



eve Sleep plc (“eve” the “Company” or the “Group”)

Full Year Results

Benefits of rebuild strategy increasingly evident, operationally profitable⁴ across last four months of 2019

eve, a direct-to-consumer sleep wellness brand operating in the UK, Ireland (together the “UK&I”) and France, its “Core Markets”, today issues its audited results for the year ended 31 December 2019 (the “Period”).

Financial Highlights¹

	2019 £m	2018 £m	Movement
Revenue ²	23.9	29.4	-19%
Gross profit ²	12.8	15.5	-18%
Gross profit margin ²	53.4%	52.7%	+70 bps
Marketing contribution ^{2,3,4}	(2.6)	(5.8)	+£3.2m
Underlying EBITDA loss ⁵	(10.7)	(19.1)	+£8.5m
Statutory loss for the year	(12.1)	(20.1)	+£8.0m
Cash and cash equivalents ⁶	8.0	6.0	+£2.0m

Financial Highlights

- Sharpened focus on profitable sales, with gross margin in Core Markets² up 70bps;
- Planned reduction in revenue and focus on move to profitability resulted in improved underlying EBITDA loss, which reduced by 44% to £10.7m (2018: £19.1m loss);
- Reduced operating cash burn by 55%, with further cost savings made in Q4 such that the combined trading performance in the last four months of the financial year reached the milestone of marketing contribution breakeven⁴;
- Raised £11.7m net of expenses in new equity and £0.9m in advertising credits from Channel Four in February 2019.

Operational Highlights

- 50% increase in UK&I unprompted brand awareness from 10% in January 2019 to 15% in August 2019;
- Increased brand loyalty with the customer repeat rate in the UK&I up 230bps to 16.7% and up 360bps in France to 17.0%;
- eve’s premium hybrid mattress, launched June 2019, announced as the top scoring mattress by Which? in December 2019, giving eve’s full adult mattress range Which? Best Buy ratings;

- Extended ranges, with the contribution of non-mattress products in core markets up 230bps to 22.0%;
- Extended omni-channel reach with new retail partnerships with Argos, Homebase and Dunelm;
- Commenced 3 year deal with British Rowing to be their official sleep partner, supporting the GB Rowing Team as they train and compete at home and overseas;
- Returns rate in core markets reduced 40bps to 8.9%.

Current trading

Trading in the first two months of the year has started well and is in-line with the Board's expectations, with demand for the premium hybrid mattress proving particularly strong. The business has now generated a positive marketing contribution⁴ for the six months to 29 February 2020.

Wider market uncertainty increased further in the first two weeks of March with the advent of COVID-19 but at that time there had been no noticeable impact on demand, our operations or our supply chain. Over the last week, since mid-March, we have seen some impact on traffic and consumer demand attributable to the fast changing COVID-19 situation, and believe it is reasonable to expect somewhat subdued demand for a period of time whilst the COVID-19 situation prevails.

The Board has reviewed planning scenarios and has prepared a number of appropriate measures to conserve the Group's cash balance and ensure the robustness of the business should it be required. Given eve's business model as a direct to consumer (DTC) led retailer, its most significant costs are marketing rather than the costs associated with a store estate, and we have significant flexibility to control our spending and therefore cash outflows in this regard. The Company's marketing spend will continue to be kept under constant review, with adjustments to plans made where appropriate and in line with the fast changing economic situation.

On 15 March, the Board took the decision to ensure all of the Company's employees were to work from home. The Company's employees are more than used to working from home as a result of a flexible working culture and as such we have not experienced any material issues or disruptions to the Company's operations as a result of this decision.

To date we have seen only a small impact upon our supply chain, and where we have seen impact, we have taken precautionary measures including stronger stock holding of products to ensure adequate coverage for the coming months, and hence we currently envisage being able to meet customer demand for our products, albeit at reduced levels. Further interventions by governments in the jurisdictions in which we operate may have a material impact on our supply chain and/or delivery capability going forward.

James Sturrock, CEO of eve Sleep, commented:

"We enter 2020 in good shape, with the benefits of the rebuild strategy becoming increasingly evident. We have award winning products and an increasingly differentiated, premium brand position in sleep wellness compared to the more price led, mattress focused peers, underpinned by upgraded operational capability and a significantly reduced cost base. Improved financial and operational KPIs demonstrate increased customer loyalty across our expanding product suite."

I am delighted that in the six months to 29 February 2020 we have improved marketing efficiency⁷ and reduced central overheads and is on course to deliver a significant EBITDA improvement in 2020. While there remains considerable wider market uncertainty over the rest of the financial year, we have a healthy net cash position of £7.8m as at 29 February 2020, no debt and a rebuild strategy that is delivering.”

Footnotes

¹ Financial data has been rounded for presentation purposes. As a result of this rounding the totals, comparatives and calculations presented in this document may vary slightly from the arithmetic totals or calculations using such data.

² In July 2018, the Board reviewed the number of territories that we traded from, deciding to focus on the “Core Markets” of the UK&I and France, and withdrawing from the other territories. Thus, this note presents revenue, gross profit, gross profit margin and marketing contribution attributable to the Core Markets for the current and prior period.

³ Indirect marketing costs, such as the costs of production of TV campaigns, were previously presented within overheads but are now included within marketing costs. 2018 marketing costs have been restated to include these indirect marketing costs. The impact of this restatement solely impacts management information (direct and indirect marketing costs being included in administrative expenses in both the current and prior period) and therefore there is no impact of the restatement on the statutory statement of profit and loss and other comprehensive income.

⁴ Marketing contribution is defined as the profit/loss after marketing expenditure but before payroll and overhead costs; a measure also referred to as operational profitability.

⁵ Underlying EBITDA is defined as earnings before interest, taxation, depreciation, amortisation, impairment, share-based payment charges connected with employee remuneration, fundraise-related expenditure (2019 only) and staff and country exit costs (2018 only).

⁶ In addition to the cash and cash equivalents balance of £8.0m at 31 December 2019, the Group also benefits from £0.3m in advertising credits outstanding with Channel 4, following £0.9m of credits raised at the fund raising in February 2019.

⁷ Marketing efficiency is defined as total reported marketing cost divided by the reported revenue for the specified segment, thus as the reported percentage falls marketing efficiency improves.

The information contained within this announcement is deemed by the Company to constitute inside information stipulated under the Market Abuse Regulation (EU) No. 596/2014.

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chairman's statement

"We are confident that we have a winning product, the right strategy and the team to build a sleep wellness brand of size and strength that delights our customers and delivers value to all of our stakeholders." - Paul Pindar

delivering the rebuild strategy

The focus in 2019 has been on the continued execution of the rebuild strategy through the prioritisation of reducing losses and stemming cash flows, over chasing sales growth at any cost. To effect this we have sharpened our focus on profitable sales, removing unprofitable channels, while further improving our marketing efficiency.

We remain confident that this is the right strategy for the business, particularly given the continued challenging retail backdrop and the ongoing discount-reliant competition in the mattress market. To fund the execution of the strategy and to strengthen the statement of financial position we successfully raised £11.7m (net of expenses) plus £0.9m of advertising credits with Channel 4 in February 2019. As at 31 December 2019 eve has £8.0m of cash and cash equivalents, £0.3m of advertising credits available for use and no debt (excluding the lease liability arising under IFRS 16).

The team has made good strategic and financial progress in the year. Product development which is central to our aim of building a sleep wellness brand, was strong in both mattress and wider sleep range products. The eve premium hybrid mattress, which was launched in June 2019 was announced as the top scoring mattress by Which? in December 2019, giving eve's full adult mattress range a Which? Best Buy rating. Good progress was also made with the expansion of wider sleep products including the launch of new bed frames and bedding, all of which has driven a 140 bps and 590 bps year-on-year increase in the contribution from non-mattress sales in the UK&I and France respectively. Range expansion has also supported an improvement in the customer repeat rate, increasing 230 bps in the UK&I and 360 bps in France.

We continue to develop our multi-channel offering through partnerships with leading retailers where the relationship is strategically and commercially value creating for both parties. During the year we signed and launched partnerships with Argos, Homebase and Dunelm and in addition to creating more sales opportunities, these partnerships help to raise eve's brand awareness.

