8 December 2020

Studio Retail Group plc ("SRG" or "the Group")

Interim Results for the 26 weeks ended 25 September 2020

Online retail strength drives Studio to record trading performance, underpinning confidence in medium-term growth prospects

SRG, the digital value retailer, today announces its Interim Results for the 26-week period ended 25 September 2020 and gives an update on its performance in its peak trading period.

Financial Summary

	26 weeks ended 25.09.20	26 weeks ended 27.09.19 (restated^)	Change
Group revenue	£268.0m	£228.7m	+17.2%
Adjusted profit before tax*	**£17.7m**	**£11.7m**	**+52%**
Profit before tax	£15.0m	£5.0m	+199%
Core net debt*	£45.2m	£70.8m	-£25.6m

* this is an Alternative Performance Measure for which a reconciliation to the equivalent GAAP measure can be found below.
^ restated to show the results of Education as a continuing operation – see note 2.

Group summary

- Group revenue in H1 of £268.0m, up 17.2% due to increased demand and growth of the Studio customer base
- Adjusted profit before tax* up 52% to £17.7m (2019 restated^: £11.7m)
- Core net debt* of £45.2m at half year reduced by £25.6m vs September 2019 and £6.7m lower than at the end of March 2020 due to strong trading and tight capital controls
    - Total net debt, including securitisation borrowings and leases liabilities per IFRS 16, of £293.6m (2019 restated^: £291.4m)
    - Current liquidity levels remain strong and well ahead of normal seasonal patterns
- Proposed sale of Education abandoned due to adverse provisional findings from the CMA
- All remaining Covid-related government support for Education to be repaid in view of the Group's overall strong performance
- Announced separately today the launch of a strategic review and formal sale process

Studio highlights

- Active customer base at Studio up 15% in H1 to 2.1m at the end of September, including 1.4m with an active credit account
    - Subsequent growth during Q3 to date has increased the total and credit customer bases to 2.3m and 1.5m respectively

- Over 850k Studio App downloads since its launch in October 2019 with 20% of purchases now coming through this channel

- Online ordering levels in H1 over 91%, up from 81% last year

- Product revenue up 38% in H1 with margin rates flat leading to gross profit from product increasing by £16.7m

- Improved infrastructure, strengthened online offer and outstanding support from colleagues has ensured Studio was well placed to respond to increased demand

- Financial services revenue up 6.1% in H1 with no material increase in arrears seen to date. The incremental provision of c.£20m set aside in the FY20 accounts remains largely unutilised

- Credit receivables eligible for securitisation funding increased by 16% to £268.8m. Securitisation facility increased by £25m to £225m during the period to cater for this growth

- Adjusted divisional operating profit* in H1 of £24.4m, up 63% on H1 of 2019

Education highlights

- Revenue in H1 down 23% due to school closures at the start of the financial year. Sustained and improving trend of recovery in the period (Q1 down 44%, Q2 down 6%)

- Revenue in Q3 to date up 16%, in part due to schools catching up on missed purchases and as a result of digital investment with online ordering levels at c.83% (2019: 70%)

- Divisional operating profit of £1.0m in H1 (2019 restated^: £3.3m)

Current trading and outlook

Studio's multi-year transformation into a digital-first retailer, means that it is ideally positioned to serve the increasing number of customers who choose to shop online. Our growing customer base, coupled with strong processes and systems has meant we have been well-positioned to respond to record levels of activity during peak trading in recent weeks.

The marketplace has been significantly less promotional than in November 2019 due to the second lockdown in England, which has led to a materially stronger profit performance to date in Q3 than last year. Product revenue in Q3 to the end of November is 32% ahead of prior year, with gross profit margins from product sales up 450bps.

While we are yet to see any material adverse impact of the pandemic on customer repayments, we remain watchful of the volatile consumer environment. Nonetheless, the strength of our customer proposition, further investment in our digital capabilities, and the strong growth in the credit customer base – where there is a higher degree of loyalty – underpins our confidence in the sustainability of the medium-term growth prospects of the business.

Phil Maudsley, Group CEO, commented:

I am very proud of the way that this group has responded over the last few months to the challenges of Covid-19. These interim results are testament to the strengths of our digitally-focussed value business and the ability of our colleagues and customers to adapt rapidly to change.

Our strategy to grow the Studio customer base and increase our customers' spend with us, supported by our flexible credit offer has delivered a record trading performance which underpins our confidence in the Group's medium-term growth prospects.

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Notes to Editors

Studio Retail Group currently contains market leading businesses in the UK digital retailing and education supplies markets. It is primarily a retailer and distributor, handling and supplying specialist products manufactured by third parties.

The Group's activities are currently focused in two main operating segments:

- Studio – a leading UK digital value retailer, primarily trading via the **Studio** brand; and
- Education – the second largest listed independent supplier of resources and equipment (excluding information technology and publishing) to schools in the UK and overseas.

INTERIM MANAGEMENT REPORT

Summary

As we reported in the FY20 results announcement on 24 August, the Covid-19 pandemic has produced both challenges and opportunities for the Group. We are hugely thankful for the hard work and support of all our colleagues across the business, and we are proud of the way that we have continued to support our customers as they spend more time at home.

The transformation of our Studio Retail business over the past three years into a digital-first, value retailer, ensured that it faced into the impact of Covid-19 as a strong digital business of scale. The business enjoyed very rapid sales growth in H1 as more customers transitioned to shopping online, including using our new app, to find products that help make family life that bit easier. New customers have found that the combination of our broad, value driven product range and flexible payment options creates a point of difference to other retailers. Importantly, our strengthened systems and processes have ensured that we have successfully fulfilled the increase in demand.

Studio's growth in H1, with product revenue up 38% and its adjusted operating profit* up 63%, has positioned it well for the peak trading period ahead of Christmas, with sales to date in Q3 to the end of November up 32% compared to the prior year.

The CMA's provisional findings into the proposed sale of Education to YPO led to the transaction being abandoned by the parties at the end of October. Consequently, Education is no longer classified as held-for-sale. Despite schools being closed for the first few months of the financial year, the business benefitted from its own digital transformation over the last three years and performed well during its peak summer months and is currently trading ahead of prior year.

The strong trading performance of Studio alongside tight working capital controls, has resulted in net debt in the business being materially lower than the equivalent point in 2019. This improvement in the Group's financial position will enable it to continue to implement its digital transformation plan over the coming years.

Studio

Studio is our core digital value retail business, primarily trading under the **Studio** brand (the other smaller brand is Ace).

Our strategy for growth aims to build on our digital capabilities by focussing on improving retail profitability, whilst maximising the benefits of the integrated credit model and ensuring the business is built on strong foundations. We have refined the strategy during the last few months to give greater emphasis on what each element means for our customers. In particular, this has separated parts of the retail profitability segment into value and choice.

Value

Offering a range of great value products is the key driver for customers to shop at Studio and this first strategic pillar will see us increasing customer numbers over the next few years. These unbelievable value products are promoted to customers through an increased use of digital and TV advertising, supplemented to a lesser extent by catalogues and other paper media. Marketing costs in the first half of the year were £3.8m lower than in the previous period due to a combination of lower digital tariffs during lockdown and a conscious decision to cancel some catalogue runs.

Notwithstanding that reduction in spend, the outcome was an increase of 15% in the total customer base during H1 to 2.1m. Within that, the number of customers with an active credit account was 1.4m. That group is particularly important to the success of Studio's business model as, in addition to the financial services income it provides (noted below), customers with a credit account typically spend over three times more on product purchases than cash customers and exhibit much higher retention rates.

Choice

Once we have brought a customer to the website, the next element of our strategy is to present a broad range of products and brands that customers want at competitive prices so that we capture a greater share of their wallet and increase their ordering frequency. We have seen the average spend per customer increase by

9.2% during H1, primarily due to range mix with electricals and garden furniture being especially popular during lockdown.

In a competitive marketplace, we need to make the browsing experience for the customer as easy as possible. We launched the Studio App in October 2019 and have since seen over 850k downloads. Feedback from customers suggests that they like the browsing functionality in the App, which now accounts for 20% of all purchases. Just over 500k customers have activated push notifications on their devices, allowing us to send regular promotional messages to them at low cost.

