

LOUNGERS PLC

Results for the 24 weeks ended 1st October



28th November 2023

LOUNGERS PLC

COSY CLUB

LOUNGE



Highlights

Delighted with another strong financial performance in the first half:

- Like for like sales up +7.7%, (+25% on a four-year basis)
- Adjusted EBITDA (IAS17) £17.3m
- Improving margin at 11.6% up 60 bps, and a clear path to pre-Covid conversion

Roll-out continues successfully:

- New sites continue to perform very strongly
- Property market very much in our favour – rent at a proportion of sales has now reduced to 4.4%

Current trading remains strong:

- Approaching Christmas with optimism
- No change in customer behaviour despite economic backdrop

Financial Review

Gregor Grant - CFO

Results summary H1 FY24 vs H1 FY23

	H1 FY24 £m	H1 FY23 £m	Var
Revenue	149.6	122.3	+22.3%
Gross profit	59.3	47.9	+23.8%
	39.6%	39.2%	+40bps
Adjusted EBITDA IFRS16	23.9	19.3	+23.6%
	15.9%	15.8%	+10bps
Adjusted EBITDA IAS17	17.3	13.5	+28.2%
	11.6%	11.0%	+60bps
Adjusted operating profit IFRS16	11.3	9.2	+23.7%
	7.6%	7.5%	+10bps
Profit before tax IFRS16	3.9	2.8	+39.0%

- **Revenue of £149.6m up 22.3%**
 - Additional net 32 sites year on year
 - One-year LFL sales performance (+7.7%)
 - Four-year LFL sales performance (+25.0%)
- **Gross profit growth of 23.8%**
 - Margin ahead by 40bps
- **IAS17 EBITDA growth of 28.2%**
 - Margin ahead by 60bps
 - Positive impact of gross profit margin and fixed cost leverage offset impact of energy costs
- **Profit before tax of £3.9m**

LFL sales performance

- **One-year LFL of +7.7%**

	FY24 H1 24wks	FY24 32wks YTD
LFL Sales – 1 Year	7.7%	7.6%

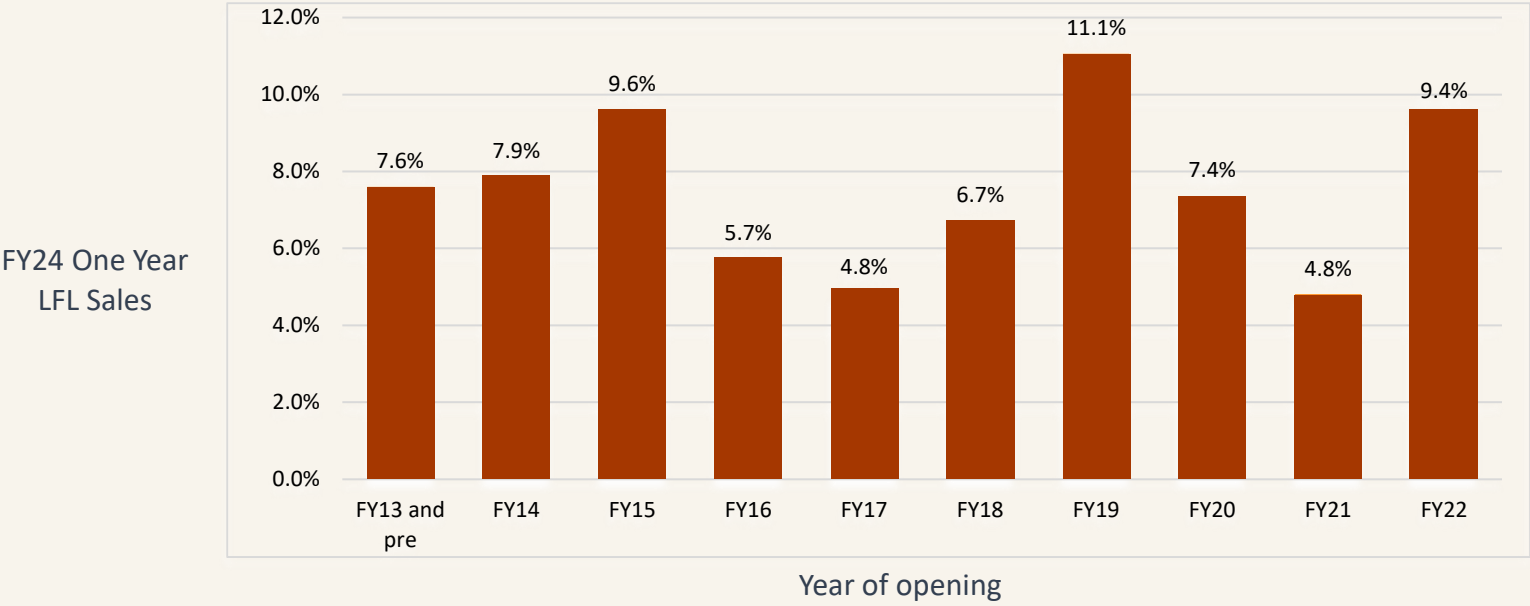
- **Four-year LFL of +25.0%**
- Compares 24 weeks ended 1st Oct 2023 to 24 weeks ended 6th Oct 2019

