McColl's RETAIL GROUP

Standing by our local communities

H1 2020 Interim Results

6 August 2020

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Agenda

- Introduction
- Trading through the COVID-19 crisis
- Financial review
- Strategic review
- Summary

Interim results for 26 week period ended 24 May 2020

Leadership team to deliver

Jonathan Miller

Chief Executive Officer

Joined Group in 1991; in-depth understanding of convenience retail

Appointed CFO in 2004, and CEO in 2016

Giles David

Chief Financial Officer

Two decades of experience in senior finance roles

Joined Group and the Board on 1 June 2020

Richard Crampton

Chief Commercial Officer

Extensive commercial experience at the Co-op and Sainsbury's

Joined Sept 2019; appointed to the Board on 1 June 2020

Karen Bird

Colleague & Operations Director

HR, Operations and Change experience – 27 years at Tesco

Member of the Executive Committee

Standing by our local communities

- Business traded throughout the COVID-19 crisis – serving our neighbourhoods in times of need
- Acted quickly to support colleagues, customers and key workers
- Strong LFL growth driven by shift to Grocery, BWS (beers, wine and spirits) and take home (multipacks)
- Profits maintained and leverage improved
- Progress on strategic initiatives - well positioned for the future

Financial headlines

REVENUE (£M)

£604.8

DECLINE Y-O-Y REFLECTS STORE CLOSURES

LFL GROWTH (1)

+8.3%

STRONG DEMAND IN Q2

GROSS MARGIN

24.9%

COVID-19 RELATED MIX IMPACT

ADJUSTED EBITDA (2) (3) (£M)

£13.1

+1.0% VS H1 2019

NET DEBT (3) (£M)

£82.0

IMPROVED BY 8.6%

(1) LFL sales reflect sales from stores that have traded throughout the current and prior financial periods, and include VAT but exclude sales of fuel, lottery, mobile phone top up and travel tickets. Before impact of adjusting items and property gains/losses.
(2) After adjusting items
(3) Pre IFRS16 basis. See reconciliation in Appendix.

Trading through the COVID-19 crisis

Safeguarding customers and colleagues

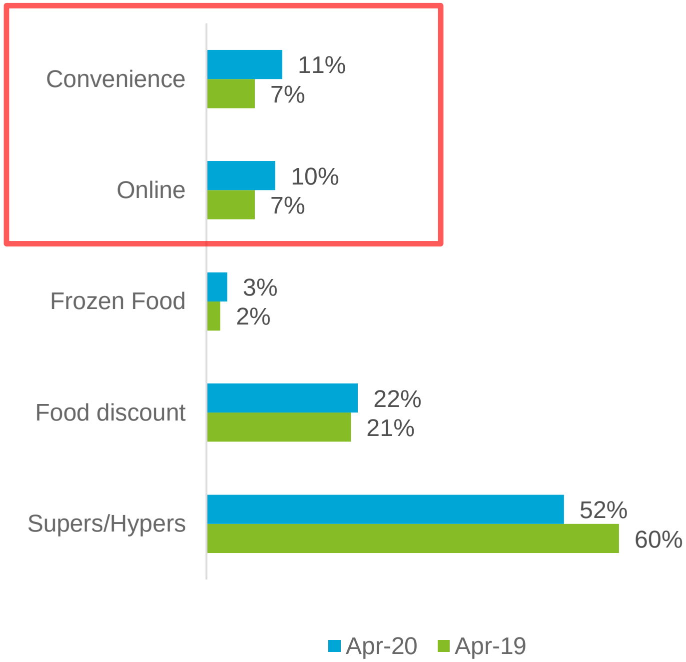
- Majority of stores continued to trade through crisis
- Proactive response with policies in place to protect our colleagues
- Social distancing measures adopted to keep customers safe
- Additional personal protective equipment deployed
- Managed store opening times
- Temporarily withdrew scratch cards from sale

Actively serving our communities

- Selectively invested in price in key product areas
- Managed product availability to respond to demand
- Free food delivered to NHS Great Ormond St
- Over 30,000 free coffees for emergency services, key workers and delivery drivers
- Joined school voucher scheme
- Big Issue sold in stores