Elevating the brand position above our peers has always been a core strength at eve and it remains so. In July 2019 we launched a new and highly successful brand campaign featuring the eve sloth and in September we signed a three year deal with British Rowing to be their official sleep partner, including managing the sleep environment of the GB Rowing Team athletes both at home and overseas. Together, these marketing initiatives have driven a 50% increase in unprompted brand awareness to 15%.

improving financial performance

As planned, Group revenues from Core Markets reduced year on year, declining by 19% to £23.8m (2018: £29.4m) as we optimised our DTC marketing, scaling back marketing investment by 32% across UK&I and France in order to prioritise profitable revenues over revenue growth alone. Year-on-year Group gross profit margin improved from 52.8% to 53.1% reflecting margin prioritisation over revenue growth. Group underlying EBITDA losses¹ reduced by 44% to £10.7m, supported by a 24% reduction in administrative expenses (excluding marketing expenses, fundraise-related expenditure, depreciation, amortisation and impairment charges) for the year. The reduction in the cash outflow from operating activities was even greater, down 55% year-on-year.

Our results in the last four months of the year showed further progress on our path to profit, reaching for the first time break-even at the operating level, defined as a positive margin contribution after all direct costs and marketing but before overheads. The attainment of this milestone follows further significant cost savings in Q4 as well as the benefits flowing through from earlier initiatives. Accordingly, we see our results for the final four months of the year as more indicative of our prospects for 2020.

our people

This has been the second year of considerable change for our people, which has included a move to new local offices as well as an organizational restructure. Whilst this has been the right course of action strategically for the business, I understand that it is both difficult and unsettling and I would like to thank them all personally for their continued loyalty, positivity and commitment to rebuilding eve.

We are confident that we have a winning product, the right strategy and the team to build a sleep wellness brand of size and strength that delights our customers and delivers value to all of our stakeholders.

current trading and outlook

Trading in the first two months of the year has started well and is in-line with the Board's expectations, with demand for the premium hybrid mattress proving particularly strong. The business has now generated a positive marketing contribution² for the six months to 29 February 2020.

Wider market uncertainty increased further in the first two weeks of March with the advent of COVID-19 but at that time there had been no noticeable impact on demand, our operations or our supply chain. Since mid-March 2020, we have seen some impact on traffic and consumer demand attributable to the fast changing COVID-19 situation, and believe it is reasonable to expect somewhat subdued demand for a period of time whilst the COVID-19 situation prevails.

¹ Underlying EBITDA is calculated as earnings before interest, taxation, depreciation, amortisation, impairment, share-based payment charges connected with employee remuneration, fundraise-related expenditure (2019 only) and staff and country exit costs (2018 only). It should be noted that the application of IFRS 16 in 2019 has resulted in a depreciation charge recognised in 2019 of £0.2m (2018: £0.0m); this charge is excluded from underlying EBITDA. Under IAS 17 however, expenditure relating to operating lease rentals (presented within administrative expenses) would have totalled £0.2m and would have been included within underlying EBITDA. In this way, £0.2m of the year on year improvement to underlying EBITDA is attributable to the application of IFRS 16.

² Marketing contribution is defined as the profit after marketing expenditure but before payroll and overhead costs.

The Board has reviewed planning scenarios and has prepared a number of appropriate measures to conserve the Group's cash balance and ensure the robustness of the business should it be required. Given eve's business model as a direct to consumer (DTC) led retailer, its most significant costs are marketing rather than the costs associated with a store estate, and we have significant flexibility to control our spending and therefore cash outflows in this regard. The Company's marketing spend will continue to be kept under constant review, with adjustments to plans made where appropriate and in line with the fast changing economic situation.

To date we have seen only a small impact upon our supply chain, and where we have seen impact, we have taken precautionary measures including stronger stock holding of products to ensure adequate coverage for the coming months, and hence we currently envisage being able to meet customer demand for our products, albeit at reduced levels.

Paul Pindar

Chairman

23 March 2020

strategic report

strategic review

“Building customer loyalty and ultimately driving repeat sales is at the centre of the eve model and is essential to attaining profitability.”

on trend in a large and growing market

Wellness is a mega trend, transcending age and geography. Within the wellness sphere there is an increasing understanding and recognition that sleep sits alongside nutrition and physical fitness as the foundations of wellness. There is also a growing body of research and evidence which testifies to the importance of sleep and the risks to physical and mental health of insufficient sleep. In a recent poll of 2,000 UK adults commissioned by eve, 58% of respondents expressed worry about the potential impact a lack of sleep can have on mental and physical health and 75% of customers tell us they are better slept simply by having one of our products.

With the increasing understanding of the importance of sleep has come consumer change. Consumers are spending more on wellness and the sleep market has been a beneficiary of this. Not only are consumers spending more on sleep wellness related products but they are willing to spend more on the central element of a good night's sleep; the mattress. The strong sales performance of eve's most recently launched premium hybrid mattress testify to this point.

Data from Euromonitor estimates that the European sleep market is worth £26bn, with the Core Markets that eve is focused on (UK&I and France) being worth £6bn. The market is however highly fragmented, populated by many traditional operators offering a proposition that has changed little in the last fifty years. There is also an increasing willingness on the part of consumers to purchase big ticket items online, with Euromonitor predicting that the online furniture market will be the second fastest growing retail category, with online purchase penetration expected to increase by 55% between 2018 and 2023.

In terms of the competitive landscape there are a limited number of well branded new digital offerings. However, no company is yet to break through in terms of establishing a sleep wellness brand which commands widespread recognition and brand loyalty. eve's ambition is to achieve just this; to be seen as the go to brand for sleep wellness products.

business model

eve is a digitally native business, with a direct to consumer (DTC) led proposition, supported by partnerships with leading retailers. This omni-channel approach reflects how consumers increasingly identify, research and purchase items, moving seamlessly between online and offline channels. By being where the customer is, eve increases its potential sales opportunities and grows its brand awareness and product understanding.

Building customer loyalty and ultimately driving repeat sales is at the centre of the eve model and is essential to attaining profitability. To achieve this goal eve is focused on establishing itself as a go to brand for sleep wellness products, which would provide the authority and consumer trust to sell a broader range of products in the category.

As a DTC focused business, eve maintains close relationships with its customers and leverages a rich data set from which to better target repeat customers and attribute purchases to the many touchpoints eve has in the marketplace. eve has worked to greatly expand its collection and use of such data during 2019 culminating in detailed econometric and attribution insight now at the forefront of the business. The insights gained from customer feedback also power new product development and refinements to existing ranges. The continued growth in eve's customer repeat rate which in the UK has more than doubled to 17.3% in the second half of 2019 from just 8.0% in the first half of 2016, demonstrates that eve is succeeding in building brand loyalty amongst its customers. As a brand led business, resources in terms of investment and talent are focused on the key operations of product development, branding, marketing and customer experience. As is common in the industry, manufacturing and fulfilment, which require heavy fixed cost investment, are outsourced to leading third party suppliers in the UK and Continental Europe. This set-up has proved to be highly scalable and flexible, enabling significant seasonal variations in monthly product demand to be met without any noticeable margin impact or the requirement to hold large amounts of product stock. There is also a close working relationship with eve's manufacturing partners to innovate and develop new products that work better in terms of function and design and that differentiate eve from peers, without a premium price tag.

The outsourced manufacturing and fulfilment model, coupled with the DTC led setup, enables a lower and more flexible cost base than a traditional retailer. Although marketing costs are one of the largest costs for eve, they are more flexible in nature and it is easy to scale them up and down quickly and switch between marketing channels.

chief executive's report

"What is certain is that eve has closed out 2019 in a stronger position than it started the year. There is still much that can and will be done to drive further improvements and this work will continue through 2020." - James Sturrock

introduction

In 2019 we completed the restructuring of the management team, made significant progress in professionalising internal operations, processes and reporting, optimised our supplier and logistics footprint, and significantly reduced the operating costs of the business. These things, alongside the progress of our customer facing rebuild strategy have significantly improved EBITDA results on the path to profitability and put eve on a steadier footing to deliver our plans for the long-term health of the business. We consider that headwinds in the competitor landscape and discounting pressure will continue, but the premium positioning of the brand and the work we have completed to create a stable and lean platform, along with a healthy cash balance, will aid the execution against our plans in order to succeed in the future.