	FY24 H1 24wks	FY24 32wks YTD
LFL Sales – 4 Year	25.0%	25.0%

- **One-year LFL of track record**
- Consistent sales growth, both volume and price, post-Covid

	FY21 13wks	FY22 20wks	FY23 20wks	FY24 24wks
LFL Sales – 1 Year	-1.1%	+13.6%	+1.5%	+7.7%

Consistent one year LFL performance across site age cohorts



- Reasonably consistent split of +7.7% across the various age cohorts
- Continued strong showing from the 55 sites in the FY15 and earlier cohorts

Underlying margin FY24 vs FY23 – margin expansion on track

FY23 H1 Adjusted EBITDA Margin IAS17 **11.0%**

Cost of sales (inc. site labour)	0.6%
Variable costs	(0.1%)
Energy	(0.5%)
Site rent rates and service charge	0.6%
Central costs	-

FY24 H1 Adjusted EBITDA Margin IAS17 **11.6%**

- **IAS17 Adjusted EBITDA margin up 60bps vs FY23**
- **Cost of sales (inc. site labour) positive 60bps**
 - CGS margin growth of 60bps
 - Labour ratio flat – NLW 9.7% increase absorbed
- **Variable costs negative 10bps**
 - Maintenance 1.8% of revenue vs 1.7%
- **Energy costs negative 50bps**
 - 75 Sites added post May 2020 energy hedge
- **Site fixed costs positive 60bps**
 - Rent to revenue ratio improved to 4.4% from 4.7%
 - Rates improved to 2.2% of revenue from 2.5%
- **Central costs flat**
- **IAS17 FY23 Adjusted EBITDA margin of 11.6%**
 - H2 Margin typically higher than H1 margin
 - FY23 H1 margin of 11.0% and H2 margin of 12.9%

Margin outlook – inflation continuing to moderate

	FY24 July Expectation	FY24 November Expectation	Update
Selling Price	6%	7%	Further c3% price taken in October menus
CGS Food	6%	6%	Pressure continuing to moderate
CGS Drink	3-4%	3%	Benefit from new draught range
Labour	8%	8%	Rate of pay pressure
Utilities	20%	20%	Impact of spreading new hedges across mature estate

- **Food inflation**

- Top 20 ingredients saw weighted average inflation of 10.2% September 2023 vs September 2022
- Same top 20 products have seen 0.2% inflation over H1 FY24 – cooking oil price reduction offsetting pork and eggs

- **Drink inflation**

- Top 20 products saw weighted average inflation of 2.7% over H1 FY24

- **Energy**

- May 2020 hedge ends 30 September 2024
- Currently hedged 49% of 24/25 and 25% of 25/26 electricity

- **NLW April 2024**

- NLW increase of 9.8% to £11.44 from April 2024
- Extended to 21 and 22 year olds
- April 2023 increase of 9.7% absorbed with labour % maintained

Cash flow IAS17 – continuing strong cash generation

- **Cash generated from operations of £14.9m**
- **Working capital outflow of £0.3m**
 - Improvement vs FY23 flattered by payment timing
- **Maintenance capex includes all non-new site capex**
- **Free cash flow of £11.7m in addition to b/f cash balances of £26.4m used to fund:**
 - New site capex of £17.1m
 - Term loan repayment of £12.5m
 - Refinance costs of £0.3m
 - Purchase of own shares / cash settlement £0.7m
- **Closing cash of £5.7m**