We have made increased use of direct dispatch suppliers within our supply chain during H1, which has allowed us to satisfy the unexpectedly high levels of demand in key ranges. We have also improved the quality of the ranges that we present to customers through partnerships with brands such as Lego, In The Style and Virgin Wines.

Flexible payment options

One of the key differences between Studio's model and that of many other retailers is its flexible, affordable credit option, which allows customers to pay for their goods over an extended period. Whilst we have seen growth in short-term deferred payment solutions adopted by some high-street retailers, that type of product is generally less well suited to Studio customers when compared to our broader product offering. The revolving credit account model continues to provide a valuable second revenue stream for Studio, which increased by 6.1% in H1.

After a period where we needed to make process changes to improve how customer affordability was assessed and documented, alongside ensuring that customers do not remain in persistent debt, we have seen growth in the active credit base resume strongly during H1. New systems and datasets have been introduced, giving us the capability to offer more tailored payment solutions to customers and to accept a higher level of applicants responsibly as we move forward.

The average annual credit balance has increased by 5.5% over the last year, despite the average repayment rate increasing slightly due to measures to curtail persistent debt. Balances available for funding from the securitisation facility, which is a measure of "in order" accounts, are 16% higher than at September 2019 now standing at £268.8m. Whilst a small number of customers approached us for short-term payment holidays in response to the financial impacts of the pandemic, most of these have since returned to normal payment patterns.

More broadly, arrears levels during H1 showed relatively little impact from the pandemic, although the proportion of accounts moving into default was lower in part due to the effect of offering payment holidays as noted above. The bad debt charge increased by 19% in H1 to £16.7m, largely driven by higher receivables balances, as noted above. As anticipated at the year-end, recovery rates from the sale of defaulted accounts were lower than seen historically. Cash inflows from the spot-sale of certain types of account were lower than in 2019, although our main forward-flow sale agreements remained unaffected.

The accounting standard for bad debt provisioning requires a forward-looking assessment of potential loss using a variety of potential economic scenarios. We noted in the FY20 results that our best estimate of the incremental provision resulting from higher unemployment caused by Covid-19 was around £20m. Data at the end of September, which is reflected in these interim results, suggests that £20m remains a broadly reasonable estimate. More recent data following the news of potentially effective vaccines suggest that impact on unemployment may be less pronounced and later than previously expected, implying there may now be surplus in that estimate. We will revisit this at the year end, as the standard does not allow the use of hindsight for these interim results.

Digital transformation

The transformation of Studio from a catalogue retailer to a digitally-focussed retailer requires continued investment in new systems and technology to meet changing customer expectations and allow us to retire our legacy mainframe systems. The business uses data extensively within its credit operations, as well as customer targeting and digital marketing. Enhanced datasets and new technology will further improve this decision making and personalisation as well as now optimising product range management and pricing strategies. The Studio App is a good example of how we are deploying technology to great effect.

The lockdown in response to the start of the pandemic and the need to have many of our colleagues able to work from home created a number of systems challenges for Studio, which were successfully overcome. We have recently moved all of our contact centres onto a single virtual network, producing efficiency savings alongside a higher level of service for our customers.

The next area of focus is to replace our order management system. This project will allow us to give customers real-time stock information and a greater choice of delivery options, which we expect will start to come onstream in mid-2021.

Financial results

As noted above, product revenue in H1 increased by 38% to £169.5m. Product margin rates remained unchanged in H1 at 36.1%, with headwinds caused by range mix away from clothing and towards lower margin electrical products, plus a conscious decision to trade out of seasonal clothing at the start of lockdown, being offset by underlying efficiency improvements. The gross profit from product therefore increased by 38% to £61.1m.

The gross profit from financial services increased by 2% to £45.9m, bringing the total gross profit for the business in H1 to £107.0m. Overhead costs including depreciation increased by 11%, including £0.5m relating to the closure of our Philippines contact centre and around £0.8m for additional costs directly relating to the pandemic and changes to our working practices. The adjusted operating profit* for Studio in H1 was £24.4m, up 63% on 2019.

Education

Our education business is one of the leading independent suppliers of school and early years resources to schools in the UK and overseas. It has undergone a substantial transformation over the last three years focussed upon overhauling its digital solutions for teachers, improving its pricing strategy, and underpinning this with cost reductions.

The proposed sale of the business to one of its competitors, YPO, announced in December 2019 would have enabled schools to benefit from lower prices and improved service through scale benefits. However, the transaction was contingent upon receiving approval from the Competition & Markets Authority who noted at the end of their Phase 1 review in May and affirmed in their Phase 2 provisional findings in October that the combination would, in their opinion, reduce competition. Both YPO and SRG disagreed with these provisional findings, but equally considered that the prospects of overturning them and hence completing the transaction were low. Accordingly, we announced on 2 November 2020 that the transaction would not complete. Education has therefore been presented in these interim results as a continuing operation and the income statement for H1 of 2019 has been restated as set out in note 2 to the condensed consolidated financial statements.

Schools across the UK were essentially closed from mid-March. Whilst some activity resumed in late June, they did not fully re-open until the new term in September. This led to a significant reduction in revenue of 44% in the first quarter of the financial year, although this narrowed to a 6% decline in the second quarter, bringing total revenue for H1 to £36.0m, down 23% on the first half of 2019. The business actively managed its cost base, placing around half of its colleagues on furlough on full pay during the first lockdown and claiming grants of £0.8m from the government's Coronavirus Job Retention Scheme. In view of the Group's overall performance, we now intend to repay these grants during H2. Marketing spend and other overheads were also reduced and so the business achieved an adjusted operating profit* of £1.0m in H1 (2019 restated^: £3.3m) despite the reduction in revenue.

The traditional route to market in this sector has been via big-book catalogues issued to schools once per year, with orders being taken via telephone, email or even fax. Our business was already well on its way to switching much of its ordering to online channels before lockdown and had made its websites easier for teachers to browse and build order lists. As a result of those investments, over 83% of all orders are now placed online, up from just 22% at the start of the transformation in early 2017, which has allowed us to reduce traditional catalogue expenditure. The transformation in approach from catalogues to online shopping and the reduction in the associated marketing costs will continue into the future.

The investment in digitising the business over the last three years also enabled it to rapidly expand its "direct to parent" sales channels during the lockdown and, whilst this is still a relatively small part of the business, it has been sufficiently successful in recent months to merit further strategic consideration for the future.

The business's own-brand range of products, Classmates, was overhauled during 2018 leading to improvements in price, quality and range, alongside a higher rate of margin. We have seen a significant switch by schools and nurseries away from branded products in the last year and towards Classmates, which now accounts for 27% of revenue.

Trading since the start of September has been ahead of prior year, and Q3 revenue to date is up 16% on 2019. We therefore have confidence that the business has a sound digital-first strategy to deliver sustainable profitable growth over the medium term.

Central

Underlying central costs in H1 were £2.1m higher than last year due to higher administration costs including variable management incentive costs and timing differences on foreign exchange recognition. In addition, abortive transaction costs relating to Education totalling £1.3m were recognised as an individually significant item in H1.

FINANCIAL REVIEW

Summary income statement

The Group produced an adjusted profit before tax* of £17.7m in the period, up 52% on the prior year, as set out below.

	26 weeks ended 25.09.20	26 weeks ended 27.09.19 (restated^)	Variance
	£'000	£'000	£'000
Studio	**24,428**	15,030	9,398
Education	**1,000**	3,274	(2,274)
Central	**(2,997)**	(928)	(2,069)
Adjusted operating profit*	**22,431**	17,376	5,055
Finance costs	**(4,704)**	(5,701)	997
Adjusted profit before tax*	**17,727**	11,675	6,052

* this is an Alternative Performance Measure, for which the reconciliation to the equivalent GAAP measure can be found below.
^ restated to show the results of Education as a continuing operation – see note 2.

Profit before tax was £15.0m (2019 restated^: £5.0m).

Borrowings and finance costs

The Group finances its operations through a combination of a securitisation facility that partially funds Studio's credit receivables and a revolving credit facility. Core net debt* which excludes securitisation funding and lease liabilities, stood at £45.2m at the end of September 2020, down by £25.6m from September 2019.

Credit receivables capable of being funded by the securitisation facility grew by £36.9m or 16% to £268.8m, of which £31.2m was funded by the securitisation facility and £5.7m was funded from working capital.

