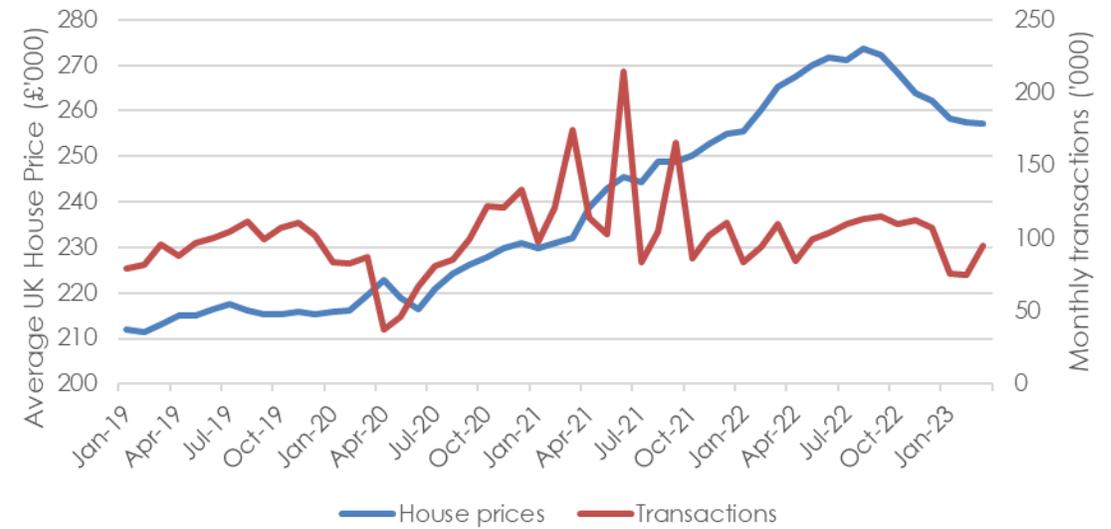
Q&A

Appendix

ONS Market Size

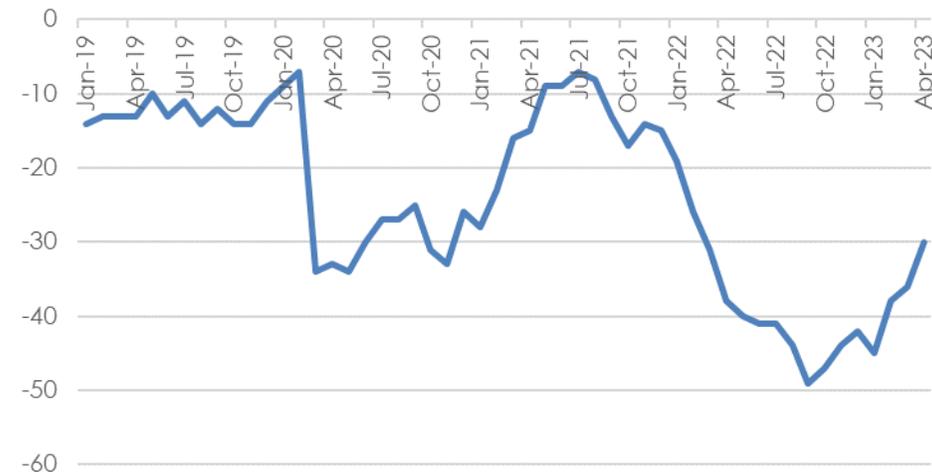


UK House Prices and Transactions



Sources: ONS 'Output in the construction industry' – value non-seasonally adjusted data; Nationwide House Price Index; National Statistics Monthly Property Transactions (residential); GfK Consumer Confidence Index