	H1 FY24 £m	H1 FY23 £m
Adjusted EBITDA IAS17	17.3	13.5
Pre-opening costs	(2.1)	(1.5)
Changes in working capital	(0.3)	(4.7)
Cash generated from operations	14.9	7.3
Maintenance capex	(4.0)	(3.4)
Interest paid (net)	(0.8)	(0.4)
Employee share awards	(0.2)	(0.2)
Free cash flow	11.7	3.3
New site capex	(17.1)	(10.3)
Freehold / leasehold premium	-	(1.3)
Term loan repayment	(12.5)	-
Refinancing costs	(0.3)	-
Purchase of own shares / cash settle awards	(0.7)	-
Cash outflow	(20.7)	(8.3)
Cash b/f	26.4	31.3
Cash c/f	5.7	23.0

Cash flow IAS17 – free cash flow covers 97% of new site capex

- **LTM Cash flow provides a better perspective**
 - Remove half year working capital impact
 - Reflect the acceleration in new site capex, 34 new sites built
- **Cash generated from operations of £43.8m**
- **Working capital inflow of £10.0m**
 - Flattered by payment timing
- **Free cash flow of £33.7m**
 - After maintenance capex of £8.4m – all capex bar new site
- **Free cash flow funds 97% of new site capex**
 - New site capex of £34.8m

	LTM H1 FY24 £m
Adjusted EBITDA IAS17	38.0
Pre-opening costs	(4.2)
Changes in working capital	10.0
Cash generated from operations	43.8
Maintenance capex	(8.4)
Interest paid (net)	(1.5)
Employee share awards	(0.2)
Free cash flow	33.7
New site capex	(34.8)
Route acquisition	(2.7)
Term loan repayment	(12.5)
Refinancing costs	(0.3)
Purchase of own shares / cash settle awards	(0.7)
Cash outflow	(17.3)
Cash b/f	23.0
Cash c/f	5.7

Capital expenditure

	H1 FY24 £m	H1 FY23 £m
New site	20.1	13.1
Landlord contributions	(2.0)	(1.9)
Net new site spend	18.1	11.2
Maintenance	2.3	1.6
Splash and dash / external area	0.6	0.1
Kitchen re-set	0.6	0.9
Central	0.2	0.3
Advance purchases	0.3	-
Furniture refurb	-	0.6
Freehold / leasehold premium	-	1.3
Net spend	22.1	15.9
Capex creditor movement	(1.0)	(0.9)
Cash out flow	21.1	15.0

- **Net new site capex of £18.1m**
 - Includes £14.5m spend re 16 new sites built and opened in the period, 11 new sites opened in FY23
 - 16 new sites include 14 Lounges and two Brightsides
 - Spend includes £1.1m on Ormo Lounge
 - Spend is net of LLC of £2.0m. Expect c£4.0m for the full year
- **Maintenance capex of £2.3m**
 - Represents 1.5% of revenue (FY23 1.3%)
 - P&L maintenance spend was 1.8% of revenue (FY23 1.7%)
- **Lounge kitchen re-set**
 - Project completed in May
- **Advance purchases**
 - Reflects increase in bulk purchasing for future projects

Non property net debt

	H1 FY24 £m	FY23 £m	H1 FY23 £m
Cash	5.7	26.4	23.0
Term Loan	(20.0)	(32.5)	(32.5)
Net debt	(14.3)	(6.1)	(9.5)

- **Net debt £14.3m**
- **Year on year £4.8m increase in net debt, after:**
 - £43.2m capex outflow
 - £2.7m outflow to fund Route acquisition
 - £0.7m purchase of own shares / cash settled awards
- **Bank facilities re-financed June 2023**
 - Term loan reduced to £20.0m (from £32.5m)
 - RCF increased to £22.5m (from £10.0m)
 - No change in total liquidity
 - No change in covenants
 - Facility to June 2026
- **Strong balance sheet and funding position**

FY24 53 Week Year

- **FY24 will be a 53-week year ending on 21 April 2024**
- **Expectation is that the additional week will add:**
 - c£6.8m revenue
 - c£1.1m IFRS16 Adjusted EBITDA
 - c£0.8m IAS17 Adjusted EBITDA

