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Shoe Zone PLC
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Shoe Zone PLC ("Shoe Zone" or the "Company") Interim results for the 26 weeks to 1 April 2023

Shoe Zone PLC is pleased to announce its interim results for the 26 weeks to 1 April 2023, (the "Period").

Financial highlights

- Revenue of £75.4m (2022 H1: £69.9m) +7.9%
 - Store revenue £61.1m (2022 H1: £57.2m) +6.8%
 - Digital revenue £14.3m (2022 H1: £12.7m) +12.7%
- Contribution of £11.1m (2022 H1: £11.6m)
 - Store contribution of £7.9m
 - Digital contribution of £3.2m
- Profit before tax of £1.5m (2022 H1: £3.1m)
- Adjusted profit before tax of £2.5m (2022 H1: £3.1m)*
- Earnings per share of 3.1p (2022 H1: 5.7p)
- Net cash of £12.9m (2022 H1: £13.9m) at Period end
- Proposed interim dividend of 2.5 pence per share (2022 H1: 2.5 pence)

Operational highlights

- 336 stores at Period end (2022 FY: 360) comprising:
 - 44 Big Box (2022 FY: 45)
 - 66 Hybrid (2022 FY: 44)
 - 226 Original (2022 FY: 271)
- 17 stores opened, 6 refits, 41 closed
- Capital expenditure of £5.3m (2022 H1: £2.3m)
- Annualised lease renewal savings of £0.4m, an average reduction of 27%
- Average lease length of 2.1 years (2022 FY: 1.8 years)
- Digital returns rate of 11.9% (2022 H1: 11.8%) - 12 months average

*Adjusted items 2023 H1 £1.3m forex loss offset by £0.3m profit on sale of freehold. (2022 H1: Forex loss £0.3m, property gain £0.3m)

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Chief Executive's statement

Introduction

Shoe Zone delivered a robust and positive performance in the Period against a backdrop of consumer uncertainty and macroeconomic volatility. Total revenues increased by 7.9% having traded out of 52 fewer stores compared to 12 months ago and digital revenue within this increased by 12.7%. The performance further demonstrates the resilience of our business and the success of our ongoing strategy.

Trading over all channels was positive with total revenues of £75.4m (2022 H1: £69.9m), store revenues were £61.1m (2022 H1: £57.2m), Digital revenues were £14.3m (2022 H1: £12.7m) with strong performance across all online channels with additional growth from our online exclusive range and range extensions.

Adjusted profit before tax was £2.5m (2022 H1: £3.1m), which is slightly above management expectations for the Period. The reduction on the comparable period last year is due to inflationary cost increases, mainly National Living Wage increases.

We ended the Period trading out of 336 stores, which is a reduction of 52 compared to 12 months ago and 24 from last year end. In the first half we closed 39 'Original' stores, opened 16 Hybrids, refitted 6 'Original' stores to our Hybrid format, closed 2 Big Box stores and opened 1 new Big Box. In total we are now trading out of 226 'Original' stores, 66 Hybrids and 44 Big Box. We are actively working to relocate and refit further stores in the second half of the year, together with a number of stores currently in the pipeline, opening before Christmas.

Our average lease length is 2.1 years (2022 FY: 1.8 years), giving us the opportunity and flexibility to respond to changes in any retail location at short notice. Property supply continues to outstrip demand and we continue to take advantage of this and significantly improve our property portfolio over the medium term.

Strategy Update

We have accelerated our refit and relocation programme along with further investment in our digital and head office infrastructure. All of these are key to our strategy, and we expect to spend approx. 3-4% of revenue annually on capital projects.