The first few months of my tenure, which commenced in September 2018, were spent evaluating the business and formulating what we refer to as the rebuild strategy. Although implementation of the rebuild strategy commenced in late 2018, work has continued throughout 2019 on effecting and embedding change and improvement throughout all areas of the business in order to attain our stated goal of profitability and positive cash generation in the near term. There is still much that can and will be done to drive further improvements and this work will continue through 2020 and beyond.

What is certain is that eve has closed out 2019 in a stronger position than it started the year. We have a broader, award-winning product range. Operational KPIs, including the customer repeat rate and the sale of non-mattress products improved during the year, while our financial performance strengthened considerably, evidenced by a reduction in administrative expenses excluding marketing costs, fundraise-related expenditure, depreciation, amortisation and impairment of 24%. We reduced our underlying EBITDA losses by 44% and trimmed our cash outflows from operating activities by 55%, which is all the more pleasing given the challenging retail backdrop and ongoing price led competition in the mattress market. Our cash position has also improved, with a year-end net cash position of £8.0m plus £0.3m of advertising credits with Channel 4, compared with £6.0m as at 31 December 2018, owing to the fund raising in February 2019.

the rebuild strategy

The rebuild strategy focuses on three core pillars:

- differentiated brand positioning;
- expanded product range; and
- lower friction customer experience.

differentiated brand positioning

To differentiate eve from the plethora of mattress in a box brands, where competition is largely price led, our strategy is to establish eve as a trusted go to destination for sleep wellness products. To achieve this we have been refocusing and aligning our marketing investment and communications on the benefits that eve can bring consumers in sleep wellness. This is best exemplified in the three-year partnership deal we signed in 2019 with British Rowing to be their official sleep partner. As part of the deal we will be managing the sleep environment of the GB Rowing Team athletes as they train and compete both at home and overseas.

During the first half of the year we ran existing marketing campaigns whilst testing new promotional strategies and channel mix, as well as carrying out analysis on a granular level of marketing return on investment. This supported the development of the new brand, communications and the creative strategy, which launched in the UK&I at the start of H2 2019 with the 'wake up dancing' campaign, featuring the eve sloth. The campaign has proved immensely successful, raising unprompted brand awareness by 50% to 15% between January 2019 and August 2019. It has also driven increased engagement with customers, so much so that in response to customer demand we have produced and sold circa. 6,000 soft toy eve sloths at the close of 2019.

In France, the investment and media strategy has been adapted to make better use of the peak sales periods, driving more efficient spend with an optimised creative strategy and revitalised positioning. This positioning, which launched with the 'reborn again each morning' ('renaissez chaque matin') campaign in July 2019 is designed to elevate eve to be the premium brand in the nascent direct-to-consumer mattress category in France, premium mattress sales making up 44.9% of total mattress sales in December 2019.

The success of our marketing to date is demonstrated in our unprompted UK brand awareness, which has increased from 11.2% in November 2018 to approximately 15% at August 2019.

In addition to refocusing the positioning of our marketing, considerable effort has gone into improving marketing efficiency, including the development of a bespoke-built optimisation model. Subsequently, marketing investment has been substantially reviewed, with the removal of channels that were not generating a sufficient return, in line with our strategy of focusing on profitable sales and margin positive first orders. The success of this strategy is best evidenced in the efficiency of our marketing spend, which has improved in all three of our core markets in tandem with growing awareness. In the UK&I marketing efficiency has improved from 54.1% in 2018 to 52.3% in 2019; marketing efficiency being defined as marketing expenditure as a percentage of revenue. This is the third successive year of improvement and we see scope to further reduce this percentage in 2020. In France, marketing efficiency improved from 82.9% in 2018 to 44.1% in 2019.

To measure our success in delivering on this strategic pillar we will continue to monitor and report on the KPI of unprompted brand awareness in the UK and marketing efficiency, given its importance for the pathway to profitability.

expanded product range

In 2019 we stepped up new product development, building out a range of sleep products to complement our successful next generation foam mattress. Range expansion gives eve a clear trajectory to dominating the ecommerce sleep wellness space in our chosen markets and provides the opportunity to grow the frequency of customer purchases.

In the mattress category we launched the premium hybrid mattress, which received a Which? Best Buy rating, scoring the highest rating ahead of all competitor mattresses in the UK in December 2019. At the close of 2019, eve now has a suite of four mattress products sold via its DTC channel – the premium foam, the premium hybrid, the original foam and the hybrid, as well as the baby mattress.

The rate of new product development increased significantly in the period, with the launch of new bedframes and expanded ranges of bedding, pillows, sleep accessories and the baby category. Sales of bedframes, including two new storage bedframes, have performed particularly well.

The improvements in this pillar of the strategy are evident in our KPIs. In 2019 the customer repeat rate in the UK&I grew 230bps to 16.7% and in France increased 360bps to 17.0%. This growth was underpinned by an increase in sales of non-mattress products in each of the core markets. In the UK&I, the contribution from non-mattress DTC sales increased by 130bps to 24.8% and in France improved by 590bps to 28.2%.

To measure our success in delivering on this strategic pillar we will continue to monitor and report on the KPIs of conversion rates and the growth in non-mattress sales.

lower friction customer experience

Enhancing the customer experience throughout the online journey and in our service proposition to enable stronger site conversion and customer satisfaction metrics is central to our rebuild strategy. Improved conversion will not only drive higher revenues but also greater marketing efficiency, which is key to achieving profitability.

The entire customer journey through the eve website prior to purchase has been substantially upgraded during the year. This includes a 50% plus increase in the speed of loading the website plus a redesigned home page with more focus on inspiring customers, building out category pages to help users more easily discover products within our expanded ranges and new imagery, with copy/zoom functionality. Improvements have also been made to how promotions are presented on the website.

To improve the purchase process, the basket and checkout have been rebuilt to make them faster and more intuitive, resulting in an improvement in the basket completion rate. The delivery proposition has also been improved with a move to a new carrier portfolio and warehouse consolidation, which is expected to result in improved delivery experience for customers and efficiencies in distribution costs. In addition to better communications with customers around confirmation, delivery tracking and product care guides, customers are now able to select a nominated delivery day for larger orders.

The changes made to the website and customer proposition have driven a 30bps year-on-year improvement in the conversion rate.

We recognise the importance of providing an omnichannel approach, for consumers that freely move between online and offline channels, when researching and purchasing products. During the year we have extended our reach with three new retail partnerships with Argos, Homebase and Dunelm, all of which have subsequently launched.

To measure our success in delivering on this strategic pillar we will be monitoring and reporting on the KPIs of conversion rates and eve's new sleep wellness score, a measure of customers reporting improved sleep as a result of purchasing an eve product.

responsible business

As a business we recognise our responsibility to our stakeholders and the wider community at large. We continue to strive to make improvements throughout our operations in order to reduce our environmental footprint. Our localised production facilities mean that we are not trucking or airfreighting long distances, while our mattress boxes used for packaging are produced in the UK and made from Forest Stewardship Council approved card. When customers return mattresses they are either broken down and the materials recycled or refurbished, depending on their condition. We do not send mattresses to landfill.

culture and diversity

We thrive on individuality at eve. We believe that irrespective of age, gender, ethnic origin, religion, sexual orientation, gender identity, gender expression, or disability, eve is a place of opportunity, respect and support for individuals to bring their best to work and do their best work.

eve are pleased to present the following metrics relating to gender balance as at 31 December 2019. The following breakdown shows the number of persons of each sex who were:

- (i) directors of the company;
- (ii) senior managers of the company (other than those falling within category (i)); and
- (iii) employees of the company.

	Male	Female
Directors	4	1
Senior managers	3	4
Employees	28	33

2020 focus

In the second half of 2019 we took the decision to accelerate our move to profitability and positive cash generation by making additional significant cost efficiencies in the business, primarily in the areas of marketing and overheads. These changes were made in the fourth quarter of the year.

The cumulative benefits of management initiatives and efficiencies made throughout 2019 as part of the rebuild strategy are coming through in an improved financial performance. I am delighted to report that in the final four months of the year we reached a milestone in terms of achieving operational breakeven, after all direct costs and marketing but before overheads. We enter 2020 with a sizeable year-on-year reduction in both overheads and planned marketing investment, which we expect to drive a further substantial reduction in losses and cash burn.

We are well placed to make further significant progress in 2020, with a differentiated brand position, a broader product range than peers and ongoing improvements to the customer experience, supported by a lower cost base, a substantial cash balance of £7.8m as at 29 February 2020 and no debt (excluding the lease liability arising under IFRS 16).