Strategy and Operations Review

Nick Collins - CEO

Continuing to deliver on the strategy we set out at IPO

- Consistent, sector leading LFL sales growth
- Improving margins as we benefit from scale purchasing and operational gearing
- Comfortable operationally delivering 35 site openings per annum – results demonstrate this
- Roll-out is financed through internally generated cash flow and net debt is very conservative
- Proven potential scale of in excess of 600 Lounges and 65 Cosy Clubs
- Best in class management team



Sales and the consumer



- No shift in the way our customers are behaving across the brands
- Historically our growth has been volume driven – volumes are currently flat, with price dominating our LFL sales growth
- Our sales volumes are, however, materially ahead of pre-Covid – we think we are unique in this regard

- We are optimistic with regard to the outlook and expect to see a return to volume growth in the short to medium term:
 - We represent excellent value for money across all brands, we have taken a lot less price than most other operators
 - Our constantly evolving all-day offer is so relevant and has never been better
 - Our new site openings are performing very well

LOUNGE

CAFÉ BARS



A recap on 'What is a Lounge?'

LOUNGE

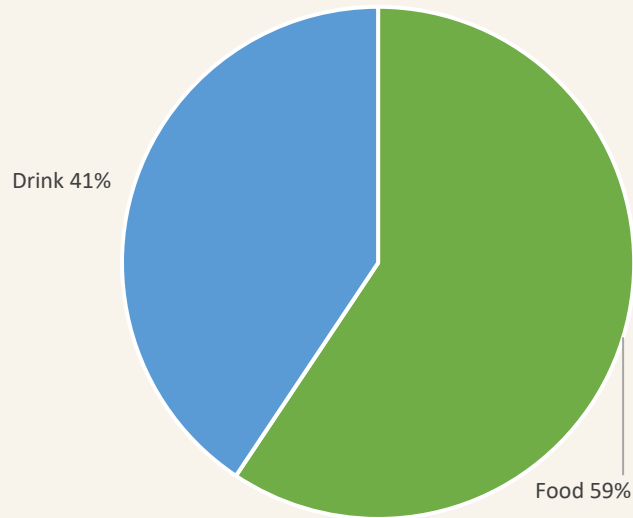
CAFÉ BARS



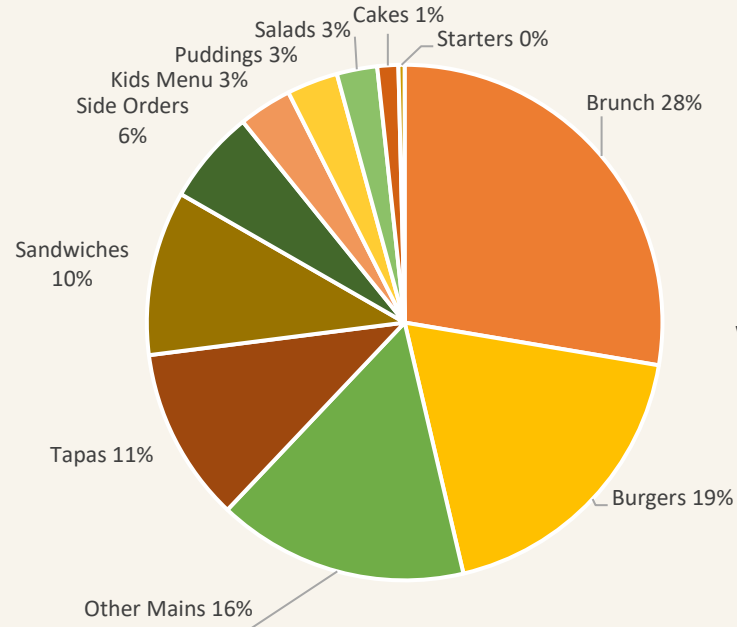
A recap on 'What is a Lounge?'