We have continued to invest in our portfolio with more 'Original' Shoe Zone stores converted to Hybrid formats. The results continue to be very positive, and we continue to look for further opportunities to roll these formats out as planned. Our ultimate goal is a doubling of Big Box locations to approximately 100 and an increase in Hybrid stores to 200 in the medium term. We anticipate trading from a similar retail square footage, albeit from a reduced number of locations. Digital revenues grew by 12.7% as we continue to invest in new product lines and additional brands as well as enhancing our platform with the introduction of a new return's portal, the development of a mobile App and adding new payment options, all of which will improve customer experience.

Part of the success of our digital operation is our very efficient returns process which is complemented by our extensive network of stores. We have a returns rate of 11.9% and the vast majority of these are returned to store, hence why our physical store network is critical to our future success.

Dividend

The Board proposes an interim dividend of 2.5p per share, which will become payable on 16 August 2023 to those shareholders on the Company's register as at the close of business on the record date 14 July 2023. The ex-dividend date will be 13 July 2023.

Financial Review

Profit before tax was £1.5m, adjusted to £2.5m (2022 H1: £3.1m (reported and adjusted)). The adjustments include foreign exchange losses and profit on one freehold property sale. The £0.6m reduction year on year reflects inflationary increases, mainly National Living Wage, and a lower margin achieved percentage due to higher container prices and a weak sterling to dollar.

In the Period total revenues were £75.4m (2022 H1: £69.9m). Store revenues increased by £3.9m even though we ended the Period trading out of 52 fewer stores than 12 months ago. Digital sales increased by £1.6m to £14.3m (2022 H1: £12.7m). Digital gross margins reduced to 58.0% (2022 H1: 58.5%) due to higher container prices and contribution was £3.2m (2022 H1: £2.7m).

One freehold property went to auction, resulting in a profit on sale of £0.3m. A further property will be auctioned in the second half which will conclude our freehold sales.

Gross profit in the Period was £13.6m, the same as the comparable period last year (2022 H1: £13.6m), with gross profit margin at 18.1% (2022 H1: 19.5%). The percentage reduction was due to the underlying product margin being lower this Period (2023 H1: 60.1%, 2022 H1: 60.8%), due to the impact of higher container prices, particularly in Q1 and a weak sterling to dollar exchange rate. Subsequent to this, container prices have dropped to below pre pandemic levels, the benefit of which will start to flow through in the second half of this year. Depreciation charge increased due to higher capital spend.

Administration expenses increased by £1.6m to £9.1m (2022 H1: £7.5m) due to £1.0m additional foreign exchange losses this year, a higher head office depreciation charge and an additional cost of living bonus paid to all staff in February.

Distribution costs increased by £0.2m to £2.6m (2022 H1: £2.4m) due to the impact of the National Living Wage increase and inflationary cost increases on transport expenses.

Our energy prices are fixed until September 2023. All our electricity consumption is from 100% renewable sources, we have started to monitor energy consumption and have a programme to insulate ceilings and to install more energy efficient lighting in a number of stores. During the Period, we have added electric and more hybrid vehicles to our fleet and have changed all of our warehouse lighting to more energy efficient LED.

Stock at the Period end was £3.0m lower at £28.1m (2022 H1: £31.1m). This reflects our positive trading over the last 12 months, a more normalised intake pattern and the selling through of prior seasons boot product that we previously reported as an over stock.

The Company ended the Period with a net cash balance of £12.9m (2022 H1: £13.9m). The reduction is due to £8.2m of dividends paid in the last 12 months, £2.9m of shares bought back and additional capital spend, offset by the positive trade in the Period and lower stock levels.

The share buy-back programme continues and as at the Period end, we had re-purchased 1.8m shares at a total cost of £3.5m (average priced paid of £1.93). We have cancelled 1.5m shares with 0.3m held in treasury to date. (with 1.0m shares cancelled in the Period).

Capital expenditure in the Period was £5.3m (2022 H1: £2.3m) which is returning to our long-term target of approx. 3-4% of revenue. Expenditure in the Period included new stores, refits and relocations, which are partly funded by Landlord rent free periods, IT expenditure and infrastructure works in head office and distribution centre, which will be continued through the second half of the year.