The securitisation facility was increased by £25m to £225m during the period to cater for this growth.

Finance costs of £4.7m (2019 restated^: £5.7m) were incurred in the first half of the year. The Group's legacy pension scheme surplus decreased to £21.7m from £31.7m at March 2020. Finance credits associated with this surplus of £0.4m (2019: £0.1m) are included within finance costs. Underlying borrowing costs are lower than the prior year due to lower LIBOR and borrowing margins.

Foreign exchange contracts

The Group's policy on hedging its foreign exchange risks remains to cover its planned exposures over the next 12 months on a rolling basis by the use of forward contracts. At the end of September 2020, the Group was committed to contracts for $86.5m, contracted at US dollar exchange rates between £1/$1.18 and £1/$1.32, with maturity dates covering the period to September 2021. The fair value of these contracts at the period end was a net asset of £1.7m (September 2019: £3.1m). Fair value movements in the first half have resulted in a charge of £1.5m (September 2019: credit of £2.4m), which has been recorded in the condensed consolidated income statement.

Taxation

The Group recorded a tax charge of £3.0m in the first half (2019 restated^: £1.1m), based on an estimated underlying effective tax rate for the full year of 20.3% (2019 restated^: 21.1%). When adjusted to exclude the impact of individually significant items, the Group's underlying effective tax rate* was 20.2% (2019 restated^: 20.9%).

Balance sheet

Net assets at the end of September 2020 stood at £76.2m, up from £73.7m^ at the year end with net profit of £11.9m being partly offset by reductions in the value of the pension scheme surplus which now stands at £21.7m.

Defined benefit pension contributions totalling £2.5m have been made into the pension scheme in the first half. The triennial valuation of the scheme's assets as at April 2019 was recently concluded leading to a continuation of contributions of £5m p.a. until September 2023. The lump-sum contribution of £13m and lower contributions noted in our FY20 accounts relating to the proposed sale of Education did not occur as they were contingent upon completion of the sale.

Dividends

The Company balance sheet as at 27 March 2020 showed accumulated losses of £73.3m and, as such, the Company does not have plans to reinstate dividend payments at this stage.

Alternative Performance Measures

The directors use several Alternative Performance Measures (“APMs”) that are considered to provide useful information about the performance and underlying trends facing the Group. As these APMs are not defined by IFRS, they may not be comparable with APMs shown in other companies’ accounts. They are not intended to be a replacement for, or be superior to, IFRS measures.

The principal APMs used in these Interim Results are set out below.

Adjusted operating profit and adjusted profit before tax

These measures are used by management to assess the underlying trading performance of the Group from period to period.

In both the current and prior period, the following items have been excluded in arriving at these measures:

- Individually significant items are, due to their nature or scale, not reflective of the underlying performance of the Group. The Directors believe that presenting these items separately aids year on year comparability of performance.
- The Group's foreign exchange hedging policy means that there will be unrealised fair value gains or losses at the period end relating to contracts intended for future periods. Those fair value movements are therefore excluded from the underlying performance of the Group until realised.

The reconciliation to profit before tax is as follows:

	26 weeks ended 25.9.20 £'000	26 weeks ended 27.9.19 (restated^) £'000
Adjusted operating profit	**22,431**	17,376
Individually significant items	**(1,283)**	(9,107)
Fair value movements on derivatives	**(1,490)**	2,427
Finance costs	**(4,704)**	(5,701)
Profit before tax	**14,954**	4,995

	26 weeks ended 25.9.20 £'000	26 weeks ended 27.9.19 (restated^) £'000
Profit before tax, fair value movements and individually significant items	**17,727**	11,675
Individually significant items	**(1,283)**	(9,107)
Fair value movements on derivatives	**(1,490)**	2,427
Profit before tax	**14,954**	4,995

EBITDA before individually significant items

The calculation of EBITDA before individually significant items is set out in note 3 to the condensed consolidated financial statements.

Studio Product Gross Margin %

This is used a measure of the gross profit made by Studio on the sale of products only, which shows progress against one of Studio’s strategic pillars. This is derived as follows:

	26 weeks ended 25.9.20 £'000	26 weeks ended 27.9.19 (restated^) £'000
Product revenue	**169,485**	122,884
Less product cost of sales	**(108,383)**	(78,508)
Gross product margin	**61,102**	44,376
Gross product gross margin %	**36.1%**	36.1%

Net debt

This measure takes account of total borrowings less cash held by the Group and represents our total indebtedness. Management use this measure for assessing overall gearing.

It is calculated as follows:

	25.9.20 £000	27.9.19 (restated^) £000
Total bank loans	**286,576**	265,346
Lease liabilities	**46,883**	50,274
Less cash and cash equivalents	**(39,850)**	(24,233)
Net debt	**293,609**	291,387

Core net debt

This measure excludes lease liabilities and securitisation borrowings from net debt to show borrowings under the revolving credit facility net of cash held by the Group. This is our preferred measure of the indebtedness of the Group as it is aligned to the definitions used in lending facilities for covenant purposes.

It is calculated as follows:

	25.9.20 £000	27.9.19 (restated^) £000
Net debt	**293,609**	291,387
Less lease liabilities	**(46,883)**	(50,274)
Less securitisation borrowings*	**(201,576)**	(170,346)
Core net debt	**45,150**	70,767

*Disclosed within bank loans

Debt funding consumer receivables

The majority of Studio's trade receivables are eligible to be funded in part from the securitisation facility, with the remainder being funded from working capital. This measure indicates the face value of trade receivables (before any impairment provision) capable of being funded from the securitisation facility. It is useful to management as it demonstrates the proportion of net debt that is supported by paying customer receivables.

It is calculated as follows:

	25.9.20 £000	27.9.19 £000
Funded from securitisation loans	**201,576**	170,346
Funded from working capital	**67,192**	61,514
Eligible receivables	**268,768**	231,860
Securitisation %	**75%**	73%

Adjusted earnings per share

This measure shows the earnings per share given when individually significant items and fair value movements on derivative financial instruments are excluded from the profit after tax figure. Details of how the adjusted earnings per share are calculated can be found in note 6 to the condensed consolidated financial statements.

Underlying effective tax rate

This measure shows the Group's effective tax rate when the tax impact of individually significant items and other non-recurring items are adjusted for. This measure allows management to assess underlying trends in the Group's tax rate. It is calculated as follows:

	26 weeks ended 25.9.20 £000	26 weeks ended 27.9.19 (restated^) £000
Tax charge	**(3,030)**	(1,056)
Exclude impact of individually significant items	**(244)**	(1,893)
Adjusted tax charge	**(3,274)**	(2,949)
Profit before tax and individually significant items	**16,237**	14,102
Underlying effective tax rate	**20.2%**	20.9%

Studio Retail Group plc
Group Financial Information

Condensed Consolidated Income Statement

26-week period ended 25 September 2020

	Before individually significant items £000	Individually significant items £000	Total £000
Revenue	**212,992**	**-**	**212,992**
Credit account interest	**55,039**	**-**	**55,039**
Total revenue (including credit interest)	**268,031**	**-**	**268,031**
Cost of sales	**(131,769)**	**-**	**(131,769)**
Impairment losses on customer receivables	**(16,686)**	**-**	**(16,686)**
Gross profit	**119,576**	**-**	**119,576**
Trading costs	**(97,145)**	**(1,283)**	**(98,428)**
Analysis of operating profit:			
– **EBITDA***	**31,889**	**(1,283)**	**30,606**
– Depreciation, amortisation and impairment	**(9,458)**	**-**	**(9,458)**
Operating profit	**22,431**	**(1,283)**	**21,148**
Finance costs	**(4,704)**	**-**	**(4,704)**
Profit before tax and fair value movements on derivative financial instruments	**17,727**	**(1,283)**	**16,444**
Fair value movements on derivative financial instruments	**(1,490)**	**-**	**(1,490)**
Profit before tax	**16,237**	**(1,283)**	**14,954**
Tax (expense)/income	**(3,274)**	**244**	**(3,030)**
Profit for the period	**12,963**	**(1,039)**	**11,924**

Earnings per ordinary share	
total attributable to ordinary shareholders	
Basic	**13.81**
Diluted	**13.75**

*Earnings before interest, taxation, depreciation, amortisation and fair value movements on derivative financial instruments.