LOUNGE
CAFÉ BARS

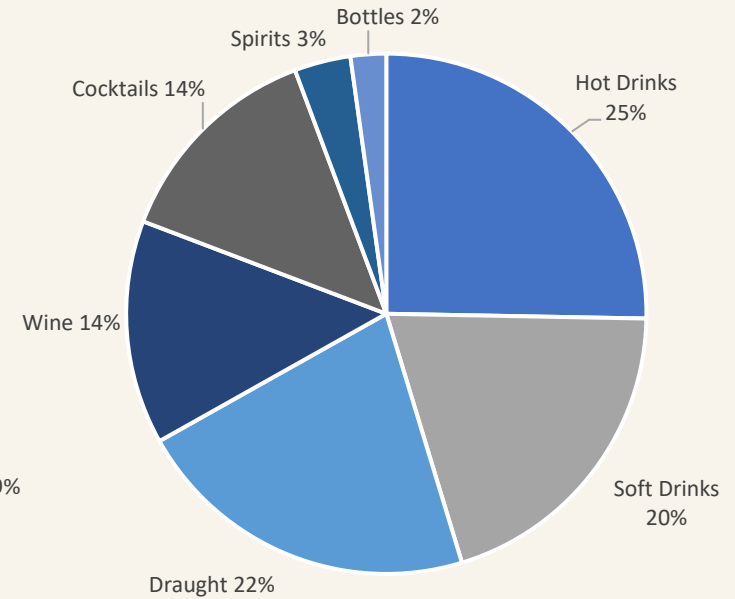
Lounge Food/Drink Sales Mix (£)



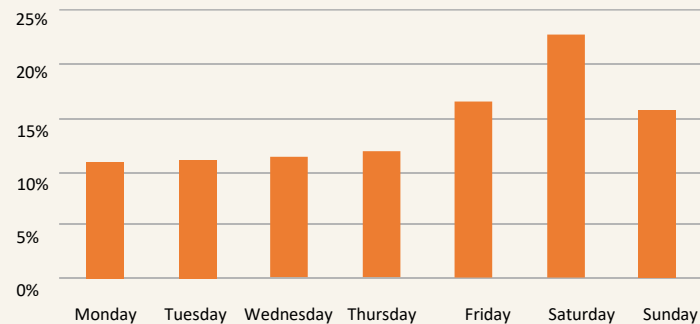
Lounge Food Sales Mix by Category (£)



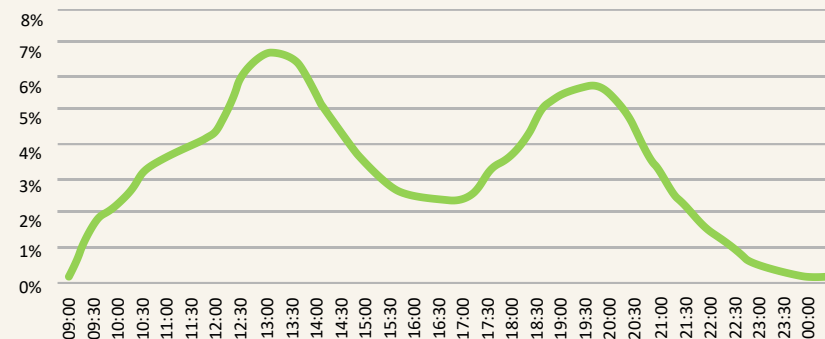
Lounge Drink Sales Mix by Category (£)



Lounges Sales % Split by Day



Lounges Sales % Split by Half Hour



Our all day offer is constantly evolving

LOUNGE

CAFÉ BARS



- Six-monthly menu changes keep us relevant and provide our customers with choice.
 - Introduction of lamb flatbread and curry a great example of food evolution whilst protecting our teams and margin
 - New cauliflower dishes strengthen our vegan offer



- Real focus on improving our already good coffee offer



- Enhanced cold drinks range with investment in new blended drinks offer:
 - New milkshakes a much better product
 - Iced coffee section has delivered +50% LFL



- Christmas bookings now available for tables of 6+ and no need for a deposit

Our value for money is a significant factor in our strong performance

COSTA				
Latte	£3.35	£3.75	▲	11.9%

Boston Tea Party				
Latte	£2.95	£3.40	▼	15.3%
Breakfast (the West Country)	£10.25	£11.25	▲	9.8%

STARBUCKS				
Latte	£3.45	£3.80	▲	10.1%

wetherspoon				
Latte	£1.35	£1.50	▼	11.1%
Carlsberg Pint	£2.39	£2.76	▼	15.5%
House White Wine (175ml)	£2.45	£2.72	▼	11.0%
Breakfast (Small All Day Brunch)	£7.40	£8.35	▼	12.8%
Entry Level Burger	£6.20	£6.99	▼	12.7%

THE ENCORE				
Amstel Pint	£5.00	£5.35	▼	7.0%
Entry Level Burger (Bacon & Cheese)	£17.95	£19.25	▲	7.2%