The Shoefayre Limited Pension and Life Assurance Scheme moved into a deficit of £2.0m (2022 FY: £1.8m surplus). This was due to a fall in bond yields which led to a lower assumed discount rate and therefore a higher value being placed on the scheme's liabilities. The Shoe Zone Pension Schemes' surplus reduced to £1.3m (2022 FY: £7.1m surplus). The main reason for this was due to the purchase of the buy-in contract with Rothesay. Specifically, the value of the scheme's uninsured liabilities as at 2 March 2023 was lower than the actual premium paid to secure members' benefits with Rothesay.

Earnings per share were 3.1p (2022 H1: 5.7p per share).

Full year results in line with market expectations.

Unaudited consolidated income statement (52 weeks audited)

	26 Wks end 1 Apr 2023 £'000	26 Wks end 2 Apr 2022 £'000	52 Wks end 1 Oct 2022 £'000
Revenue	75,391	69,864	156,164
Cost of sales	<u>(61,752)</u>	<u>(56,247)</u>	<u>(119,764)</u>
Gross Profit	13,639	13,617	36,400
Administration expenses	(9,100)	(7,508)	(16,620)
Distribution costs	<u>(2,668)</u>	<u>(2,448)</u>	<u>(5,104)</u>
Profit from Operations	1,871	3,661	14,676
Finance income	0	0	0
Finance expense	<u>(342)</u>	<u>(599)</u>	<u>(1,113)</u>
Profit before Tax	1,529	3,062	13,563
Taxation	0	(197)	(2,718)
Profit after Tax	<u>1,529</u>	<u>2,865</u>	<u>10,845</u>
Earnings per Share	3.1p	5.7p	21.7p

Unaudited consolidated statement of total comprehensive income (52 weeks audited)

	26 Wks end 1 Apr 2023 £'000	26 Wks end 2 Apr 2022 £'000	52 Wks end 1 Oct 2022 £'000
Profit/(Loss) for the period	<u>1,528</u>	<u>2,865</u>	<u>10,845</u>
Items that will not be reclassified subsequently to the income statement			
DB pension scheme	(1,973)	3,110	5,798
Movement in deferred tax on pension schemes	(57)	(560)	(1,505)
Share buy back	(1,849)	0	(966)
Cash flow hedges			
Fair value movements in other comprehensive income	(776)	682	1,129
Tax on cash flow hedges	<u>0</u>	<u>(109)</u>	<u>(226)</u>
Other comprehensive (expense)/Income for the period	<u>(4,655)</u>	<u>3,123</u>	<u>4,230</u>
Total comprehensive (expense)/Income for the period attributable to equity holders of the parent	<u>(3,127)</u>	<u>5,988</u>	<u>15,075</u>

Unaudited consolidated statement of financial position (52 weeks audited)

	26 Wks end 1 Apr 2023 £'000	26 Wks end 2 Apr 2022 £'000	52 Wks end 1 Oct 2022 £'000
Assets			
Non-current Assets			
Property, plant and equipment	15,859	13,555	12,582
Right of use assets	25,454	28,526	25,581
Deferred tax asset	<u>902</u>	<u>2,490</u>	<u>720</u>
Total Non-current Assets	42,215	44,571	38,883
Current Assets			