Condensed Consolidated Income Statement

26-week period ended 27 September 2019 *(restated – refer to note 2)*

	Before individually significant items £000	Individually significant items £000	Total £000
Revenue	179,479	-	179,479
Credit account interest	49,225	-	49,225
Total revenue (including credit interest)	228,704	-	228,704
Cost of sales	(108,813)	-	(108,813)
Impairment losses on customer receivables	(13,970)	-	(13,970)
Gross profit	105,921	-	105,921
Trading costs	(88,545)	(9,107)	(97,652)
Analysis of operating profit:			
– **EBITDA***	25,766	(7,948)	17,818
– Depreciation and amortisation	(8,390)	(1,159)	(9,549)
Operating profit	17,376	(9,107)	8,269
Finance costs	(5,701)	-	(5,701)
Profit before tax and fair value movements on derivative financial instruments	11,675	(9,107)	2,568
Fair value movements on derivative financial instruments	2,427	-	2,427
Profit before tax	14,102	(9,107)	4,995
Tax (expense)/income	(2,949)	1,893	(1,056)
Profit for the period	11,153	(7,214)	3,939

Earnings per ordinary share

total attributable to ordinary shareholders	
Basic	4.57
Diluted	4.57

*Earnings before interest, taxation, depreciation, amortisation and fair value movements on derivative financial instruments.

Condensed Consolidated Statement of Comprehensive Income

26-week period ended 25 September 2020

	26 weeks to 25.9.2020 £000	26 weeks to 27.9.2019 £000
Profit for the period	**11,924**	3,939
Other comprehensive income		
Items that may be reclassified to profit or loss		
Cash flow hedges	**14**	20
Currency translation gain/(loss) arising on consolidation	**161**	(329)
	175	(309)
Items that will not subsequently be reclassified to profit and loss		
Remeasurements of defined benefit pension scheme	**(12,931)**	4,791
Tax relating to components of comprehensive income	**2,457**	(1,726)
	(10,474)	3,065
Total comprehensive income for period	**1,625**	6,695

The total comprehensive income for the period is attributable to the equity shareholders of the parent company Studio Retail Group plc.

Condensed Consolidated Balance Sheet

At 25 September 2020

	25.9.2020 £'000	27.9.2019 (restated) £'000	27.3.2020 (restated) £'000
Non-current assets			
Other intangible assets	**21,013**	24,096	23,169
Property, plant and equipment	**86,048**	86,277	86,812
Derivative financial instruments	**-**	-	2
Retirement benefit surplus	**21,670**	7,027	31,695
Deferred tax assets	**5,237**	10,850	2,884
	133,968	128,250	144,562
Current assets			
Inventories	**69,593**	71,787	58,825
Trade and other receivables	**264,326**	243,836	245,240
Derivative financial instruments	**1,722**	3,138	3,250
Cash and cash equivalents	**39,850**	24,233	33,163
Current tax assets	**-**	525	1,718
Total current assets	**375,491**	343,519	342,196
Total assets	**509,459**	471,769	486,758
Current liabilities			
Trade and other payables	**(95,896)**	(91,286)	(76,943)
Lease liabilities	**(6,226)**	(7,016)	(6,853)
Derivative financial instruments	**-**	(106)	(36)
Provisions	**(1,459)**	(8,043)	(4,335)
Current tax liabilities	**(2,474)**	-	-
Total current liabilities	**(106,055)**	(106,451)	(88,167)
Non-current liabilities			
Bank loans	**(286,576)**	(265,346)	(282,591)
Lease liabilities	**(40,657)**	(43,258)	(42,292)
Deferred tax liabilities	**-**	(5,867)	(37)
	(327,233)	(314,471)	(324,920)
Total liabilities	**(433,288)**	(420,922)	(413,087)
Net assets	**76,171**	50,847	73,671
Equity			
Share capital	**48,644**	48,644	48,644
Translation reserve	**482**	435	321
Hedging reserve	**(12)**	(34)	(26)
Retained earnings	**27,057**	1,802	24,732
Total equity	**76,171**	50,847	73,671

Condensed Consolidated Cash Flow Statement

26-week period ended 25 September 2020

	26 weeks to 25.9.2020 £000	26 weeks to 27.9.2019 £000
Profit for the period	**11,924**	3,939
Adjustments for:		
Income tax	**3,030**	1,056
Finance costs	**4,704**	5,701
Depreciation of property, plant and equipment	**7,838**	7,231
Impairment of property, plant and equipment	**519**	1,159
Amortisation of intangible assets	**1,101**	1,159
Share-based payment expense	**875**	632
Fair value movements on financial instruments net of premiums paid	**1,490**	(2,427)
Pension contributions less income statement charge	**(2,499)**	(2,292)
Operating cash flows before movements in working capital	**28,982**	16,158
Increase in inventories	**(10,768)**	(23,030)
Increase in receivables	**(19,086)**	(7,914)
Increase in payables	**18,845**	18,889
(Decrease)/increase in provisions	**(2,876)**	5,266
Cash generated from operations	**15,097**	9,369
Income taxes refunded/(paid)	**1,229**	(3,346)
Interest paid	**(3,689)**	(5,478)
Net cash from operating activities	**12,637**	545
Investing activities		
Proceeds on disposal of property, plant and equipment	**10**	-
Purchases of property, plant and equipment and software and IT development costs	**(6,553)**	(6,260)
Net cash used in investing activities	**(6,543)**	(6,260)
Financing activities		
Repayment of amounts owing under lease arrangements	**(3,393)**	(2,458)
Securitisation loan drawn down/(repaid)	**3,985**	(5,199)
Net cash from/(used) in financing activities	**592**	(7,657)
Net increase/(decrease) in cash and cash equivalents	**6,686**	(13,372)
Cash and cash equivalents at the beginning of the period	**33,163**	37,603
Effect of foreign exchange rate changes	**1**	2
Cash and cash equivalents at the end of the period	**39,850**	24,233

Condensed Consolidated Statement of Changes in Equity

26-week period ended 25 September 2020

	Share capital £000	**Translation reserve £000**	**Hedging reserve £000**	**Retained earnings/ (accumulated losses) £000**	**Total equity £000**
As at 27 March 2020	48,644	321	(26)	26,442	75,381
Reversal of IFRS 5 adjustment	-	-	-	(1,710)	(1,710)
As at 27 March 2020 (restated)	48,644	321	(26)	24,732	73,671
Profit for the period	-	-	-	11,924	11,924
Other comprehensive income	-	161	14	(10,474)	(10,299)
Share based payments	-	-	-	875	875
As at 25 September 2020	**48,644**	**482**	**(12)**	**27,057**	**76,171**

	Share capital £000	Translation reserve £000	Hedging reserve £000	(Accumulated losses)/ retained earnings £000	Total equity £000
As at 29 March 2019	48,644	764	(54)	(5,834)	43,520
Profit for the period	-	-	-	3,939	3,939
Other comprehensive income	-	(329)	20	3,065	2,756
Share based payments	-	-	-	632	632
As at 27 September 2019	**48,644**	**435**	**(34)**	**1,802**	**50,847**

The total equity is attributable to the equity shareholders of the parent company Studio Retail Group plc.

Notes to the Condensed Consolidated Financial Statements

1. General Information

The condensed consolidated financial statements have been approved by the board on 7 December 2020.

Statement of compliance

These condensed consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union ("EU") and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority. As required by the latter, the condensed consolidated financial statements have been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the 52 weeks ended 27 March 2020. They do not include all of the information required for full annual financial statements and should be read in conjunction with the Group's consolidated financial statements as at and for the 52 weeks ended 27 March 2020.

The financial information for the period ended 27 March 2020 is not the Company's statutory accounts for that financial year. Those accounts, which were prepared under IFRS as adopted by the EU ("adopted IFRS"), have been reported on by the Company's auditor and delivered to the Registrar of Companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor draws attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under sections 498(2) or (3) of the Companies Act 2006.

Going concern basis

The directors have adopted the going concern basis in preparing these condensed consolidated financial statements after assessing the principal risks and having considered the impact of severe but plausible downside scenarios for Covid-19. These remain the same as those set out the Group's annual report and accounts for the period ended 27 March 2020.