Consumer confidence



| | HY 2023 | HY 2022 (restated) | YoY |
|---|------------|-----------------------|--------------|
| Adjusted Profit before tax (£m) | 4.4 | 7.1 | (2.7) |
| Adjusting items (£m): | | | |
| Property | (0.6) | (0.9) | +0.3 |
| Pro Tiler Ltd share purchase provision increase | (1.7) | (0.2) | (1.5) |
| Restructuring and other | (0.4) | (0.4) | - |
| Profit before tax (£m) | 1.7 | 5.6 | (3.9) |

- Adjusting items in HY 2023 consist of:
 - Property related items including vacant property and closure costs in connection with stores closed as part of the store closure programme which ended in FY22, also impairment of right-of-use assets and gains on lease disposals
 - Increases in the Pro Tiler Limited share purchase provision (accounted for as a remuneration cost under IFRS3 – Business Combinations due to conditions placed on selling shareholders to remain employed by the Group, however treated as a non-deductible expense in the UK tax code)
 - Restructuring and other costs of £0.4m

| | HY 2023 | | HY 2022 (restated) | | YoY | |
|--|---------|------------|-----------------------|---------------|-------|-------------|
| | £m | £m | £m | £m | £m | £m |
| Cash flows generated by operations, including leases, before working capital movements | 8.8 | | 9.4 | | (0.6) | |
| Changes in working capital | 4.2 | | (10.1) | | 14.3 | |
| Capex | (2.0) | | (1.0) | | (1.0) | |
| Disposals | - | | 0.1 | | (0.1) | |
| Interest | - | | (0.1) | | 0.1 | |
| Tax | (2.0) | | (2.1) | | 0.1 | |
| Other | (0.2) | | (0.1) | | (0.1) | |
| Free cash flow | | 8.8 | | (3.9) | | 12.7 |
| Acquisition of Pro Tiler Ltd, net of cash acquired* | - | | (4.4) | | 4.4 | |
| Dividends | (5.1) | | (6.1) | | 1.0 | |
| Change in net cash | | 3.7 | | (14.4) | | 18.1 |

- Free cash flow was a £8.8 inflow, total cash flow was +£3.7m and closing net cash was £19.9m
- Key drivers for the increase in net cash were:
 - Strong cash flows from operations, with cash running ahead of profit due to a number of non-cash expenses
 - Working capital inflow of £4.2m including higher trade payables and VAT creditor
 - £5.1m dividend outflow relates to 2.6p final dividend from FY22

| | HY 2023 | HY 2022 (restated) | YoY |
|--------------------------------------|---------|-----------------------|--------|
| Goodwill/Intangibles - £m | 7.2 | 7.9 | (0.7) |
| Property, plant and equipment - £m | 20.0 | 21.8 | (1.8) |
| Right-of-Use & Sublease Assets - £m | 88.5 | 94.4 | (5.9) |
| Inventory - £m | 38.8 | 37.0 | 1.8 |
| Receivables/Payables/Provisions - £m | (49.9) | (40.0) | (9.9) |
| Borrowings - £m | 0.0 | 0.0 | 0.0 |
| Lease Liabilities - £m | (99.5) | (106.6) | 7.1 |
| Cash - £m | 19.9 | 13.4 | 6.5 |
| Net Cash - £m (pre-IFRS 16) | 19.9 | 13.4 | 6.5 |
| Net Assets - £m | 25.3 | 25.8 | (0.5) |
| Capital Employed - £m | 104.9 | 119.0 | (14.1) |

- Intangibles relate to assets acquired as part of Pro Tiler Limited (largely goodwill and brand)
- Fixed assets reduction relates to depreciation partially offset by net additions/disposals
- Right-of-use assets of £86.3m and sublease assets of £2.2m
- Inventory days reduced to 117 days (2022: 127 days)
- Lease liabilities of £99.5m held on the balance sheet, down due to lower number of stores and relatively short lease length
- Net cash position of £19.9m, an increase of £6.5m year on year and £3.7m on year end
- Capital employed decreased £14.1m to £104.9m (defined as net assets – net cash + lease liabilities) due to increase in net cash and lower lease liabilities