James Sturrock

Chief Executive Officer

23 March 2020

key performance indicators

In 2019, the key performance indicators (KPIs) used to evaluate and monitor the performance of the business were as follows and are designed to support the three core pillars of the rebuild strategy (differentiated brand positioning, extended product range and lower friction customer experience). There are three financial KPIs and five operational KPIs.

*Financial KPIs*³:

- Overall revenue growth;
- Marketing efficiency;
- Underlying EBITDA.

*Operational KPIs*³:

- UK brand awareness;
- Product return rates;
- eve website conversion rate;
- eve customer sleep wellness score;
- Non-mattress revenue growth.

The results of the KPIs are set out below. Financial KPIs focus on both Group and Core Markets results whilst the operational KPIs focus on measures tracked in the Core Markets of UK&I and France. Whilst lower than original expectations (due to the reasons set out in the Strategic Report), both financial and operational KPIs show broadly positive trends against 2018:

*Group and Core Markets Financial KPIs*³

- Group revenue decreased by 31% to £23.9m (2018: £34.8m);
- Core Markets revenue decreased by 19% to £23.9m (2018: £29.4m);
- Improvement in Group marketing efficiency by 1313bps to 50.5% (2018: 63.7%);
- Improvement in Core Markets marketing efficiency of 1030bps to 50.5% (2018: 60.8%);
- Group underlying EBITDA losses reduced by 44% to £10.7m loss (2018: £19.1m loss).

*Core Markets Operational KPIs*³

- Increase in non-mattress Core Markets sales as a proportion of total sales by 230bps to 22.0% (2018: 19.0%);
- Unprompted UK brand awareness: 380bps increase in unprompted UK brand awareness (August 2019: 15.0%; November 2018: 11.2%);
- eve customer sleep wellness score: 8/10 (2018: n/a as a new metric in 2019);
- 40bps year-on-year improvement in the returns rate to 8.9% (2018: 9.3%);
- 30bps year-on-year improvement in the eve website conversion rate.

glossary

Definitions of Financial and Operational KPIs:

Overall revenue growth - % change in value of reported revenue for the specified segment of the latest period vs the previous period.

Marketing efficiency - total reported marketing cost divided by the reported revenue for the specified segment, thus as the reported percentage falls marketing efficiency improves.

³ Definitions of Financial and Operational KPIs, see Glossary

Underlying EBITDA - earnings before interest, tax, depreciation, amortisation and impairment, share-based payment charges connected with employee remuneration (2018 and 2019), fundraise-related expenditure (2019 only) and staff and country exit costs (2018 only). Underlying EBITDA reflects what management believe to demonstrate the underlying performance of the business in a given year.

Non-mattress sales as a proportion of total sales - % of reported sales attributable to non-mattress products for the specified financial period. The Group track this Operational KPI in addition to the Financial KPI of overall revenue growth as returns and deferrals are not tracked in isolation for non-mattress sales. Total sales represents all sales after discounts and VAT and before deferred revenue, refunds processed and the refunds provision. Non-mattress sales represents the value of sales from non-mattress products.

UK Brand awareness - when asked question "What mattress brands can you think of?" the % of total respondents that answer eve (externally assessed using industry polling agencies).

Product return rates - return rate % is calculated by dividing the total value of sales returns by the value of net sales of goods including freight (all excluding VAT).

eve website conversion rate - the percentage of website traffic in a specific period that complete a purchase. Calculated by dividing the number of completed sales orders divided by the total website traffic. This figure is compared on a bps movement between periods.

eve customer sleep wellness score – the average number of customers out of every ten customers that report improved sleep as a result of purchasing an eve product (internally assessed using post-purchase email campaigns).

financial review

“Whilst Core Markets revenue fell by 19% from £29.4m in 2018 to £23.9m in 2019, we achieved a 70% reduction in group losses after distribution costs, payment fees and marketing expenses with losses falling from (£8.6m) in 2018 to (£2.5m) in 2019.” - Tim Parfitt

group financial performance

£m	2019	2018 Restated	Movement
Core Markets revenue	23.9	29.4	(19%)
Other revenue	(0.0)	5.5	(101%)
Group revenue	23.9	34.8	(31%)
Core Markets gross profit	12.8	15.5	(18%)
Other gross profit	(0.1)	2.9	(103%)
Gross profit	12.7	18.4	(31%)
Distribution expenses	(2.7)	(4.1)	+33%
Profit after distribution expenses	9.9	14.3	(31%)
Payment fees	(0.4)	(0.7)	+41%
Marketing costs ⁴	(12.1)	(22.2)	+46%
Loss after distribution expenses, payment fees and marketing costs	(2.5)	(8.6)	+70%
Wages & Salaries (excluding share-based payment charges)	(4.4)	(5.4)	(18%)
Other administrative expenses	(5.0)	(6.1)	(17%)
Share-based payment charges connected to employee remuneration	(0.5)	(0.3)	+76%
Operating loss	(12.5)	(20.3)	(39%)
Net finance income	0.0	0.0	(60%)
Loss before tax	(12.5)	(20.3)	(38%)
Taxation	0.4	0.2	+82%
Loss after tax	(12.1)	(20.1)	(40%)
Reconciliation to underlying EBITDA:			
Taxation	(0.4)	(0.2)	

⁴ In 2019, management modified the classification of marketing expenditure to include both direct and indirect costs of marketing, whereas in 2018 only direct costs of marketing were included as marketing expenditure. Indirect marketing costs include PR and the production costs of creating advertising assets such as the Sloth campaign in 2019. This has resulted in the restatement of marketing costs and marketing efficiency metrics for 2018. The impact of this restatement solely impacts management information (direct and indirect marketing costs being included in administrative expenses in both the current and prior period) and therefore there is no impact of the restatement on the statutory statement of profit and loss and other comprehensive income. In 2019, marketing costs include a £0.6m share-based payment charge relating to equity issued to Channel Four in exchange for marketing services (2018: £nil).

Net finance income	(0.0)	(0.0)	
Fundraise-related expenditure	0.2	-	
Share-based payment charges connected to employee remuneration	0.5	0.3	
Staff and country exit costs	-	0.8	
Depreciation and amortisation	0.5	0.1	
Impairment	0.6	0.0	
Underlying EBITDA	(10.7)	(19.1)	(44%)

group financial performance as a % of revenue

% of Revenue	2019	2018 Restated	Movement
Gross Profit	53.1%	52.8%	+37bps
Distribution	(11.4%)	(11.6%)	+21bps
Profit after distribution	41.7%	41.1%	+57bps
Marketing	(50.5%)	(63.7%)	+1313bps
Administrative expenses excluding marketing	(41.4%)	(35.0%)	(634bps)
Administrative expenses excluding marketing, fundraise-related expenditure, depreciation, amortisation and impairment expenditure	(35.9%)	(34.6%)	(135bps)

UK&I financial performance

£m	2019	2018 Restated	Movement
Revenue	18.5	22.5	(18%)
Gross Profit	10.2	11.8	(14%)
Distribution	(1.8)	(1.7)	+7%
Profit after distribution	8.4	10.1	(17%)
Payment fees	(0.4)	(0.4)	(13%)
Marketing	(9.7)	(12.2)	(20%)
Loss after distribution, payment fees and marketing	(1.7)	(2.5)	(31%)

France financial performance

£m	2019	2018 Restated	Movement
Revenue	5.3	6.8	(22%)
Gross Profit	2.6	3.7	(29%)
Distribution	(1.0)	(1.2)	(16%)
Profit after distribution	1.6	2.5	(36%)
Payment fees	(0.1)	(0.1)	(34%)
Marketing	(2.4)	(5.7)	(58%)
Loss after distribution, payment fees and marketing	(0.9)	(3.3)	(74%)