The directors considered the impact of the current Covid-19 environment on the business for the next 12 months for the purposes of their going concern assessment. Whilst there is inherent uncertainty in forecasts caused by Covid-19, the directors have considered a number of impacts on sales, profits and cash flows.

The directors have applied downside sensitivities to the base-case forecasts. In doing so, it was assumed that the Group's operations remain open and that we will continue to be able to serve our customers, as we have done through both national lockdown periods. The downside sensitivities considered include a reduction in the level of future forecast revenue and gross margin growth as well the impact of economic factors (particularly unemployment rates) on the ability of the Group's customer base to continue to shop with us and to service their credit accounts. The directors also considered the impact of these sensitivities occurring in combination. In the event that one of or a number of these downside scenario arise at the same time the directors consider they are able to take reasonable mitigating actions, which include but are not limited to, a reduction in discretionary capital expenditure and a reduction in discretionary marketing spend. Implementing these mitigating actions would enable the Group to continue to operate within its existing facilities during the forecast period.

The Group is financed by a securitisation facility and a revolving credit facility ("RCF") as disclosed in note 18 to the consolidated financial statements for the period ended 27 March 2020.

The directors believe that the Group is well placed to manage its financing and other business risks satisfactorily, noting that its RCF matures on 31 December 2021, and have a reasonable expectation that the Group will have adequate resources to continue in operation for at least 12 months from the signing date of these condensed consolidated financial statements. They therefore consider it appropriate to adopt the going concern basis of accounting in preparing the condensed consolidated financial statements.

Risks and uncertainties

The principal risks and uncertainties which could impact the Group's short and long-term performance are:

- Pressures on the levels of disposable income available to lower socio-economic groups, who from a core part of Studio's customer base;
- Growth in credit income could slow within the financial services business of Studio;
- Potential disruption to our business support systems and the storage and protection of our customers' data;
- The unprecedented uncertainty from Covid-19 and how this will impact the UK economy and subsequently our customer base;
- Execution and liquidity risks from a substantial three-year plan of transformation and growth at Studio;
- Attracting and retaining the right talent in the business, particularly in the highly competitive areas of digital marketing, IT development and cyber security, to support the development of our high growth digital strategy; and
- Any inability to operate from one of our key warehouse facilities centres.

For further details please refer to pages 22 to 23 of the Group's annual report and accounts for the 52-week period ended 27 March 2020, a copy of which is available on the Group's website www.studioretail.group.

These risks remain valid as regards their potential to impact the Group during the second half of the current financial year.

Brexit

We have completed our work to assess the likely impact of the United Kingdom's exit from the European Union ("EU") and continue to work to mitigate, where possible, its effects. In light of recent political developments, the outcome remains unclear, and it is therefore difficult to enact specific mitigating activities, however our work is focused on the following key risk areas:

- Northern Ireland Protocol - The Northern Ireland Protocol was agreed by the UK Government in October 2019 and aims to avoid the introduction of a hard border on the island of Ireland in the event that there is a no-deal Brexit. The Protocol means that UK authorities will apply EU customs rules to goods entering Northern Ireland. This requires a new administrative process for goods entering Northern Ireland from the rest of the UK. The UK government has only recently clarified the data requirements in this regard, and we continue to work with our distribution partners to finalise our approach to this issue.
- Supply chain - the majority of goods sold by the Group are sourced, either directly or indirectly, from outside the UK, with a high proportion originating from Asia. There is a risk that lead times for the supply of goods may lengthen due to delays at ports caused by a no-deal Brexit scenario. There may also be additional administrative burdens and costs in respect of goods imported from the EU. Since most of our products are sourced from outside the EU, we do not currently expect to see a material change in import tariffs, however to the extent that the UK falls out of any arrangements between the EU and countries from which we import, it is possible that this may lead to additional tariffs becoming payable;
- Foreign exchange - the exit process may prompt a further depreciation in the GBP/USD exchange rate. We continue to hedge our planned USD purchases on a rolling 12-month basis to mitigate the impact of any such depreciation; and
- Colleagues - a significant number of colleagues, particularly within our distribution centres, are non-UK EU nationals. Brexit may result in changes to UK immigration policy which increases the risks around the availability, recruitment and retention of these individuals.

Impact of Covid-19

The investments in modernising Studio's warehouse facilities and its supporting digital infrastructure enabled the business to react to the challenges of both lockdowns from a position of strength. A significant number of colleagues can work effectively from home and Covid-19-safe processes and working conditions have been implemented across our premises. The business has therefore been able to operate effectively throughout both lockdowns.

We continue to retain a cautious stance in respect of customer repayments as, despite a modest number of requests for forbearance caused by disruption to household incomes, we anticipate that the level of customer arrears may worsen if unemployment levels increase materially.

Education's business experienced a greater reduction in demand due to the closure of UK and international schools, although the position has now returned to normal seasonal patterns.

Seasonality

The nature of the businesses within the Studio Retail Group mean that profits have shown, and will continue to show, a significant seasonal bias with the majority of profit being earned in the second half due to peak trading season of Black Friday and Christmas.

Customer balances typically move in line with the seasonal patterns of product purchases. It is normal for balances to peak at Christmas before gradually reducing from then until the following summer. Customers receive a monthly statement and can then choose whether to repay their balance in full each month, in which case they do not incur any interest charges, or whether to pay an amount they choose between a minimum level and the outstanding balance.

Changes in classification of costs

During the period to 27 March 2020 management changed presentation of some of Studio's cost classification to allow for increased comparability between cost categories. Trade discounts received on purchases were moved to show them within cost of sales rather than within trading costs and extended warranty credits have been deducted from revenue rather than shown within cost of sales. In addition, management has removed grossed up revenue and trading costs recognised in respect of free delivery services to its customers. The comparative figures have been restated to increase revenue by £573,000, reduce cost of sales by £801,000 and increase trading costs by £1,374,000. These adjustments have been made to the 26-week period to 27 September 2019 and there was no effect on profit.

2. Accounting Policies

As required by the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority, this condensed set of financial statements has been prepared applying the same accounting policies and computation methods that were applied in the preparation of the Company's published consolidated financial statements for the period ended 27 March 2020, with the exception of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which is described below.

Findel Education's declassification as held for sale

At 25 September 2020 the Group's education business, Findel Education Limited no longer met the criteria to be accounted for as held for sale and as a discontinued operation as defined by IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, and therefore Findel Education has been reclassified to continuing operations. Consequently, the comparative condensed consolidated income statement for the 26-week period ended 27 September 2019 and condensed consolidated balance sheets as at 27 March 2020 and 27 September 2019 have been restated to present the results of Findel Education on an equivalent basis to that shown in the condensed consolidated income statement for the 26-week period ended 25 September 2020 and the condensed consolidated balance sheet at 25 September 2020. An adjustment has also been made to opening equity to reinstate £1,710,000 of depreciation and amortisation that was not charged for the 26-week period to 27 March 2020 (i.e. the period during which Findel Education was classified as held for sale). The impact of these restatements is summarised in the tables below.

Restated Condensed Consolidated Income Statement

26-week period ended 27 September 2019

	As reported £000	Restatement of discontinued operations £000	**As restated** **£000**
Revenue	132,632	46,847	179,479
Credit account interest	49,225	-	49,225
Total revenue (including credit interest)	181,857	46,847	228,704
Cost of sales	(78,508)	(30,305)	(108,813)
Impairment losses on customer receivables	(13,970)	-	(13,970)
Gross profit	89,379	16,542	105,921
Trading costs	(83,824)	(13,828)	(97,652)
Analysis of operating profit:			
– **EBITDA***	13,095	4,723	17,818
– Depreciation, amortisation and impairment	(7,540)	(2,009)	(9,549)
Operating profit	5,555	2,714	8,269
Finance costs	(5,343)	(358)	(5,701)
Profit before tax and fair value movements on derivative financial instruments	212	2,356	2,568
Fair value movements on derivative financial instruments	2,427	-	2,427
Profit before tax	2,639	2,356	4,995
Tax expense	(578)	(478)	(1,056)
Profit for the period	2,061	1,878	3,939

Earnings per ordinary share	
total attributable to ordinary shareholders	
Basic	4.57
Diluted	4.57

*Earnings before interest, taxation, depreciation, amortisation and fair value movements on derivative financial instruments.