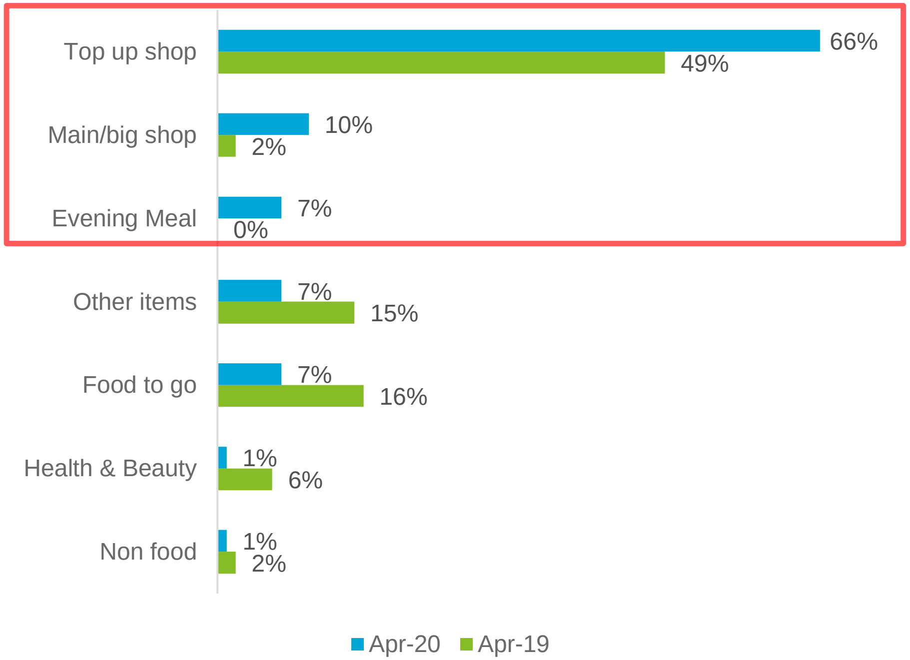
Market backdrop: Strong shift to convenience

Customers migrating to Convenience and Online
% of shoppers using as main channel



Source: IGD 2020, total market

Main shop and evening meals moved to Convenience
% of shoppers stated main shopping mission



Source: IGD 2020, convenience market

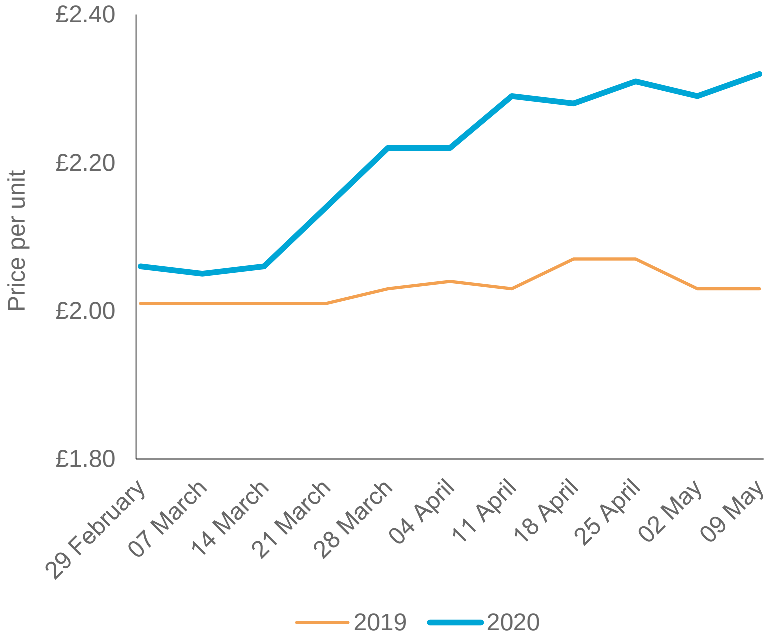
Market backdrop: Change in shape of demand

Ambient grocery and BWS largest gainers

Total Value Growth Year to 30 May	£m
Ambient	1,100
BWS (Beers, Wines & Spirits)	728
Frozen	363
Produce	271
Household	262
Fresh Meat	256
Chilled	186
Health & Beauty	174
Petcare	13
Fresh Fish	7
Bakery	-20
Other non-food	-168