PROSPERO LOUNGE				
Latte	£3.30	£3.55		7.6%
Cruzcampo Pint	£4.80	£5.40		N/A
House White Wine (175ml)	£4.90	£5.20		6.1%
Lounge Breakfast	£9.75	£10.50		7.7%
Lounge Burger	£10.95	£11.75		7.3%

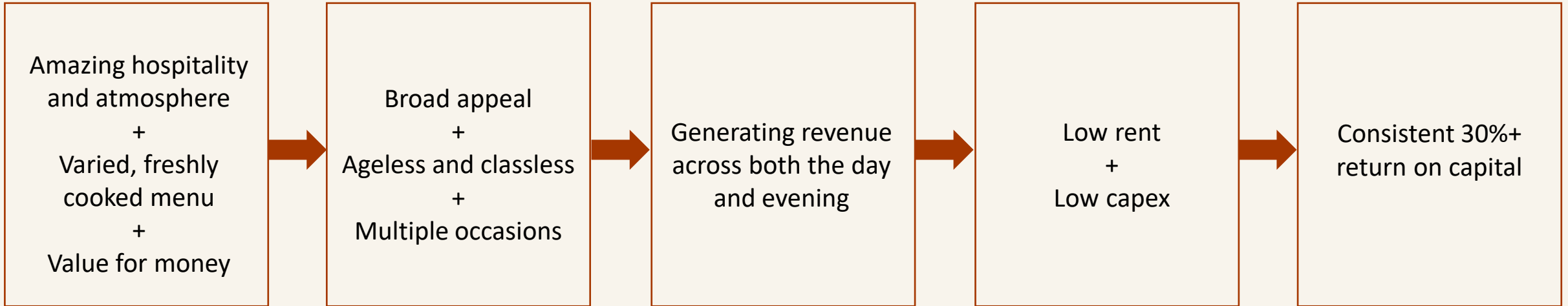
GREENE KING DIRTY DUCK				
Amstel Pint	£4.64	£5.09	▼	9.7%
House White Wine (175ml)	£5.69	£5.90	▲	3.7%
Entry Level Burger (Bacon & Cheese)	£14.95	£14.95	▲	0.0%

ALL-BAR-ONE				
Latte	£2.75	£3.25	▼	18.2%
Amstel Pint	£5.45	£6.00	▲	10.1%
House White Wine (175ml)	£5.65	£7.00	▲	23.9%
Breakfast (Full English)	£9.95	£10.95	▲	10.1%
Entry Level Burger (Cheese Burger)	£12.95	£14.50	▲	12.0%

MILLER & CARTER - STEAKHOUSE -				
Amstel Pint	£4.95	£5.25	▼	6.1%
House White Wine (175ml)	£5.15	£5.65	▲	9.7%
Entry Level Burger (Bacon & Cheese)	£15.50	£17.50	▲	12.9%

- ▼ Priced lower than Prospero
- ▲ Priced higher than Prospero
- Nov-2022 price ■ Nov-2023 price

Why do we achieve such strong returns on capital?



COSY CLUB



Opportunity to build on existing level of sales

COSY CLUB



- Lucy Knowles new Cosy Club Managing Director
- Brings both significant operational expertise alongside sales and marketing experience



- Cosy Club Oxford launched in October – our 36th Cosy Club
 - Beautiful fit-out across 8,500 square feet
 - Last week sales **£85k**, anticipate steady growth as the day-time day part matures



- Christmas bookings ahead vs FY23



- Autumn-winter menu launch saw the menu further strengthened



- Cosy Club returns on capital in line with Lounge, but we think there is more in the tank

Brightside

ROADSIDE DINING



The journey so far



Saltash - Cornwall



Honiton - Devon

- Second and third sites in Saltash and Honiton launched in June and August
- Average weekly sales of £22,500 represent a solid start
 - Strong representation from people living locally - community market one we know well
 - Seasonality very pronounced, school holidays very busy
- Sales mix 75% Food, 25% drinks – best-selling dishes are the breakfast and the burger
- Customer feedback has been excellent – we are confident we are delivering a great product and experience, the legacy, more value-driven customer has largely now moved-on
- We need to grow sales through building awareness and familiarity:
 - Very different market vs Lounge or Cosy Club where thousands of people walk past every day
 - Marketing strategy continues to evolve
- The journey is just starting and it's too early to talk about scale and long-term ambition