Restated Condensed Consolidated Balance Sheet

at 27 March 2020

	As reported 27.3.2020 £'000	Restatement of assets held for sale 27.3.2020 £'000	**Restated 27.3.2020 £'000**
Non-current assets			
Other intangible assets	9	23,160	**23,169**
Property, plant and equipment	80,007	6,805	**86,812**
Derivative financial instruments	2	-	**2**
Retirement benefit surplus	31,695	-	**31,695**
Deferred tax assets	-	2,884	**2,884**
	111,713	32,849	**144,562**
Current assets			
Inventories	42,827	15,998	**58,825**
Trade and other receivables	235,227	10,013	**245,240**
Derivative financial instruments	3,250	-	**3,250**
Cash and cash equivalents	33,163	-	**33,163**
Current tax assets	1,718	-	**1,718**
Current assets excluding assets held for sale	316,185	26,011	**342,196**
Assets held for sale	60,570	(60,570)	**-**
Total current assets	376,755	(34,559)	**342,196**
Total assets	488,468	(1,710)	**486,758**
Current liabilities			
Trade and other payables	(57,908)	(19,035)	**(76,943)**
Lease liabilities	(6,035)	(818)	**(6,853)**
Derivative financial instruments	(36)	-	**(36)**
Provisions	(4,335)	-	**(4,335)**
Current liabilities excluding liabilities held for sale	(68,314)	(19,853)	**(88,167)**
Liabilities held for sale	(24,684)	24,684	**-**
Total current liabilities	(92,998)	4,831	**(88,167)**
Non-current liabilities			
Bank loans	(282,591)	-	**(282,591)**
Lease liabilities	(37,461)	(4,831)	**(42,292)**
Deferred tax liabilities	(37)	-	**(37)**
	(320,089)	(4,831)	**(324,920)**
Total liabilities	(413,087)	-	**(413,087)**
Net assets	75,381	(1,710)	**73,671**
Equity			
Share capital	48,644	-	**48,644**
Translation reserve	321	-	**321**
Hedging reserve	(26)	-	**(26)**
Retained earnings	26,442	(1,710)	**24,732**
Total equity	75,381	(1,710)	**73,671**

Restated Condensed Consolidated Balance Sheet

at 27 September 2019

	As reported 27.9.2019 £'000	Restatement of assets held for sale 27.9.2019 £'000	**Restated 27.9.2019 £'000**
Non-current assets			
Other intangible assets	10	24,086	**24,096**
Property, plant and equipment	79,183	7,094	**86,277**
Retirement benefit surplus	7,027	-	**7,027**
Deferred tax assets	6,860	3,990	**10,850**
	93,080	35,170	**128,250**
Current assets			
Inventories	60,089	11,698	**71,787**
Trade and other receivables	226,500	17,336	**243,836**
Derivative financial instruments	3,138	-	**3,138**
Cash and cash equivalents	24,233	-	**24,233**
Current tax assets	525	-	**525**
Current assets excluding assets held for sale	314,485	29,034	**343,519**
Assets held for sale	64,204	(64,204)	**-**
Total current assets	378,689	(35,170)	**343,519**
Total assets	471,769	-	**471,769**
Current liabilities			
Trade and other payables	(77,407)	(13,879)	**(91,286)**
Lease liabilities	(5,902)	(1,114)	**(7,016)**
Derivative financial instruments	(106)	-	**(106)**
Provisions	(8,043)	-	**(8,043)**
Current liabilities excluding liabilities held for sale	(91,458)	(14,993)	**(106,451)**
Liabilities held for sale	(20,070)	20,070	**-**
Total current liabilities	(111,528)	5,077	**(106,451)**
Non-current liabilities			
Bank loans	(265,346)	-	**(265,346)**
Lease liabilities	(38,181)	(5,077)	**(43,258)**
Deferred tax liabilities	(5,867)	-	**(5,867)**
	(309,394)	(5,077)	**(314,471)**
Total liabilities	(420,922)	-	**(420,922)**
Net assets	50,847	-	**50,847**
Equity			
Share capital	48,644	-	**48,644**
Translation reserve	435	-	**435**
Hedging reserve	(34)	-	**(34)**
Retained earnings	1,802	-	**1,802**
Total equity	50,847	-	**50,847**

Estimates

The preparation of condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the period ended 27 March 2020 except as noted below.

Studio's trade receivables

Studio's trade receivables are recognised on the balance sheet at amortised cost (i.e. net of provision for expected credit loss). At 25 September 2020 trade receivables with a gross value of £314.8m (27 September 2019: £287.5m, 27 March 2020: £317.8m) were recorded on the balance sheet, less a provision for impairment of £90.2m (27 September 2019: £80.9m, 27 March 2020: £101.8m).

An appropriate allowance for expected credit loss in respect of trade receivables is derived from estimates and underlying assumptions such as the Probability of Default and the Loss Given Default, taking into consideration forward looking macro-economic assumptions. Changes in the assumptions applied such as the value and frequency of future debt sales in calculating the Loss Given Default, and the estimation of customer repayments and Probability of Default rates, as well as the weighting of the macro-economic scenarios applied to the impairment model could have a significant impact on the carrying value of trade receivables.

The impairment model was not designed to take into account changes to customer payment and default performance arising as a result of the Covid-19 pandemic. The deterioration in the economic outlook caused by Covid-19, particularly in relation to unemployment, led management to increase the level of provision for expected credit loss by approximately £20m, based on information available at the end of March 2020. Whilst we have not yet seen a significant increase in the level of customer arrears resulting from the pandemic, nor have we seen a material reduction in customer payment rates, we expect that the Coronavirus Job Retention Scheme and other support from government have delayed any deterioration in performance. We anticipate that arrears will increase when these schemes are phased out in early 2021. We note that the unprecedented level of uncertainty around the impact of Covid-19 on the UK economy as a whole, and subsequently on our customer base, continues to cause challenges in assessing bad debt on a forward-looking basis

These assumptions are continually assessed for relevance and adjusted appropriately. Revisions to estimates are recognised prospectively.

The macro-economic drivers that impact the bad debt charge are as follows:

- Annual changes in unemployment rate;
- Actual unemployment rate; and
- Changes in average weekly earnings.

The latest economic scenarios are heavily influenced by the impact of Covid-19 on the UK economy, in particular the impact on unemployment.

We consider four economic scenarios, and apply a weighting based on probability. These are:

- Upside
  Assumes the UK economy will make a rapid recovery following Covid-19 lockdown restrictions and will therefore have the least detrimental impact on unemployment

- Baseline
  A short, sharp shock is expected to the economy with ongoing consumer caution and a 'V' shaped recovery to GDP. Assumes a consensus view on unemployment

- Downside
  A prolonged downturn in the economy, as ongoing consumer caution means that they do not return to pre-lockdown levels of activity for an extended period. Very high unemployment levels.

- Stress
  Prolonged, deep downturn, with continued Covid-19 outbreaks. Large numbers of corporate failures cause unemployment not seen since the 1930's.

The table below summarises the peak employment levels assumed within each scenario, with the weightings we have applied to each.

	September 2020		March 2020		September 2019	
Scenario	**Unemployment peak**	**Weighting applied**	**Unemployment peak**	**Weighting applied**	**Unemployment peak**	**Weighting applied**
Upside	c.6%	50%	c.8%	25%	c.4%	30%
Baseline	c.8%	5%	c.10%	60%	c.4%	5%
Downside	c.10%	35%	c.14%	10%	c.5%	50%
Stress	c.14%	10%	c.20%	5%	c.7%	15%

Valuation of indefinite-lived intangibles

The Group has significant investments in indefinite lived intangible assets at 25 September 2020 as a result of acquisitions of businesses and purchases of such assets. The carrying value of indefinite-lived intangible assets at 25 September 2020 was £17.3m (27 September 2019: £17.3m, 27 March 2020: £17.3m). These assets are held at cost less provisions for impairment and are tested at least annually for impairment and at each reporting date if indicators of impairment exist.

At the previous period end, the carrying value of the indefinite-lived intangibles were assessed for impairment using the fair value less costs to sell method as they were part of Education's disposal group. Since the disposal has been abandoned, the recoverable amount of these assets has been determined using the value in use method during the current period. Calculation of value in use involves the preparation of discounted cash flow projections, which require an estimate of both future operating cash flows and an appropriate discount rate.