Other financial performance

£m	2019	2018 Restated	Movement
Revenue	(0.0)	5.5	(101%)
Gross Profit	(0.1)	2.9	(103%)
Distribution	0.1	(1.2)	(108%)
Profit after distribution	0.0	1.7	(99%)
Payment fees	0.0	(0.2)	(103%)
Marketing	0.0	(4.3)	(100%)
Loss after distribution, payment fees and marketing	0.0	(2.8)	(101%)

revenue

Revenue in Core Markets decreased by 19% to £23.9m in 2019 (2018: £29.4m). Group revenues during 2018 totalled £34.8m, reflecting nine months in the year of operating on a wider international footprint. Direct to consumer remains the dominant revenue channel, with revenues from omni-channel contributing 27% of the group total (2018: 22%). Reflecting a strategic focus on profitable revenues and a reduction in marketing investment, UK&I revenues decreased by 18% and in France by 22% during 2019 as expected.

gross margins

Gross margins in Core Markets have remained at attractive levels, supported by a focus on profitable sales. Core Markets gross profit margin increased by 70bps to 53.4% in 2019 (2018: 52.7%).

distribution costs

Distribution costs as a percentage of revenue reduced by 20bps to 11.4% in 2019 (2018: 11.6%). Core Markets profit after distribution fell by 130bps to 41.6% in 2019 (2018: 42.8%) reflecting increased outbound logistics and warehousing costs in H2 2019.

marketing investment

Marketing is an important driver of growth in the business. In 2019, marketing investment in Core Markets was reduced by 32% to £12.1m (2018: £17.8m). The efficiency of marketing investment is closely monitored and is an important KPI for the business. In 2019 Core Markets marketing efficiency, defined as marketing costs as a percentage of revenues, improved by 1030 bps to 50.5% (2018: 60.8%).

In the UK&I marketing efficiency improved by 176bps to 52.3% (2018: 54.1%). In France, marketing efficiency improved significantly by 3876bps to 44.1% (2018: 82.9%).

In addition to cash and cash equivalents, the Group had £0.3m of advertising credits with Channel 4 available at the year-end date, following a placing of shares in February 2019, which raised £11.7m (net of expenses) from investors and secured £0.9m in future advertising with Channel 4, which will be satisfied through the issuance of new shares when fully utilised.

administrative expenses

(excluding marketing)

Wages & Salaries (excluding share-based payment charges connected with employee remuneration) are the largest component of administrative expenses, contributing 36.2% (2018: 36.8%) of total administrative expenses excluding marketing costs in the year. The cost of Wages & Salaries decreased by 18% to £4.4m (2018: £5.4m) primarily reflecting a lower headcount.

underlying EBITDA loss

(earnings before interest, tax, depreciation, amortisation, impairment charges, share-based payment charges relating to employee remuneration, fundraise-related expenditure in 2019 and staff and country exit costs in 2018)

The Directors consider that they are best able to monitor Group financial performance via underlying EBITDA by removing fundraise-related expenditure, share-based payment charges relating to employee remuneration and staff and country exit costs from EBITDA on the basis that these items do not occur evenly year on year.

The underlying Group EBITDA loss decreased by £8.5m to (£10.7m) loss in 2019 (2018: (£19.1m) loss). The 44% reduction in the loss reflects the increased focus on profitable sales, greater efficiency in marketing spend, substantial overhead reductions and losses in 2018 relating to the wider international footprint for part of the year.

UK&I performance for the year demonstrated improved efficiency, where the loss after distribution expenses, payment fees and marketing costs (before overhead allocation) totalled (£1.7m) loss (2018: (£2.5m) loss). This was achieved on lower revenues down 18% to £18.5m (2018: £22.5m).

France, whilst at an earlier stage of development for eve compared to UK&I, made headway in reducing losses after distribution expenses, payment fees and marketing costs (before overhead allocation) by 74% to (£0.9m) loss (2018: (£3.3m) loss) despite revenues falling 22% to £5.3m (2018: £6.8m).

It should be noted that the application of IFRS 16 in 2019 has resulted in a depreciation charge recognised in 2019 of £0.2m (2018: £0.0m); this charge is excluded from underlying EBITDA. Under IAS 33 however, expenditure relating to operating lease rentals (presented within administrative expenses) would have totalled £0.2m and would have been included within underlying EBITDA. In this way, £0.2m of the year on year improvement to underlying EBITDA is attributable to the application of IFRS 16.

share-based payment

In accordance with IFRS, a share-based payment charge for 2019 has been calculated and charged to the statement of profit and loss. The fair value of options granted is recognised as an expense over the vesting period with a corresponding credit being recognised in equity. The charge for 2019 was £1.1m (2018: £0.3m) of which £0.6m related to equity issued in exchange for marketing services and £0.5m relating to employee remuneration.

loss after tax

The loss after tax reduced to £12.1m loss (2018: £20.1m loss) as a result of the 44% reduction in the underlying EBITDA loss.

capital expenditure

Due to the Group's outsourced business model, capital expenditure requirements remain low. The main area of capital expenditure in 2019 related to ERP systems infrastructure. Total capital expenditure in 2019 in the form of intangible software assets totalled £0.5m (2018: £0.4m).

cash position

The Group had cash and cash equivalents of £8.0m at the year-end (2018: £6.0m).

Tim Parfitt

Chief Financial Officer

23 March 2020

principal risks and uncertainties

Risk management is an important part of the management process for the Group. Regular reviews are undertaken to assess the nature of risks faced, the magnitude of the risk presented to business performance and the manner in which the risk may be mitigated. Where controls are in place, their adequacy is regularly monitored. The risks considered to be particularly important at the current time are set out below.

marketing

Marketing is an important investment area for the Group and there is a risk that this expenditure may not result in the targeted increase in sales or brand awareness levels.

eve constantly monitors and analyses financial performance and key business metrics to ensure up to date and accurate forecasting. The Group also supplements its in-house marketing expertise with third party media and marketing agencies to monitor and advise on the effective implementation and roll out of marketing and advertising campaigns to meet targeted KPIs with especial focus on marketing efficiency.

product

The Group is responsible for the design of eve products and could face exposure to product liability claims or claims against health and safety procedures or practices in different territories. There could also be high return rates owing to the 100-night trial offered on the eve mattress.

The Group has a robust product and supplier onboarding process to ensure new products and suppliers are of the highest standards. The Group also retains insurance brokers to review and analyse insurance coverage to ensure sufficient insurance coverage for product liability and associated losses. In addition, return rates is a KPI which is monitored closely.

The Group is subject to fluctuations in the cost of materials which may adversely impact on the Group's profit margins.

The Group primarily manufactures its EU mattress in the EU and its UK mattress in the UK for its main product (the eve original mattress), creating a natural hedge against currency movement for its key products. For other products and markets the Group looks to agree prices for a period of time with manufacturers where possible to provide a degree of certainty over currency fluctuations.

operations

As the Group relies on outsourced partners, there is a risk that the business may be unable to cope with rapid demand or disruption occurring with its manufacturing or logistics partners.

The Group maintains a close working relationship with its outsourced partners and regularly reviews and communicates forecasts to ensure capacity constraints are managed. In addition, the Group maintains a list of alternative product suppliers who can be onboarded to supplement supply, reducing the risk of relying on any specific supplier.

During 2019, investment in automation across ERP infrastructure particularly across supply chain and logistics functions, has delivered greater visibility of logistics partner performance and mitigates the risk of disruption and allows for logistics partners to easily be switched between.

competition

The Group operates in the highly competitive mattress and pillow industries and may not be able to grow, or maintain, its existing marketing share.

The Group constantly reviews and analyses its performance against its business plan and against market competitors. The Group has both internal talent and external advisors who can advise on and respond to any changes in the competitive environment.

brexit

As with all UK companies involved in intra-community cross border trade the impact of Brexit is a potential risk for the Group.

The board of directors and senior management regularly review developments surrounding Brexit throughout the organisation and in addition to this the operations team has a dedicated task force focused on Brexit planning within the supply and logistics chain. The Group has a natural Brexit hedge with its UK and French companies and its main product, the eve original mattress, is manufactured in both the UK and the EU providing a hedge for its most significant product.

As with most UK based companies leveraging technology to deliver its value proposition, eve employs a significant non-UK workforce in the UK and thus the outcome of Brexit with regards to freedom of movement will have an effect on our workforce planning and recruitment. For this reason, during 2019, regular communication for EU nationals has been established and in-house support provided for those considering applications for settled status or visas.

At present the precise details of Brexit; how it relates to freedom of movement between the EU and UK; how it will impact goods movement across borders between the EU and UK; and how it will affect currency exchange rates following the transition period (currently expected to end on 31 December 2020) are under negotiation and therefore not fully clarified. However, the Group continuously monitors the situation to ensure it is as prepared as possible for any outcome. The Group is already registered as a sponsoring entity with the relevant UK authorities and also has a French subsidiary, which combined with the expected transitional period provides the foundations for mitigating the immediate effect of Brexit on the Group in this regard.