Inventories	28,117	31,096	32,188
Trade and other receivables	3,007	3,450	6,071
Derivative financial assets	0	456	0
Cash and cash equivalents	12,870	13,872	24,427
Total Current Assets	43,994	48,874	62,686
Total Assets	86,029	93,445	101,569
Current Liabilities			
Trade and other payables	(17,281)	(19,484)	(22,801)
Lease liabilities	(13,562)	(14,016)	(14,870)
Derivative financial liabilities	(603)	0	0
Provisions	(2,575)	(1,727)	(1,108)
Corporation tax liability	(289)	(317)	(1,910)
Total Current Liabilities	(34,310)	(35,544)	(40,689)
Non-current Liabilities			
Lease liabilities	(21,349)	(23,554)	(20,975)
Provisions	(1,508)	(2,084)	(2,662)
Employee benefit liability	(1,973)	(2,857)	0
Total Non-current Liabilities	(24,830)	(28,495)	(23,637)
Total Liabilities	(59,140)	(64,039)	(64,326)
Net Assets	27,069	29,406	37,243
Equity attributable to equity holders of the company			
Called up share capital	485	500	495
Merger res/Cap red	2,677	2,662	2,667
Cash flow hedge reserve	(123)	323	653
Retained earnings	24,030	25,921	33,428
Total Equity and Reserves	27,069	29,406	37,243

Unaudited consolidated statement of changes in Equity (prior years audited)

	Share Capital £'000	Share Premium £'000	Capital Redemp. Reserve £'000	Cash flow Hedge Reserve £'000	Retained Earnings £'000	Total £'000
At October 2021	500	2,662	0	(250)	20,506	23,418
Profit for the period	0	0	0	0	2,865	2,865
Defined benefit pension movements	0	0	0	0	3,110	3,110
cash flow hedge movements	0	0	0	682	0	682
Deferred tax on other comp. income	0	0	0	(109)	(560)	(669)
Total comprehensive income for the period	0	0	0	573	5,415	5,988
Dividends paid	0	0	0	0	0	0
Contributions by and distrib. to owners	0	0	0	0	0	0
As at April 2022	500	2,662	0	323	25,921	29,406
At October 2021	500	2,662	0	(250)	20,506	23,418
Impact of transition to IFRS-16	0	0	0	0	10,845	10,845
Profit for the period	0	0	0	0	5,798	5,798
cash flow hedge movements	0	0	0	1,129	0	1,129
Share buy-back	(5)	0	5	0	(966)	(966)
Deferred tax on other comp. income	0	0	0	(226)	(1,505)	(1,731)
Total comprehensive income for the period	(5)	0	5	903	14,172	15,075
Dividends paid	0	0	0	0	(1,250)	(1,250)
Contributions by and distrib. to owners	0	0	0	0	(1,250)	(1,250)
As at October 2022	495	2,662	5	653	33,428	37,243
At October 2022	495	2,662	5	653	33,428	37,243
Profit for the period	0	0	0	0	1,528	1,528
Defined benefit pension movements	0	0	0	0	(1,973)	(1,973)
cash flow hedge movements	0	0	0	(776)	0	(776)
Share buy-back	(10)	0	10	0	(1,849)	(1,849)
Deferred tax on other comp. income	0	0	0	0	(57)	(57)
Total comprehensive income for the period	(10)	0	10	(776)	(2,351)	(3,127)
Dividends paid	0	0	0	0	(7,047)	(7,047)

Contributions by and distrib. to owners

As at April 2023

0	0	0	0	0	0
485	2,662	15	(123)	24,030	27,069

Unaudited consolidated statement of cash flows (52 weeks audited)