A key assumption to estimate the present value of future cash flows is the risk adjusted discount rate. The pre-tax discount rate used is 16.0%. This discount rate is derived from the Group's weighted average cost of capital as adjusted for the specific risks related to the Education CGU. As at 25 September 2020, the estimated recoverable amount exceeded the carrying value by approximately £2.8m and as such no impairment was necessary.

Discount rate for pension scheme liabilities

At 25 September 2020 the Group's defined benefit pension scheme showed a surplus of £21.7m (27 September 2019: £7.0m, 27 March 2020: £31.7m).

The defined benefit obligation at 25 September 2020 was £153.6m (27 September 2019: £161.0m, 27 March 2020: £133.2m). During the period, an interest expense relating to the defined benefit obligation of £1.6m was recognised in the condensed consolidated income statement, £21.2m of remeasurements were recognised in other comprehensive income, primarily relating to financial assumptions, and benefit payments of £2.5m were made, resulting in a gross increase in the defined benefit obligation of £20.4m.

The fair value of scheme assets at 25 September 2020 was £175.3m (27 September 2019: £168.0m, 27 March 2020: £164.9m). During the period, interest income relating to scheme assets of £2.0m was recognised in the condensed consolidated income statement, £8.3m of remeasurements were recognised in other comprehensive income, benefit payments of £2.5m were made, and £2.5m of employer contributions were received by the scheme, resulting in a gross increase in the fair value of scheme assets of £10.3m.

The carrying amounts of the assets and liabilities detailed above are sensitive to the underlying assumptions used by management in their calculation. It is reasonably possible that the outcomes within the next financial year could differ from the assumptions made, which would impact upon the carrying values assumed.

Management makes use of the PwC Single Agency corporate bond yield curve to derive the discount rate applied to the scheme's projected cash flows, in the calculation of its liabilities under IAS 19. Changes to the discount rate applied could lead to significant changes in the level of liabilities recognised.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any of the future periods affected.

3. Segmental analysis

26 weeks to 25 September 2020

	Studio £000	Education £000	Central £000	Total £000
Product revenue	169,485	36,000	-	205,485
Other financial services revenue	7,507	-	-	7,507
Credit account interest	55,039	-	-	55,039
Financial services revenue	62,546	-	-	62,546
Reportable segment revenue	232,031	36,000	-	268,031
Product cost of sales	(108,383)	(23,386)	-	(131,769)
Financial services cost of sales	(16,686)	-	-	(16,686)
Total cost of sales	(125,069)	(23,386)	-	(148,455)
Gross profit	106,962	12,614	-	119,576
Marketing costs	(16,284)	(1,263)	-	(17,547)
Distribution costs	(20,036)	(2,540)	-	(22,576)
Administrative costs	(40,403)	(6,717)	(444)	(47,564)
EBITDA*	30,239	2,094	(444)	31,889
Depreciation and amortisation	(5,811)	(1,094)	(2,553)	(9,458)
Operating profit/(loss) before individually significant items	24,428	1,000	(2,997)	22,431
Individually significant items	-	-	(1,283)	(1,283)
Operating profit/(loss)	24,428	1,000	(4,280)	21,148
Finance costs				(4,704)
Profit before tax and fair value movements on derivative financial instruments				16,444
Fair value movements on derivative financial instruments				(1,490)
Profit before tax				14,954

*Earnings before interest, tax, depreciation, amortisation and fair value movements on derivative financial instruments.

26 weeks to 27 September 2019 *(restated – refer to note 2)*

	Studio £000	Education £000	Central £000	Total £000
Product revenue	122,884	46,847	-	169,731
Other financial services revenue	9,748	-	-	9,748
Credit account interest	49,225	-	-	49,225
Financial services revenue	58,973	-	-	58,973
Reportable segment revenue	181,857	46,847	-	228,704
Product cost of sales	(78,508)	(30,305)	-	(108,813)
Financial services cost of sales	(13,970)	-	-	(13,970)
Total cost of sales	(92,478)	(30,305)	-	(122,783)
Gross profit	89,379	16,542	-	105,921
Marketing costs	(20,095)	(1,590)	-	(21,685)
Distribution costs	(12,966)	(3,004)	-	(15,970)
Administrative (costs)/income	(35,592)	(7,225)	317	(42,500)
EBITDA*	20,726	4,723	317	25,766
Depreciation and amortisation	(5,696)	(1,449)	(1,245)	(8,390)
Operating profit/(loss) before individually significant items	15,030	3,274	(928)	17,376
Individually significant items	(7,948)	-	(1,159)	(9,107)
Operating profit/(loss)	7,082	3,274	(2,087)	8,269
Finance costs				(5,701)
Profit before tax and fair value movements on derivative financial instruments				2,568
Fair value movements on derivative financial instruments				2,427
Profit before tax				4,995

*Earnings before interest, tax, depreciation, amortisation and fair value movements on derivative financial instruments.

25 September 2020
Other information

	Studio £000	Education £000	Central £000	Total £000
Additions to property plant and equipment and software and IT development costs	**6,069**	**484**	**-**	**6,553**
Balance Sheet				
Assets				
Segment assets	**398,696**	**81,646**	**-**	**480,342**
Central adjustments	**-**	**-**	**29,117**	**29,117**
Consolidated total assets	**398,696**	**81,646**	**29,117**	**509,459**
Liabilities				
Segment liabilities	**(264,942)**	**(64,474)**	**-**	**(329,416)**
Central adjustments	**-**	**-**	**(103,872)**	**(103,872)**
Consolidated total liabilities	**(264,942)**	**(64,474)**	**(103,872)**	**(433,288)**

27 September 2019
Other information

	Studio £000	Education £000	Central £000	Total £000
Additions to property plant and equipment and software and IT development costs	5,624	636	-	6,260
Balance Sheet				
Assets				
Segment assets	407,659	81,492	-	489,151
Central adjustments	-	-	(17,382)	(17,382)
Consolidated total assets	407,659	81,492	(17,382)	471,769
Liabilities				
Segment liabilities	(283,594)	(67,666)	-	(351,260)
Central adjustments	-	-	(69,662)	(69,662)
Consolidated total liabilities	(283,594)	(67,666)	(69,662)	(420,922)

Central adjustments primarily relate to the elimination of intercompany balances on consolidation, intangible assets arising on consolidation, defined benefit pension surplus as well as current tax balances and deferred tax.

4. Individually significant items

An analysis of individually significant items arising during the current and prior periods is as follows:

	26 weeks to 25.9.20 £000	26 weeks to 27.9.19 (restated) £000
Disposal costs	**(1,283)**	-
Impairment of right of use lease asset	**-**	(1,159)
Studio financial services redress and refund costs	**-**	(7,948)
	(1,283)	(9,107)
Tax credit in respect of individually significant items	**244**	1,893
Total	**(1,039)**	(7,214)

Disposal costs of £1,283,000 were incurred during current period in relation to the abandoned sale of Education.

A charge of £1,159,000 was recorded in the prior period in respect of the impairment of the right of use asset for the Group's property at Hyde.

A charge of £7,948,000 was recorded in the prior period in respect of an increase in provisions for redress and refunds for flawed financial services products. This charge was subsequently reduced by £2,300,000 to a net charge of £5,648,000 for the 52-week period to 27 March 2020.

5. Taxation

Income tax from for the 26-week period ended 25 September 2020 is based on an estimated effective tax rate for the full year of 20.3% (26-week period ended 27 September 2019 - restated: 21.1%), giving rise to a tax charge of £3,030,000 in the period (26-week period ended 27 September 2019 - restated: £1,056,000).