Source: IRI 2020, total market

Convenience customers buying bigger packs



Source: Nielsen 2020, convenience market

Market outperformance

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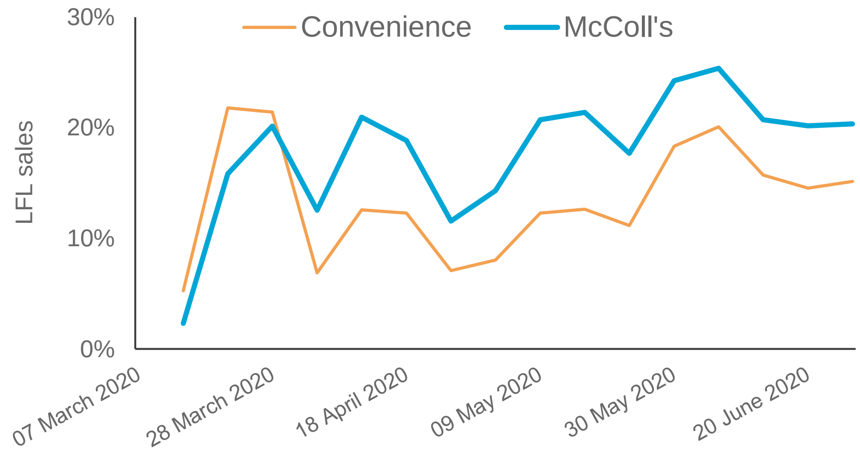
Strong increase in demand

- H1 LFLs of +8.0%, outperformed the market in Q2 by >4 percentage points
- Reflects stronger sales in neighbourhood locations