Property headlines

- 16 sites opened in H1, on track to open 34 sites during the financial year, pipeline remains strong
- Rent has now reduced to 4.4% of sales
- Slight bias towards the North East and South East, Scotland on the horizon
- Market continues to be very tenant-friendly
 - We continue to source prime-pitch opportunities, predominantly former retail or bank units
 - Landlord packages remain very competitive, albeit rising interest rates will see capital contributions dip with rent free periods increasing
- We are using more footfall and demographic data to draw conclusions about the existing estate, new opportunities and the overall potential scale of the brands



Case Study – Navio Lounge

- Opened in Nantwich on 26th July 2023
- 15-year lease
- Rent £60k
- Landlord package 24 months
- Gross AWS £37k (16 weeks)
- Net capex £840k
- Forecast CROCCI 36%
- Nearest sites: Cappello 16 miles, Unico 32 miles



NAVIO LOUNGE

CAFÉ BAR



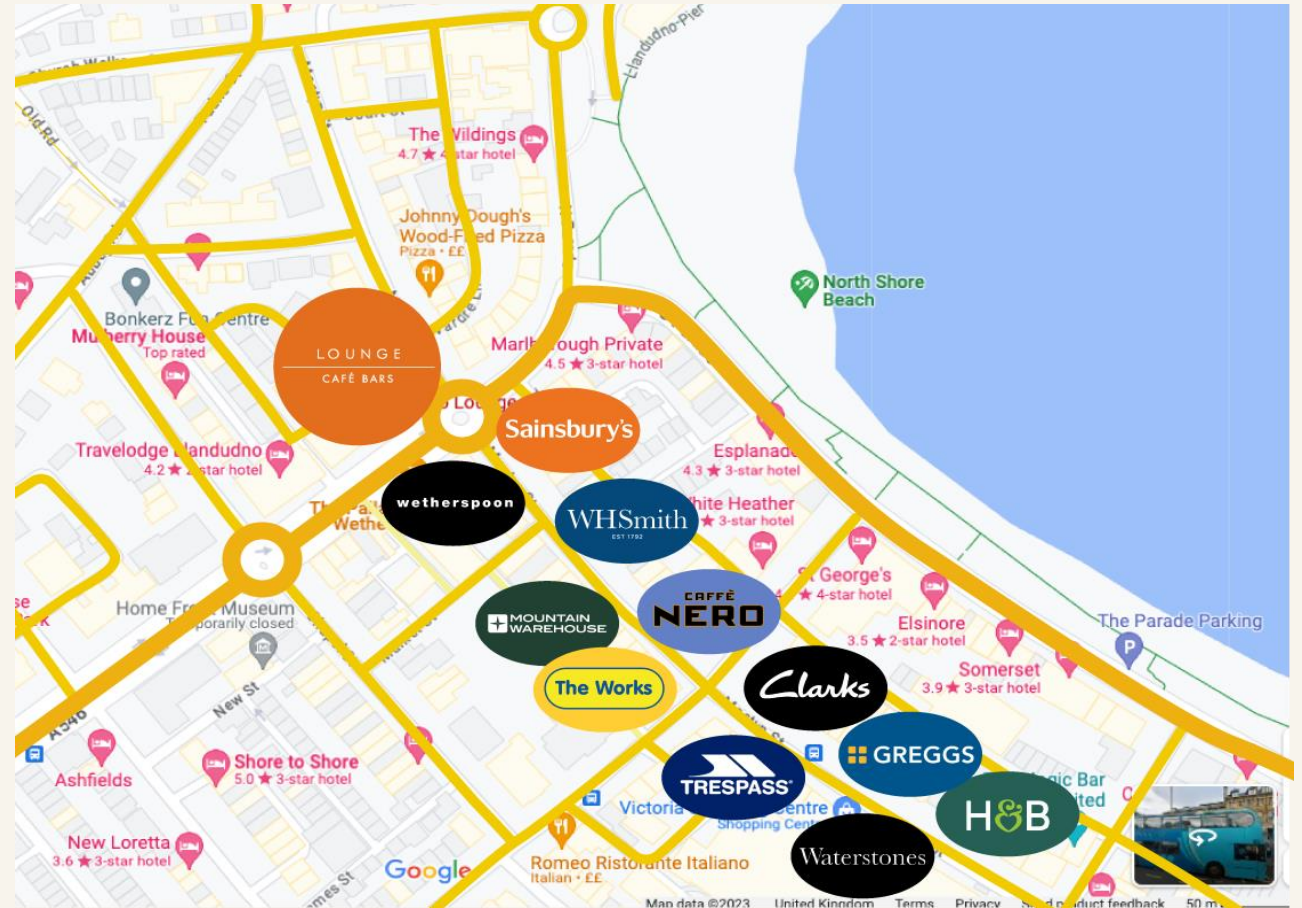
Case Study – Ormo Lounge

- Opened in Llandudno on 11th May 2023
- 15-year lease
- Rent £64k
- Landlord package 37.5 months
- Gross AWS £63k (27 weeks)
- Net capex £1,290k
- Forecast CROCCI 54%
- Nearest sites: Clio 21 miles, Torello 21 miles



ORMO LOUNGE

CAFÉ BAR



Lounge versatility – we trade strongly in a variety of different locations:



- Armado Lounge, Plymouth
- Average weekly sales £41k
- Coastal Lounge



- Martino Lounge, Morpeth
- Average weekly sales £34k
- North East Lounge



- Caballero Lounge, Leeds
- Average weekly sales £35k
- Retail/leisure scheme Lounge



- Acordo Lounge, Deal
- Average weekly sales £29k
- Coastal town Lounge

Where do our sites come from (2022-23)

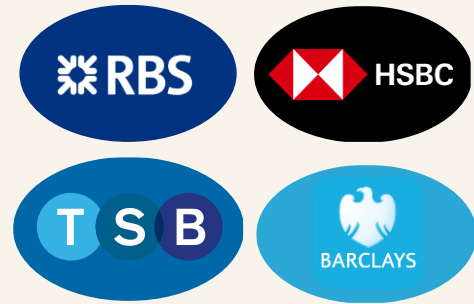
Former Retail (23 sites)



Former Pub/Restaurant (16 sites)



Former Bank (6 sites)



New Development (14 sites)

- Maidenhead Sorbon Estates Ltd
- Basildon Town Council
- Fosse Park West GP Ltd
- Uxbridge Landlord redevelopment
- Wembley
- Egham Runnymede Borough Council
- Former Chester Library - Chester Council
- East Grinstead Evolve Estates
- The Springs, Leeds - Thorpe Park Developments
- Redhill - Reigate and Banstead Council
- Neath - Neath Port Talbot Council
- Bath Rd, Cheltenham- Gateway 252
- Burnley- Burnley Borough Council