COVID-19 virus

The Group manufactures core mattress products in the territories in which it sells them. However, our supply chain has some reliance on sourcing from China, the Far East and European countries outside the Core Markets for the wider sleep range products.

There is the risk of reduced consumer demand as well as disruption to the supply chain from global events and pandemics such as the COVID-19 virus. Management have assessed the availability of stock on hand and are in close communication with suppliers to mitigate any adverse impact of planned supply chain movements in order to fulfil consumer demand during this period.

The Group's employees are able to work remotely from eve's main office as a result of laptop computers and the use of multiple communication channels including email, direct messaging and video conferencing. In the event of restricted movement around London and the UK, the work force would be able to continue working and would be able to communicate across teams and key stakeholders ensuring business continuity.

To date we have seen only a small impact upon our supply chain, and where we have seen impact, we have taken precautionary measures including stronger stock holding of products to ensure adequate coverage for the coming months, and hence we currently envisage being able to meet customer demand for our products, albeit at reduced levels.

Approved and signed on behalf of the board.

Tim Parfitt

Chief Financial Officer

23 March 2020

consolidated statement of profit and loss and other comprehensive income

for the year ended 31 December 2019

	Note	2019 £	2018 £
Revenue	3	23,852,931	34,818,260
Cost of sales	3	(11,176,905)	(16,442,852)
Gross profit		12,676,026	18,375,408
Distribution expenses	3	(2,729,317)	(4,056,075)
Administrative expenses	3	(22,453,901)	(34,663,758)
Operating loss		(12,507,192)	(20,344,425)
Net finance income		18,022	44,822
Loss before tax		(12,489,170)	(20,299,603)
Taxation		352,240	193,192
Loss for the year		(12,136,930)	(20,106,411)
Other comprehensive income			
Foreign currency differences from overseas operations		17,310	98,720
Total comprehensive loss for the year		(12,119,620)	(20,007,691)
Basic and diluted loss per share	4	(4.92p)	(14.46p)

consolidated statement of financial position

at 31 December 2019

	Note	2019 £	2018 £
Non-current assets			
Property, plant and equipment		518,575	-
Intangible assets		344,456	669,742
		863,031	669,742
Current assets			
Inventories		1,574,648	1,127,876
Trade and other receivables	7	2,637,650	4,626,750
Cash and cash equivalents		7,988,769	6,031,936
Current tax receivable		354,466	193,192
		12,555,533	11,979,754
Total assets		13,418,564	12,649,496
Non-current liabilities			
Lease liabilities		40,000	-
		40,000	-
Current liabilities			
Trade and other payables		3,983,174	4,561,792
Provisions	8	768,965	955,949
Lease liabilities		470,391	-
		5,222,530	5,517,741
Total liabilities		5,262,530	5,517,741
Net assets		8,156,034	7,131,755
Equity attributable to equity holders of the parent			
Share capital	5	263,445	139,735
Share premium		48,887,392	36,716,372
Share-based payment reserve	6	998,495	250,073
Retained earnings		(42,109,328)	(30,073,145)
Foreign currency translation reserve		116,030	98,720
Total equity		8,156,034	7,131,755

consolidated statement of changes in equity

for the year ended 31 December 2019

	Share Capital £	Share Premium £	Share based payment reserve £	Retained Earnings £	Foreign currency translation reserve £	Total Equity £
For the year ended 31 December 2019						
Balance at 1 January 2019	139,735	36,716,372	250,073	(30,073,145)	98,720	7,131,755
Issue of shares	120,317	11,911,415	-	-	-	12,031,732
Exercise of employee share options	770	-	-	-	-	770
Share-based payment charge	-	-	1,111,396	-	-	1,111,396
Transfer on exercise of employee share options	-	-	(100,747)	100,747	-	-
Transfer on issue of equity for marketing services	2,623	259,605	(262,228)	-	-	-
Total transactions with owners	123,710	12,171,020	748,421	100,747	-	13,143,898
Loss for the year	-	-	-	(12,136,930)	-	(12,136,930)
Other comprehensive income for the year	-	-	-	-	17,310	17,310
Balance at 31 December 2019	263,445	48,887,392	998,495	(42,109,328)	116,030	8,156,034
for the year ended 31 December 2018						
Balance at 1 January 2018	138,631	36,716,372	138,794	(10,158,736)	-	26,835,061
Exercise of options	1,104	-	-	-	-	1,104
Share-based payment charge	-	-	303,281	-	-	303,281
Transfer on exercise of options	-	-	(192,002)	192,002	-	-
Total transactions with owners	1,104	-	111,279	192,002	-	304,385
Loss for the year	-	-	-	(20,106,411)	-	(20,106,411)
Other comprehensive income for the year	-	-	-	-	98,720	98,720
Balance at 31 December 2018	139,735	36,716,372	250,073	(30,073,145)	98,720	7,131,755

consolidated statement of cash flows

for the year ended 31 December 2019

	2019	2018
	£	£
Cash flows from operating activities		
Loss for the year	(12,136,930)	(20,106,411)
Adjustments for:		
Depreciation	198,048	-
Amortisation	263,046	120,571
Impairment	594,724	39,608
Interest payable	9,144	-
(Increase)/decrease in inventories	(446,772)	(436,536)
(Increase)/decrease in trade and other receivables	1,827,827	(642,885)
Increase/(decrease) in trade and other payables	(578,619)	13,773
Increase/(decrease) in provisions	(186,984)	129,247
Share-based payment charge	1,111,396	303,281
Net cash outflow from operating activities	(9,345,120)	(20,579,352)
Cash flows from investing activities		
Additions to property, plant and equipment	-	(3,150)
Additions to intangible assets	(532,484)	(411,775)
Right of use asset initial direct costs	(15,375)	-
Net cash outflows from investing activities	(547,859)	(414,925)
Cash flows from financing activities		
Proceeds from issue of share capital	12,032,502	1,104
Repayment of capital element of finance lease rentals	(200,000)	-
Net cash inflows from financing activities	11,832,502	1,104
Net cash inflow/(outflow)	1,939,523	(20,993,173)
Cash at beginning of year	6,031,936	26,926,389
Movement in cash	1,939,523	(20,993,173)
Effect of exchange rate fluctuations on cash held	17,310	98,720
Cash at end of year	7,988,769	6,031,936

notes to the accounts

1. Reporting Entity

eve sleep PLC (the “Company”) is a public company, domiciled and registered in England in the UK. eve sleep PLC is a company limited by shares. The registered number is 09261636 and the registered address at 31st December 2019 was 29A Kentish Town Road, London, England, NW1 8NL effective from 5th August 2019. Prior to that date, the registered address of the Company was 128 Albert Street, London, England, NW1 7NE.

2. Accounting Policies

2.1 Basis of preparation

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the “Group”).

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU (“Adopted IFRSs”). The Company has elected to prepare its parent company financial statements in accordance with adopted IFRS.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

This preliminary announcement is simultaneous with signed financial statements on which the audit report is unqualified and unmodified.

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2019 or 2018 but is derived from those accounts. Statutory accounts for 2018 have been delivered to the registrar of companies, and those for 2019 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did include a reference to which the auditor drew attention by way of emphasis without qualifying their report in respect of going concern and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

2.2 Changes in accounting policy

a) New and amended Standards and Interpretations adopted by the Group and Company

In these financial statements, the Group has changed its accounting policies in the following areas:

- Lease recognition

The Group has adopted the following IFRSs in these financial statements:

- IFRS 16 Leases

The Company has considered the change in accounting policy associated with the application of IFRS 16. The Company's lease of 128 Albert Street, London, NW1 7NE terminated in line with the agreed upon lease term on 17 August 2019 and therefore the Company has taken advantage of the short-term lease exemption for lease assets and lease liabilities where a lease term ends within 12 months of the date of initial application of IFRS 16. Thus the presentation of this lease as an operating lease for the twelve months ending 31 December 2019 remains consistent with previous periods under IAS 17.

On 1 August 2019 the Company commenced a 24-month lease of 29A Kentish Town Road, London, NW1 8NL. The Company has recognised a lease asset and lease liability in relation to this lease from the inception of the lease.