Consumer behaviour has changed

- Customers shopping locally – less often but bigger basket

LFL growth accelerated ahead of market



Source: Nielsen 2020

Fewer trips with larger baskets

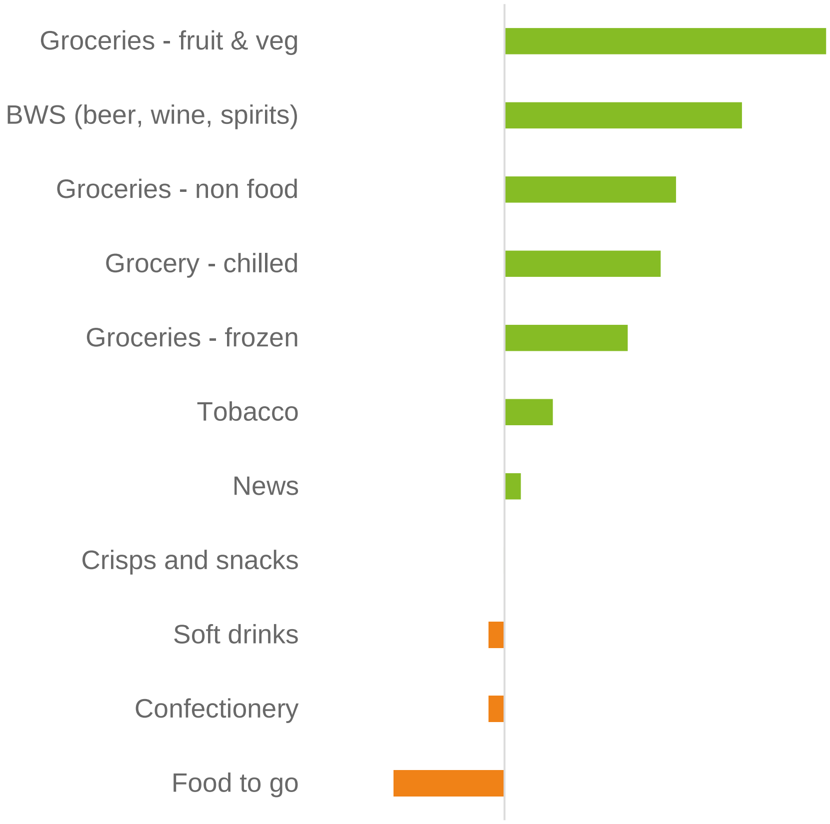
+31%	-17%	+27%
		
Basket size	Transaction Count	Items per basket

Source: Company data for Q2 FY20

Changed shape of trade

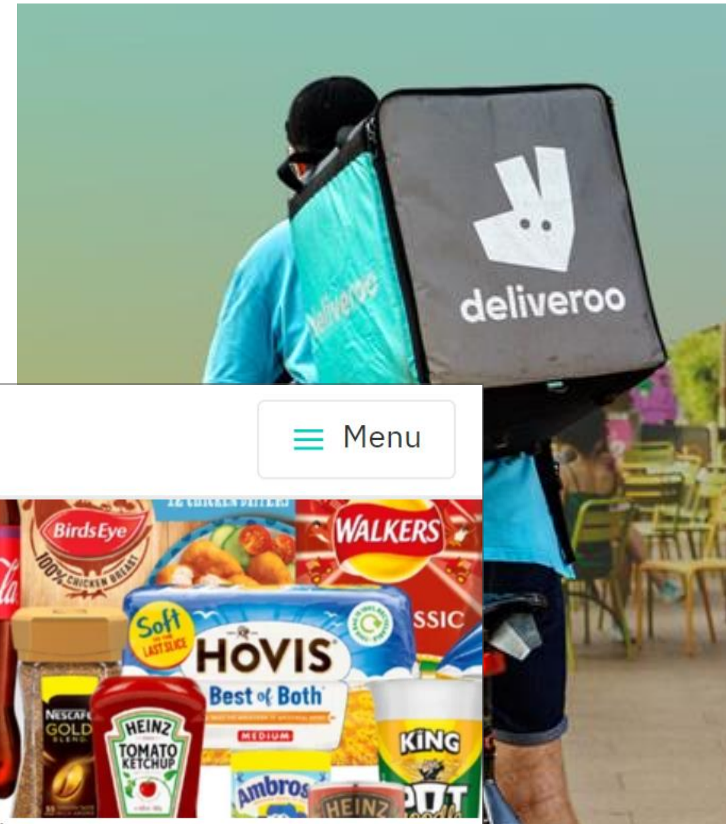
- Strong uplift in Grocery and BWS (beer, wine, spirits)
- Shift away from impulse purchases (confectionery, soft drinks) to take home (multipacks)
- Increase in promotional participation

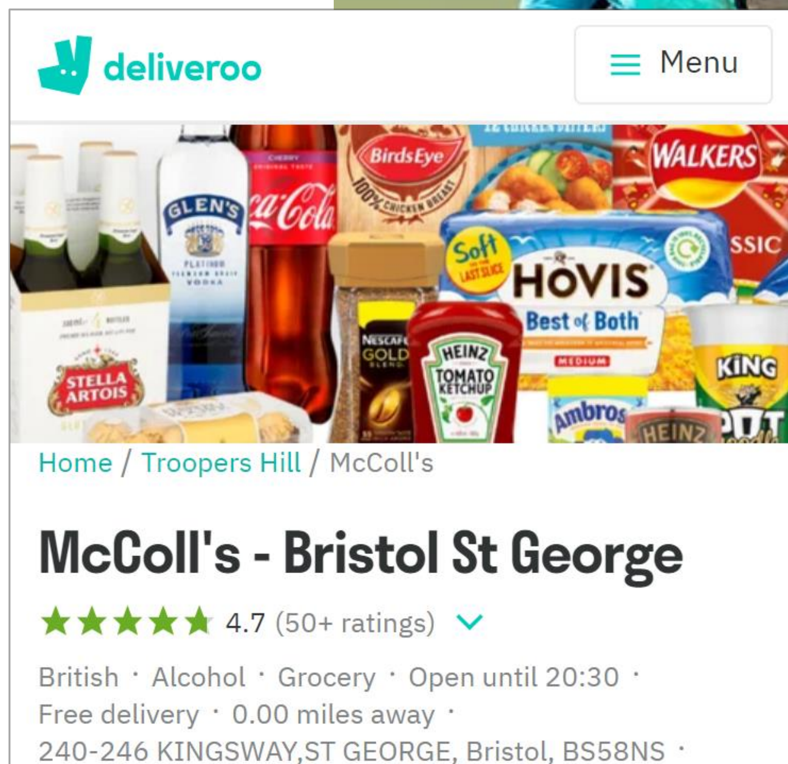
LFL change % in key categories in H1 2020



Accelerated roll-out of delivery service

- Strong demand for local delivery
- 120 stores implemented; more in pipeline
  - 300-400 SKUs to choose from
  - Incremental revenue opportunity
  - Continuing to explore additional options
- Home News Delivery grown by 25%
  - Now supplying over 100,000 accounts





Financial Review

Summary income statement

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£m	H1 20 post IFRS16	IFRS16 impact	H1 20 pre IFRS16	H1 19
Revenue	**604.8**		**604.8**	**611.1**
Like-for-like sales (LFL) [1]			8.3%	1.0%
Gross profit	150.7		150.7	155.0
Gross profit margin	24.9%		24.9%	25.4%
Adjusted administrative expenses [2]	(144.3)	(3.6)	(147.9)	(153.8)
Adj. administrative expenses/revenue	23.9%		24.5%	25.2%
Other operating income & property-related profits	2.0	0.2	2.2	3.4
Adjusted operating profit	**8.4**	**(3.4)**	**5.0**	**4.6**
Depreciation & Amortisation	19.4	(11.5)	7.9	8.6
Property related items and share based payments	0.2		0.2	(0.2)
Adjusted EBITDA	**28.0**	**(14.9)**	**13.1**	**13.0**
Adjusted EBITDA margin	*4.6%*		*2.2%*	*2.1%*