	26 Wks end 1 Apr 2023	26 Wks end 2 Apr 2022	52 Wks end 1 Oct 2022
	£'000	£'000	£'000
Operating activities			
Profit after tax	1,529	2,865	10,845
Corporation tax	0	197	2,718
Finance income	0	0	0
Finance expense	342	599	1,113
Depreciation of property, plant and machinery	1,737	1,514	4,118
Fixed asset impairment and loss on disposal of property, plant and machinery	(111)	1,457	(1,075)
Right of use asset on profit, depreciation & impairment	6,977	7,217	13,016
Pension contributions paid	0	0	0
	10,474	13,849	30,735
Decrease/(increase) in trade and other receivables	3,064	2,007	627
Decrease/(increase) in foreign exchange contracts	(412)	(357)	(527)
Decrease/(increase) in inventories	4,071	(5,965)	(7,057)
(Decrease)/increase in trade and other payables	(5,520)	3,154	6,361
Increase in provisions	313	386	345
	1,516	(775)	(251)
Cash generated from operations	11,990	13,074	30,484
Net corporation tax paid	(1,738)	(653)	(1,214)
Net cash flows from operating activities	10,252	12,421	29,270
Investing activities			
Purchase of property, plant and machinery	(5,314)	(2,299)	(5,225)
Proceeds from Sale of Freeholds	411	0	3,590
Net cash used in investing activities	(4,903)	(2,299)	(1,635)
Share buy-back	(1,849)	0	(966)
Repayment of CLBILS loan	0	(4,400)	(4,400)
Capital element of lease repayments	(8,196)	(10,790)	(15,584)
Interest	186	(75)	(23)
Dividends paid during year	(7,047)	0	(1,250)
Net cash used in financing activities	(16,906)	(15,265)	(22,223)
Net inc/(dec) in cash and cash equivalents	(11,557)	(5,143)	5,412
Cash and cash equivalents at beginning of period	24,427	19,015	19,015
Cash and cash equivalents at end of period	12,870	13,872	24,427

Notes to the financial statements for the 26 weeks ended 1 April 2023**Basis for preparation**

The consolidated interim financial statements of the company for the 26 weeks ended 1 April 2023, which are unaudited, have been prepared in accordance with the same accounting policies, presentations and methods of computation followed in the condensed set of financial statements as applied in the group's latest audited financial statements. A copy of those accounts has been delivered to the Registrar of Companies.

The financial information for the 26 weeks ended 1 April 2023, contained in this interim report, does not constitute the full statutory accounts for that period. The independent Auditors' report on the Annual Report and Financial Statements for 2022 was unqualified, did not draw attention to any matters by way of emphasis. And did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

The consolidated interim financial statements have neither been audited nor reviewed pursuant to guidance issued by the Auditing Practices Board.

The condensed consolidated interim financial statements have been prepared on a going concern basis and under the historic cost convention, as modified by the revaluation of derivative financial instruments to fair value.

The condensed consolidated interim financial statements are presented in sterling and have been rounded to the nearest thousand (£'000).

The preparation of financial information in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual events ultimately may differ from those estimates.

1. Accounting policies

In preparing these interim financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements reported in the latest annual audited financial statements for the 52 weeks ended 1 Oct 2022.

Going Concern

At the balance sheet date the company had a good cash balance and a strong net asset position. At the time of reviewing these accounts, the Directors have considered the effect of COVID-19 on the ongoing position, and consider that this does indicate that the company will continue to trade for a period of at least 12 months from the date of publishing these accounts. Based on the cash forecasts prepared by the Directors, these financial statements have been prepared on a going concern basis.

2. Segmental Information

The group complies with IFRS 8 'Operating Segments' which determines and presents operating segments based on information provided to the chief operating decision maker. The chief decision maker has been identified as the management team including the Chief Executive and Finance Director. The Board considers that each store is an operating segment but there is only one reporting segment as the stores qualify for aggregation, as defined under IFRS 8.

	26 Wks end 1 Apr 2023 £'000	26 Wks end 2 Apr 2022 £'000	52 Wks end 1 Oct 2022 £'000
External revenue by location of customers:			
United Kingdom	60,776	56,855	128,664
Digital	14,347	12,726	26,967
Other	268	283	533
	75,391	69,864	156,164

3. Taxation

The taxation charge of zero for the 26 weeks ended 1 April 2023 is based on the assumption that the capital allowances available on our estimated capital spend will reduce the expected charge for the full year.

4. Earnings per share

	26 Wks end 1 Apr 2023 £'000	26 Wks end 2 Apr 2022 £'000	52 Wks end 1 Oct 2022 £'000
Profit in the period and earnings used in basic diluted earnings per share	1,529	2,865	10,845
	3.1p	5.7p	21.7p

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