- b) New and amended Standards and Interpretations mandatory for the first time for the financial year beginning 1 January 2019 but not currently relevant to the Group or Company

The following new and amended Standards and Interpretations are not currently relevant to the Group or Company; however, they may have a significant impact in future years:

- IFRIC 23 “Uncertainty over Income Tax Treatments”
- Amendment to IFRS 9: “Prepayment Features with Negative Compensation”
- Amendment to IAS 28: “Investments in Associates and Joint Ventures”
- Amendment to IAS 19: “Employee Benefits”
- Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 in “Annual Improvements 2015-2017 cycle”

- c) New and amended Standards and Interpretations issued but not effective for the financial year beginning 1 January 2019

Amendments have been made to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors in relation to the definition of material. The new definition will apply for the first time in the next financial year. The amendments clarify the definition of what is material to the financial statements and how to apply the definition.

The amendments will have an impact on the presentation and disclosure in the financial statements. After applying the new definition, the financial statement may have less disclosures as it may be easier to justify that certain disclosures are immaterial to users of financial statements. Furthermore, more meaningful disclosures may be presented in a more prominent manner due to the additional guidance on the effects of obscuring information.

2.3 Measurement Convention

The financial statements are prepared under the historical cost convention.

2.4 Going Concern

The financial statements are prepared on a going concern basis notwithstanding that the Group is still generating losses.

The Group has reported an operating loss of £12.5m (2018: (£20.3m) loss) with an operating cash outflow of £9.3m (2018: £20.6m). The closing cash balance at 31 December 2019 was £8.0m (2018: £6.0m).

The directors have prepared a business plan and financial model including cashflow forecasts covering a period of more than 12 months from the date of approval of these financial statements.

The business plan makes the following key assumptions:

- Economies in product and logistics costs;
- Marketing efficiency within DTC is enhanced as a result of greater brand awareness and the focus on more profitable performance marketing activities leading to a significant improvement in profit/loss after distribution expenses, payment fees and marketing costs. Marketing spend is presented within administrative expenses in the financial statements;
- The full-year benefit of savings made to overheads in 2019 generating a significant reduction in annual fixed costs;
- Improvement in the slow-moving stock levels alongside optimised demand planning.

These forecasts in the base case indicate that the group will have sufficient funds to meet its liabilities as they fall due until such point that it achieves sustainable profitability and cash generation. However, the delivery of the strategic plan is subject to uncertainty and these have been modelled through sensitivity analysis. Where sensitivity analysis indicates the possibility of a material impact to the ability of the group to meet liabilities as they fall due, the directors have considered what mitigating actions would be required and the timeframe within which those actions are needed. The key mitigating factors are centred around further reductions in controllable spend, including further marketing cost appraisal and reductions in other categories of discretionary spend. The directors also consider that it would be reasonable to target working capital improvements such as reducing stock days through lower stock levels and reducing debtor days through facilities such as debt factoring as the group does not presently have any debt (excluding the lease liability arising under IFRS 16).

Uncertainties are such that potential mitigating actions, which would be over and above the current strategic plan, may not be sufficient to mitigate all reasonably possible downsides in assumptions. The impact of COVID-19 virus is one such uncertainty which management are assessing and managing the impact of on the business (further detail on this is provided within the principal risks and uncertainties section of the strategic report). In such downsides the Directors would need further funding and would consider ways of sourcing this, which could include debt or possible further equity funding. The Directors consider that such scenarios are possible, but not the likely outcome.

Based on the above, the directors believe it remains appropriate to prepare the financial statements on a going concern basis. However, these circumstances represent a material uncertainty that may cast significant doubt upon the company's ability to continue as a going concern and, therefore to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

3 Segmental analysis

IFRS 8, "Operating Segments", requires operating segments to be determined based on the Group's internal reporting to the Chief Operating Decision Maker (the Board). The Chief Operating Decision Maker has been determined to be the executive board and the primary segmental reporting format of the Group is geographical by customer location, based on the Group's management and internal reporting structure.

The board assesses the performance of each segment based on revenue, gross profit and profit after distribution expenses, payment fees and marketing expenses. Payment fees and marketing expenses are presented within administrative expenses on the statement of profit and loss and other comprehensive income.

For the year ended 31 December 2019	UK&I	France	Rest of Europe	Rest of the World	Total
Revenue	18,548,073	5,345,076	(45,141)	4,923	23,852,931
Cost of Sales	(8,385,865)	(2,751,453)	-	(39,587)	(11,176,905)
Gross Profit	10,162,208	2,593,623	(45,141)	(34,664)	12,676,026
Distribution expenses	(1,809,692)	(1,014,774)	94,185	964	(2,729,317)
Payment fees	(352,702)	(90,180)	5,418	245	(437,219)
Marketing expenses	(9,703,321)	(2,357,403)	6,346	-	(12,054,377)
Segment results	(1,703,507)	(868,734)	60,808	(33,454)	(2,544,887)
Administration expenses (excluding payment fees and marketing expenses)					(9,962,305)
Net finance income					18,022
Taxation					352,240
Loss for the year					(12,136,930)
For the year ended 31 December 2018	UK&I	France	Rest of Europe	Rest of the World	Total
Revenue	22,520,896	6,833,520	4,744,696	719,148	34,818,260
Cost of Sales	(10,703,472)	(3,174,414)	(2,197,303)	(367,663)	(16,442,852)
Gross Profit	11,817,424	3,659,106	2,547,393	351,485	18,375,408
Distribution expenses	(1,697,775)	(1,204,140)	(1,079,010)	(75,150)	(4,056,075)
Payment fees	(403,616)	(137,270)	(166,366)	(29,206)	(736,458)
Marketing expenses	(12,178,634)	(5,662,664)	(4,200,150)	(126,294)	(22,167,742)
Segment results	(2,462,601)	(3,344,968)	(2,898,133)	120,835	(8,584,867)
Administration expenses (excluding payment fees and marketing expenses)					(11,759,558)
Net finance income					44,822
Taxation					193,192
Loss for the year					(20,106,411)

No analysis of the assets and liabilities of each operating segment is provided to the Chief Operating Decision Maker in the monthly management accounts. Therefore no measure of segmental assets or liabilities is disclosed in this note.

Due to the nature of its activities the Group is not reliant on any major customers.

4 Earnings per share

The basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year.

	2019	2018
Weighted average shares in issue	246,739,240	139,087,779
Loss attributable to the owners of the parent company	(12,136,930)	(20,106,411)
Basic loss per share (pence)	(4.92)	(14.46)
Diluted loss per share (pence)	(4.92)	(14.46)

For the periods presented, the weighted average number of shares used for calculating the diluted loss per share are identical to those for the basic loss per share. This is because the outstanding share options would have the effect of reducing the loss per share and would not be dilutive under IAS 33.

At 31 December 2019, options outstanding amounted to 17,030,913. Given the loss for the year of £12,136,930 (2018 loss: £20,106,411) these options are anti-dilutive.

5 Share Capital

Allotted, issued and fully paid:

	Number	Nominal Value £	31 December 2019 £	31 December 2018 £
Ordinary Shares	263,444,823	£0.001	263,445	139,735
Total			263,445	139,735

The table below summarises the movements in number of shares at the beginning and end of the period:

Ordinary Shares	
Share capital 31 December 2018	139,735,161
Nominal Value £	£0.001
Value of Share capital £	£139,735
 Summary of Movements	
Issue of shares	122,939,599
Exercise of share options over ordinary shares	770,063
 Share capital 31 December 2019	 263,444,823
Nominal Value £	£0.001
Value of Share capital £	£263,445

The holders of Ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

During 2019, 122,939,599 shares were issued and 770,063 share options were exercised bringing the total share capital of the Company to 263,444,823 at 31 December 2019.

6 Share based payments

The Group recognised a charge of £1.1m (2018: £0.3m) related to share-based payments during the year to 31 December 2019, all of which relates to equity-settled schemes and are presented within administrative expenses.

The charge is made up of two components: share-based payment charges connected with employee remuneration totalling £0.5m and, share-based payment charges relating to the equity settlement of liabilities due to Channel 4 totalling £0.6m, of which £0.3m were satisfied with the issue of share capital during the period. At 31 December 2019, the Group benefits from £0.3m in available marketing credits with Channel 4 for future marketing expenditure.