Accelerated growth post COVID-19

Sales mix change

Store optimisation impact; living wage costs

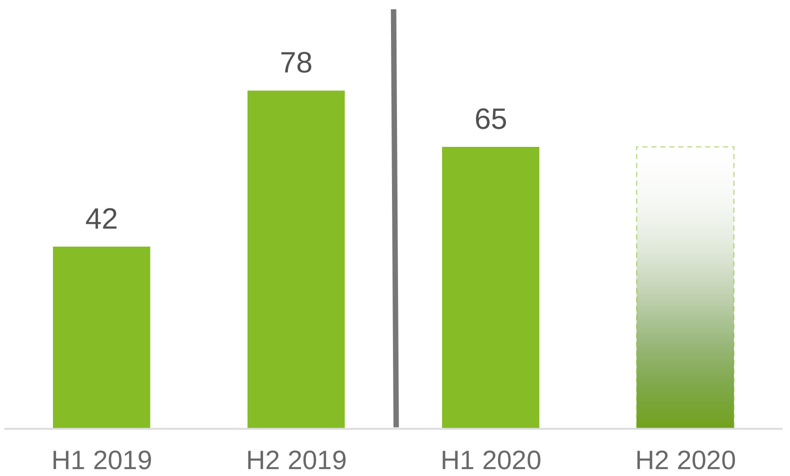
Lower ATM usage and property-related income

(1) LFL sales reflect sales from stores that have traded throughout the current and prior financial periods, and sales include VAT but exclude sales of fuel, lottery and mobile phone top-up
(2) Before impact of adjusting items of £1.1m

Revenue bridge

Revenue bridge (£m)