6. Earnings per share

Weighted average number of shares

	26 weeks to 25.9.2020	26 weeks to 27.9.2019
	No. of shares	No. of shares
Ordinary shares in issue	**86,442,534**	86,442,534
Effect of own shares held	**(114,808)**	(114,808)
Weighted Average Number of Shares - basic	**86,327,726**	86,327,726
Impact of potentially dilutive share options	**412,383**	-
Weighted Average Number of Shares - diluted	**86,740,109**	86,327,726

Earnings attributable to ordinary shareholders

	26 weeks to 25.9.2020	26 weeks to 27.9.2019
	£000	£000
Net profit attributable to equity holders for the purposes of basic earnings per share	**11,924**	3,939
Individually significant items (net of tax)	**1,039**	7,214
Fair value movements on derivative financial instruments (net of tax)	**1,207**	(1,966)
Net profit attributable to equity holders for the purposes of adjusted earnings per share	**14,170**	9,187

Earnings per share

Earnings per share – basic	**13.81**	4.57
Earnings per share – adjusted* basic	**16.41**	10.65
Earnings per share – diluted	**13.75**	4.57
Earnings per share – adjusted* diluted	**16.34**	10.65

* Adjusted to remove the impact of individually significant items and fair value movements on derivative financial instruments.

The earnings per share attributable to convertible ordinary shareholders is £nil.

7. Provisions

	Onerous leases	Studio financial services redress and refunds	Total
	£000	**£000**	**£000**
At 27 March 2020	192	4,143	4,335
Utilised in the period	(116)	(2,760)	(2,876)
At 25 September 2020	**76**	**1,383**	**1,459**

All balances provided at 25 September 2020 and 27 March 2020 were disclosed within current liabilities.

	Onerous leases	Studio financial services redress and refunds	Total
	£000	**£000**	**£000**
At 29 March 2019	8,843	2,235	11,078
Adoption of IFRS 16	(8,301)	-	(8,301)
At 30 March 2019	542	2,235	2,777
Provided during the period	-	7,948	7,948
Utilised in the period	(348)	(2,334)	(2,682)
At 27 September 2019	**194**	**7,849**	**8,043**

All balances provided at 27 September 2019 were disclosed within current liabilities.

Onerous lease provisions

A provision was made in prior periods for onerous leases regarding vacated leasehold properties.

Studio financial services redress and refunds

At 25 September 2020 a provision of £1.4m (27 September 2019: £7.8m, 27 March 2020: £4.1m) is held in the balance sheet in respect of redress and refunds for flawed financial services products.

8. Derivative financial instruments

At 25 September 2020 the Group had outstanding derivative financial instruments as follows:

Non-current assets

	25.9.2020	27.9.2019	27.3.2020
	£000	£000	£000
Interest rate cap	**-**	-	2

Current assets

	25.9.2020	27.9.2019	27.3.2020
	£000	£000	£000
Interest rate cap	**-**	1	-
Forward foreign exchange contracts	**1,722**	3,137	3,250
	1,722	3,138	3,250

Current liabilities

	25.9.2020	27.9.2019	27.3.2020
	£000	£000	£000
Forward foreign exchange contracts	**-**	(106)	(36)

Forward foreign exchange contracts

Exchange rate exposures are managed utilising forward foreign exchange contracts. At the balance sheet date, details of the notional value of outstanding US dollar forward foreign exchange contracts that the Group has committed to are as follows:

	25.9.2020	27.9.2019	27.3.2020
	£000	£000	£000
Notional amount – Sterling contract value	**66,277**	66,394	70,783
Fair value of asset recognised	**1,722**	3,137	3,250
Fair value of liability recognised	-	(106)	(36)

Forward contracts outstanding at 25 September 2020 are contracted at US dollar exchange rates between £1/$1.32 and £1/$1.18 (27 September 2019: £1/$1.35 and £1/$1.23).

Changes in fair value of forward foreign exchange contracts for the 26-week period ended 25 September 2020 amounted to a charge of £1,490,000 (26-week period ended 27 September 2019: credit of £2,427,000) and have been recorded in the condensed consolidated income statement.

Interest rate cap

Under interest rate cap contracts, the Group agrees to cap the LIBOR element of its interest cost at an agreed level calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of rising interest rates on its variable rate debt.

The following cap was in place at 25 September 2020:

	At 25 September 2020		
Maturity	Notional borrowing amount £000	Cap rate	Fair value £000
Less than 12 months	50,000	1.117%	-

The cap was purchased on 14 February 2020 and matures in July 2021. The cap was designated as a cash flow hedge from inception. The movement in the fair value of interest rate caps during the current and prior periods was as follows:

	25.9.2020	27.9.2019
	£000	£000
At the beginning of the period	**2**	6
Movement in fair value charged to the hedging reserve	**14**	20
Movement in fair value of ineffective element charged to finance costs	**(16)**	(25)
At the end of the period	**-**	1

Basis for determining fair values

The fair value of both interest rate caps and forward foreign exchange contracts is their market value at the balance sheet date. Market values are based on the duration of the derivative instrument together with the quoted market data including interest rates, foreign exchange rates and market volatility at the balance sheet date.

The financial instruments held by the Group at the balance sheet date are valued under the Level 2 measurement basis of the fair value hierarchy: (i.e. based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)). There were no transfers between Level 1 and Level 2 during the period.

9. Related parties

During the current and prior periods, the Group made purchases in the ordinary course of business from Brands Inc. Limited, a subsidiary of Frasers Group plc, which is a significant shareholder in the ultimate parent company, Studio Retail Group plc.

The value of purchases made in the current and prior periods, and amounts (due)/owed at 25 September 2020, 27 September 2019 and 27 March 2020 were as follows:

Brands Inc. Limited

	25.9.2020	27.9.2019	27.3.2020
	£000	£000	£000
Purchases	**6**	23	43
Amounts (due)/owed	**(22)**	1	17

Transactions between Studio Retail Group plc and its subsidiaries, which are related parties of Studio Retail Group plc, have been eliminated on consolidation and are not discussed in this note. All transactions and outstanding balances between group companies are priced on an arms-length basis and are settled in the ordinary course of business.

10. Events after the reporting period

On 20 November 2020, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded that schemes would need to review historical transfer values in relation to guaranteed minimum pension (GMP) benefit equalisation. The issues determined by the judgment arise in relation to many defined benefit pension schemes, including the Findel Group Pension Fund. We will work with the trustees and our advisers to quantify the likely impact of the judgment on the scheme's liabilities in due course.

Responsibility Statement

We confirm that to the best of our knowledge:

(a) the condensed consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union;

(b) the interim management report and condensed consolidated financial statements include a fair review of the information required by:

(i) DTR 4.2.7R of the *Disclosure Guidance and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(ii) DTR 4.2.8R of the *Disclosure Guidance and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

By order of the Board

S M Caldwell Chief Financial Officer	P B Maudsley Chief Executive Officer
7 December 2020	7 December 2020

This document may contain forward looking statements. In particular, but without limitation, nothing contained in this document should be relied upon or construed as a promise or a forecast, including any projection or management estimate, any statements which contain the words “anticipate”, “believe”, “intend”, “estimate”, “expect”, “forecast” and words of a similar meaning, reflect the management of the Company’s current beliefs and expectations and are subject to risks and uncertainties that may cause actual results to differ materially. Given these risks and uncertainties, prospective investors are cautioned not to place undue reliance on such statements. Any forward-looking statements speak only as at the date of this document, and except as required by applicable law, Studio Retail Group plc undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information or otherwise.

No profit forecast

No statement in this announcement is intended as a profit forecast or estimate for any period and no statement in this announcement should be interpreted to mean that earnings, earnings per share or income, cash flow from operations or free cash flow for Studio Retail Group plc for the current or future financial years would necessarily match or exceed the historical published earnings, earnings per share or income, cash flow from operations or free cash flow for Studio Retail Group plc.

INDEPENDENT REVIEW REPORT TO STUDIO RETAIL GROUP PLC

We have been engaged by Studio Retail Group Plc ("the Company") to review the financial information for the 26 (twenty six) week period ended 25 September 2020 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated cash flow statement, the condensed consolidated statement of changes in equity and related notes 1 to 10. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 issued by the Auditing Practices Board and our Engagement Letter dated 08 October 2020. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Respective responsibilities of directors and auditor

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express to the Company a conclusion on the consolidated financial information in the interim report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated financial information in the interim report does not give a true and fair view of the financial position of the Company as at 25 September 2020 and of its financial performance and its cash flows for the 26 week period then ended, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Mazars LLP
Chartered Accountants
1 St Peter's Square, Manchester, M2 3DE
7 December 2020

Notes:
(a) The maintenance and integrity of the Studio Retail Group Plc web site is the responsibility of the directors; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the web site.
(b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.