- Jesus College, Oxford

The Good Stuff – Loungers and our ESG ambition

Community



Bring joy to local places

- Every year:
- Host 10,000 community events
 - Raise £100,000 for charity every June via LoungeAid
 - Provide 10,000 free meals for people in need

Customers



Be proud of what we put on the plate

- Every menu to have at least two main meals under 800 kcal
- Establish guideline parameters for all new product development

People



We care about our teams

- 40% of senior leaders to be female by 2028
- 50% of management roles to be filled by internal hires by 2028
- Increase the % of our team who enjoy working at Loungers to an average of 8/10

Planet



Deliver hospitality sustainably

- Net zero by 2035 (Scopes 1&2)
- Increase recycling by 10% and food composting by 20% by end 2024

Suppliers



Work with our partners to raise standards

- 100% of suppliers on SEDEX by end FY24

Continuing to invest in our people

- Recruitment landscape continues to gradually be more employer friendly
- Continuing trends of a younger team wanting shorter hours
- We have re-worked bonus structures at site level to ensure incentivisation aligned
- Focusing ever-more on team development and progression:
 - We want to be renowned for building careers in hospitality
 - H2 will see our emphasis on and investment in learning and development further increase
- Loungefest-23 was a great success – investment of £0.7m, looking to get suppliers to start partially funding from 2024
- Lucy Knowles joined as Cosy Club MD



Conclusions

Alex Reilley – Executive Chairman

Conclusions

- The consistency of the sales performance highlights the relevance of our brands and the opportunity in front of us
- There is so much for us to go for if we continue to evolve and protect & nurture the culture
 - 650+ sites for Lounge and Cosy Club feels very conservative as we open new sites in a variety of locations
- We are playing a significant role in the transformation of the high street:
 - We are proud of our role in improving communities through job creation, investment and providing a great place to spend time
- We have the strongest senior team in the sector and believe we can have a significant influence on the UK eating and drinking out sector for years to come