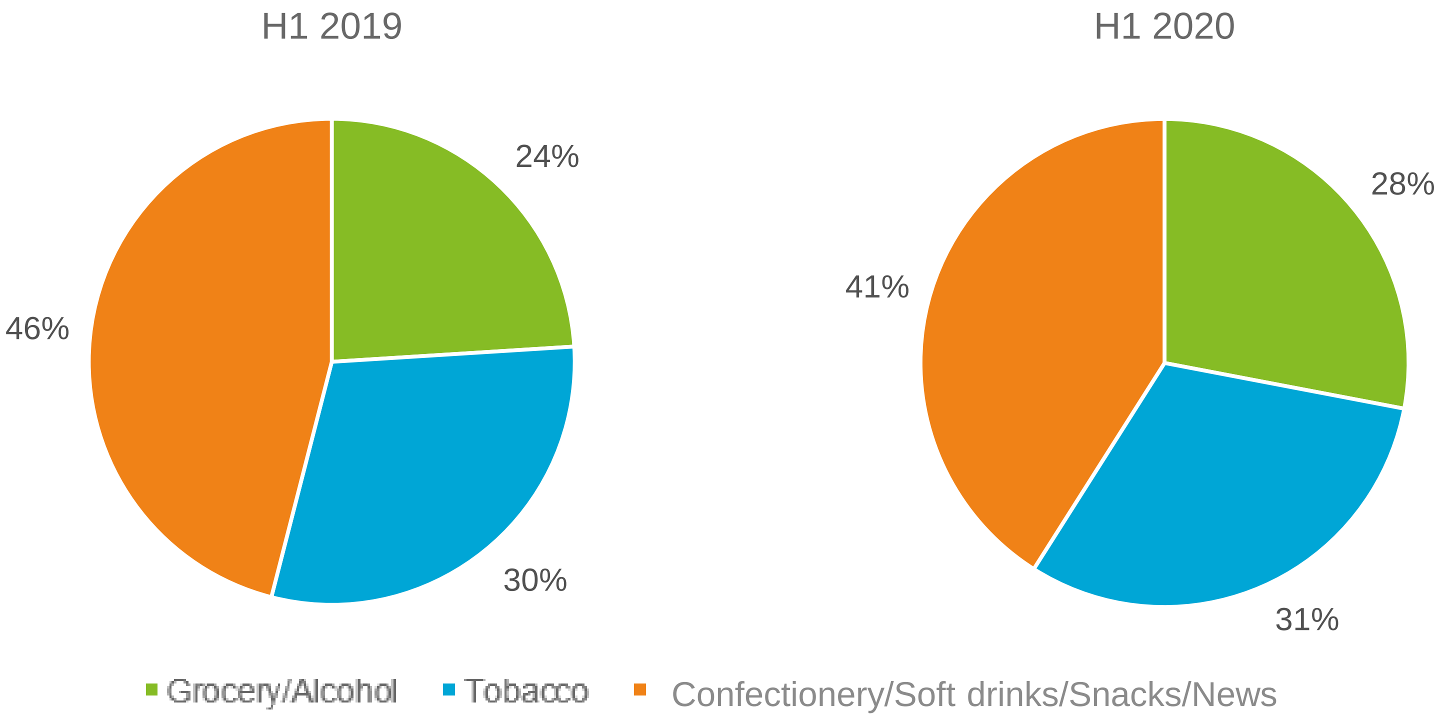
Store closures to slow in H2 2020



- Strong product LFL revenue growth driven by uplift in Grocery and BWS
- Services LFL revenues lower due to contraction in Post Office footfall and temporary withdrawal of scratch cards
- 65 stores closed during H1 2020; 120 closed in FY19

- Current store numbers 1,379
- Current trajectory of store closures to slow in Q3 due to COVID-19
- Further store optimisation of at least 250 stores planned over medium term

Changing revenue mix impacting margin

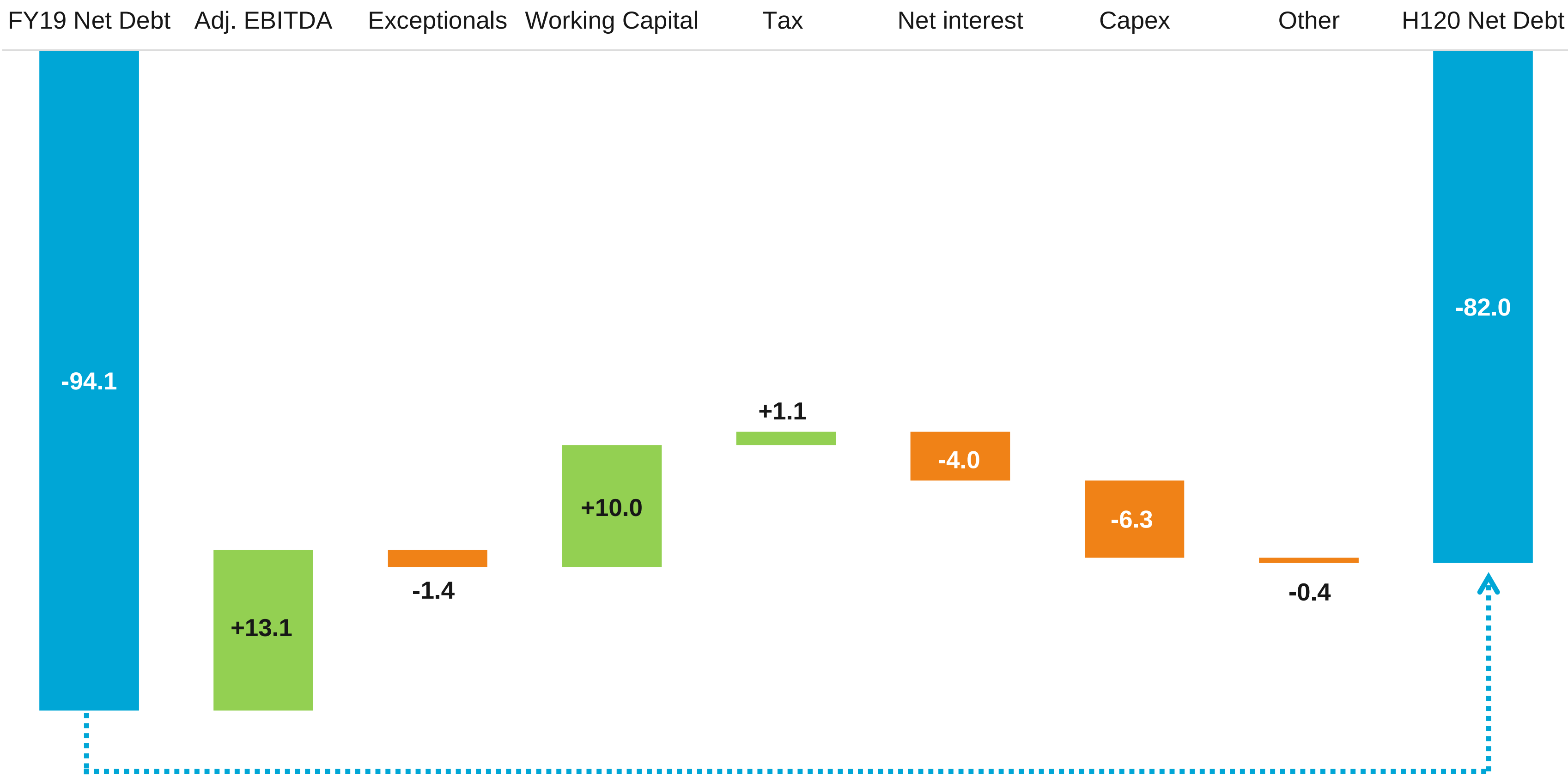


Switch away from higher-margin impulse confectionery and snacks towards take home (multipacks)