The Company issues equity-settled share-based payments to certain employees, whereby employees render services in exchange for shares or rights over shares of the parent company. Equity-settled awards are measured at fair value at the date of grant. The fair value is calculated using an appropriate option pricing model and is expensed to the consolidated statement of profit and loss on a straight-line basis over the vesting period after allowing for an estimate of shares that will ultimately vest.

The Company operates an HMRC approved executive management incentive plan (EMI). The vesting conditions are based on length of service with typically 25% of the options vesting on or after the 12-month anniversary of the employee's start after which vesting occurs in equal monthly tranches so that options vest in full on the 48-month anniversary of the employee's start date. All options are equity settled.

The terms and conditions of the grants are as follows:

Grant Date	Number of Contracts	Number of Options	Exercise Price	Performance Conditions	Expiry Date
16/01/2017	13	14,017,897	£0.001	Length of service	16/01/2027
16/01/2017	3	4,653,841	£0.001	Performance Based	16/01/2027
23/01/2017	3	56,626	£0.001	Length of service	23/01/2027
25/01/2017	22	1,289,236	£0.001	Length of service	25/01/2027
20/02/2017	1	18,825	£0.001	Length of service	20/02/2027
10/04/2017	1	251,000	£0.001	Length of service	10/04/2027
12/05/2017	18	2,222,731	£1.0120	Length of service	12/05/2027
01/04/2019	15	7,004,814	£0.001	Length of service	01/04/2029
23/05/2019	1	4,400,000	£0.001	Length of service	23/05/2029
17/12/2019	4	6,850,000	£0.001	Length of service	17/12/2029

The Company operates an unapproved executive incentive plan. The vesting conditions for grants made on 12 May 2017 and during 2018 are based on length of service with 100% of the options vesting on 36-month anniversary of the employee's start date. The remaining options have vesting conditions based on length of service with typically 25% of the options vesting on or after the 12-month anniversary of the employee's start date after which vesting occurs in equal monthly tranches so that options vest in full on the 48-month anniversary of the employee's start date. All options are equity settled.

The terms and conditions of the grants are as follows:

Grant Date	Number of Contracts	Number of Options	Exercise Price	Performance Conditions	Expiry Date
13/07/2015	1	132,905	£0.001	Length of service	13/07/2025
01/01/2016	1	49,447	£0.001	Length of service	01/01/2026
01/02/2016	1	224,269	£0.001	Length of service	01/02/2026
26/01/2016	1	12,550	£0.001	Length of service	26/01/2026
12/05/2017	6	991,798	£1.012	Length of service	12/05/2027
12/10/2017	1	23,939	£0.001	Length of service	12/10/2027
20/10/2017	1	23,833	£0.001	Length of service	20/10/2027
16/01/2018	1	20,000	£1.01	Length of service	16/01/2028
17/01/2018	1	100,000	£1.01	Length of service	17/01/2028
02/02/2018	1	15,000	£1.01	Length of service	02/02/2028
05/02/2018	1	87,500	£1.01	Length of service	05/02/2028
11/02/2018	1	20,000	£1.01	Length of service	11/02/2028
01/04/2019	2	531,600	£0.001	Length of service	01/04/2029

The number and weighted average exercise prices of share options are as follows:

	Weighted Average Exercise Price £	Number of Options
Outstanding at beginning of year	£0.613	3,203,153
Granted during the year	£0.001	18,786,413
Forfeited during the year	£0.179	(2,531,217)
Exercised during the year	£0.001	(770,063)
Lapsed during the year	£0.001	(165,687)
Cancelled during the year	£1.012	(1,491,686)
Outstanding at the end of the year	£0.001	17,030,913
Exercisable at the end of the year	£0.001	3,166,892

All options exercised during the year were options over Ordinary shares.

The weighted average share price at the date of exercise of share options exercised during the year was 6.37p (2018: 80.03p)

The options outstanding at the end of the year have an exercise price in the range of £0.001 and a weighted average contractual life of 10 years.

The fair value of employee share options is measured using a Black-Scholes model. Measurement inputs and assumptions for those share options granted during 2019 are as follows:

	Award	Award	Award
	01/04/19	23/05/19	17/12/19
	£	£	£
Share class	Ord	Ord	Ord
Fair Value	£0.07	£0.06	£0.02
Exercise Price	£0.001	£0.001	£0.001
Expected volatility ⁵	82%	83%	84%
Option Life	10yrs	10yrs	10yrs
Risk free interest rate	1.000%	1.000%	1.000%

7 Trade and other receivables

	2019	2018
	£	£
Trade Receivables	676,537	1,815,260
Other receivables	447,051	1,124,112
Prepayments	784,083	1,320,555
Other current assets	729,979	366,823
	2,637,650	4,626,750

The average credit period offered on sales of goods during 2019 was 32 days (2018: 27 days). The average days sales outstanding ("DSO") in 2019 was 38 days (2018: 82 days). At 31 December 2019, trade receivables at a nominal value of £3,481 (2018: £35,681) were impaired and fully provided for.

All trade and other receivables are short-term. The directors consider that the carrying amount of trade receivables approximates to their fair value. All trade and other receivables have been reviewed for indications of impairment.

Trade receivables represent amounts due from wholesale and retail customers.

The Group has not charged interest for late payment of invoices in the current year or prior period.

Allowances against doubtful debts are estimated by reference to expected credit losses based on the probability of default (using past default experience with that customer and alongside analysis of the counterparty's current financial position where specific credit risk is known), risk exposure (being the value of receivables outstanding with that customer) and finally a percentage representative of the loss due to default.

Before accepting any significant new customer, the Group uses a variety of credit scoring systems to assess the potential customer's credit quality and to define credit limits for each customer. Limits and scoring attributed to customers are reviewed regularly.

⁵ Expected volatility is measured at the standard deviation of expected share price movements and based on a review of volatility used by listed companies of comparable industry sector and years of establishment.

Four major retail customers each accounted for more than 10% of the total balance of trade receivables on 31 December 2019, an increase from 2018 where three major retail customers each accounted for more than 10% of the total balance of trade receivables on 31 December 2018.

	2019	2018
	£	£
Not overdue	277,934	1,177,698
Overdue between 0-30 days	21,493	382,274
Overdue between 31-60 days	245,198	56,070
Overdue between 61-90 days	131,912	73,634
Overdue over 90 days	-	125,584
	676,537	1,815,260

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the relevant year-end. Aside from the major retail customers accounting for the year-end trade receivable balance mentioned above, the concentration of credit risk is limited due to the customer base being large and diverse.

8 Provisions

	Refunds	Warranty	Total
	£	£	£
Balance at 1 January 2018	826,702	-	826,702
Provisions made during the year	11,647,815	163,832	11,811,647
Provisions used during the year	(11,620,290)	-	(11,620,290)
Prior year under/(over) provision recognised in year	(62,110)	-	(62,110)
Balance at 31 December 2018	792,117	163,832	955,949
Provisions made during the year	7,869,078	73,574	7,942,652
Provisions used during the year	(8,116,237)	(36,127)	(8,152,364)
Prior year under/(over) provision recognised in year	22,728	-	22,728
Balance at 31 December 2019	567,686	201,279	768,965

A refund provision is required as the Group provides certain products to customers under a 100-day trial period.

During this period the customer is entitled to return goods for a full refund. The provision is calculated by reference to the rate of returns experienced by the Group in preceding periods and the level of sales subject to the relevant trial periods of each product at the year end. An analysis of the rate of return over historical periods does not indicate a significant variation in the rate of refunds provided to customers and accordingly, whilst there is a degree of estimation in the calculation of this provision, any reasonable sensitivity analysis in the rate applied to sales at the year-end would not result in a material impact.

9 Subsequent events

The worldwide outbreak of the COVID-19 virus represents a significant event since the end of the financial period. In light of the impact of the virus upon supply chain and consumer demand, the Group has reviewed its cash flow forecasts and considered the impact on going concern, concluding that the going concern basis remains an appropriate basis of preparation for these financial statements given the likely cash flow impact of operations 12 months from the date of signing this report. Please refer to note 2.4 for further detail on the Group's going concern basis of preparation.

COVID-19 is considered to be a non-adjusting post balance sheet event and therefore has not been taken into account in preparing the statement of financial position as at 31 December 2019.