EBITDA bridge (£m)

Product LFL growth offset by wage inflation and COVID-19 costs; business rates relief welcome

Net debt position improved



Net debt[1] position improved by £12m since year-end

(1) Net debt for H1 2020 excludes the IFRS 16 impact of lease liabilities of £202.2m

Summary cash flow

Cash flow (£m)

	H1 20	H1 19
Adjusted EBITDA[1]	**13.1**	13.0
Cash impact of exceptional items	(1.4)	(1.3)
Tax received/(paid)	1.1	(1.4)
Change in working capital	10.0	4.4
Other	0.1	0.2
Operating cash flow	**22.9**	**14.9**
Capital expenditure	(6.3)	(7.5)
Net interest paid	(4.0)	(4.0)
Lease financing	(0.6)	(1.0)
Sale and leaseback	0.0	6.5
Free Cash Flow	**12.0**	**8.9**

Faster stock turn and deferral of VAT payments due to COVID-19

Disciplined investment

Net debt (£m)

	H1 20	H1 19
Closing net debt (pre IFRS 16)	**(82.0)**	**(89.7)**
Net debt / Adjusted EBITDA[1]	**2.5x**	**2.8x**

Leverage ratio improving

(1) Before adjusting items and excluding property gains and losses

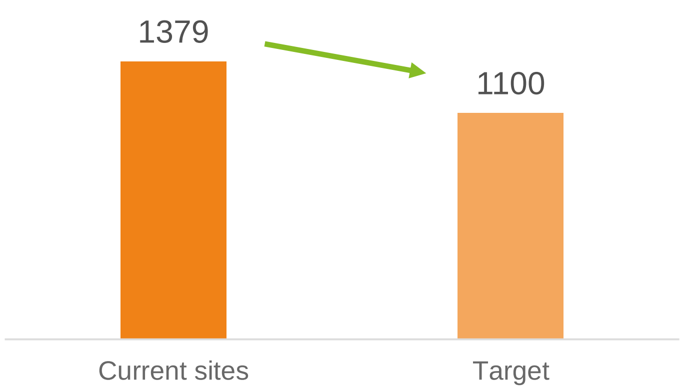
Financial priorities

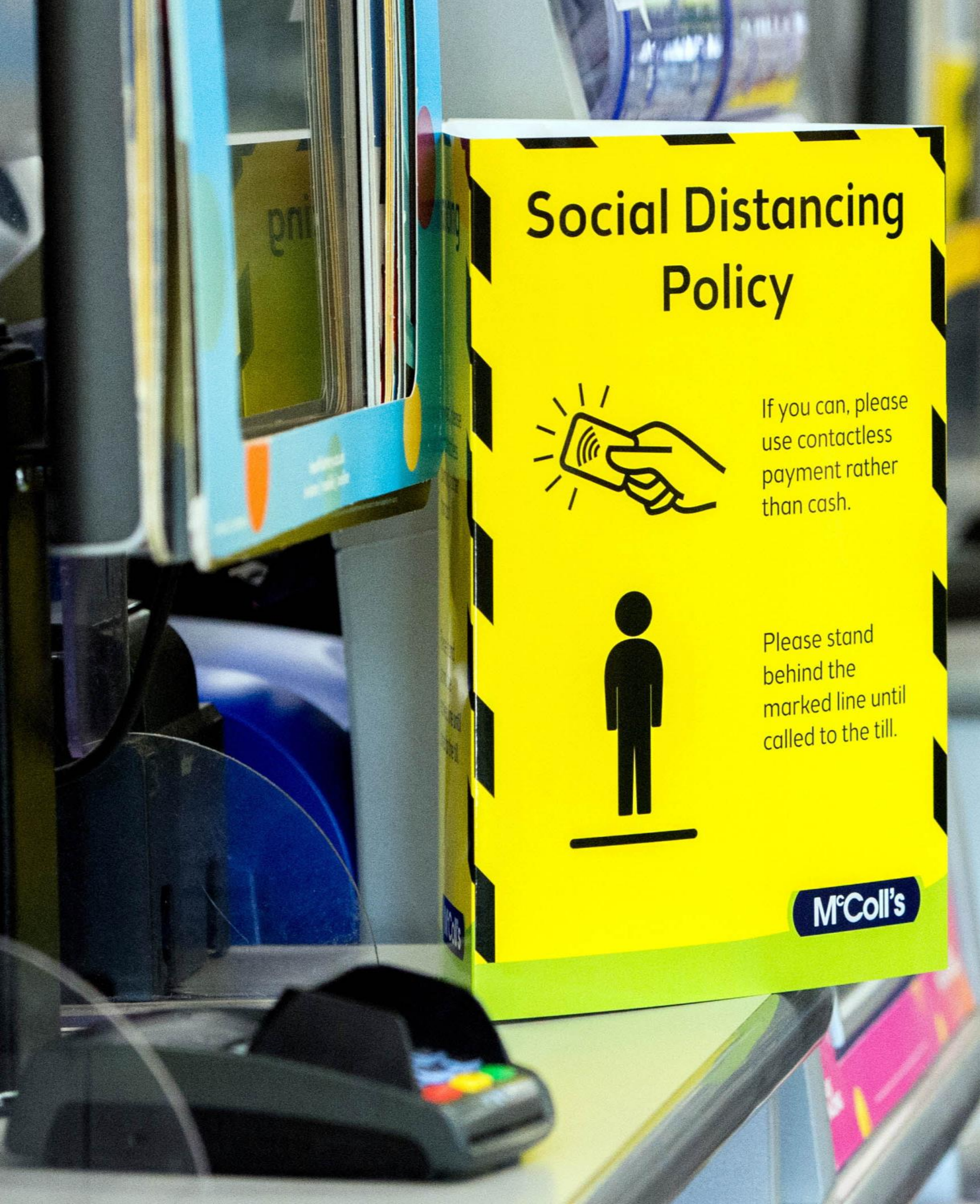
- Deleveraging remains key priority
  - Funding to May 2022
  - Working capital improvements
  - Disciplined capex investment
  - Head office disposal to complete in Autumn 2020
- Review store optimisation programme
  - Focus on non-profitable sites
  - Targeting optimal store estate of 1,100 sites

Net Debt (pre IFRS 16)

	£m
Term loan	(72.5)
RCF drawdown (£100m facility)	(77.5)
Other borrowings & lease liabilities	(2.8)
Gross debt	**(152.8)**
Cash at bank and in hand	70.8
Net debt	**(82.0)**

Optimal number of future sites targeted





Strategic Review

Strategic change programme

Your Favourite Neighbourhood Shop

Strong customer offer

- Segmented estate that meets the need of the communities we serve
- Products, pricing and services
- Continual category review programme

Easy to run stores

- Full understanding of cost to serve e2e
- Neutralising external cost inflation
- Embracing new technology
- Early trial stores to test and learn

Improving our stores

- Accelerated store optimisation
- Refined refresh and acquisition models
- Mission based layouts
- New maintenance and energy strategy

Great place to work

- Market leading customer service
- Training and tools to do the job
- Listening and responding
- Career development, diversity and inclusion

Progress against strategic change programme

Strong customer offer	• Grocery and BWS sales mix up 4 percentage points • Food-based stores showing strongest sales uplifts • Selective price investment • Deliveroo service launched in 120 sites • Investment in insight driving customer agenda
Easy to run stores	• Active stock management programme delivering W/C improvements • Reorganising field teams to improve customer focus and operating costs • First phase of operating model review completed
Improving our stores	• 65 sites exited in H1 focusing the business on the most profitable sites • New sites and refurbishments de-emphasised during COVID-19 phase • New space and range format team created • New maintenance and energy strategy deployed
Great place to work	• Pandemic has accelerated cultural change • Empowered front line colleagues • Colleagues supporting local communities • Committed investment in learning and development

Summary

Well positioned for the future

- Supported our local communities through the crisis
- Trading over COVID-19 period has validated the strategy
- Re-focused our priorities to respond to changing consumer behaviours and environment
- Made good progress against key strategic initiatives
- Maintained profit and improved net debt
- Well positioned to leverage accelerated trends in consumer behaviour and growth of the convenience sector

Appendix

IFRS16 reconciliation
EBITDA

Adjusted EBITDA excluding property-related items & share based payments	H1 20 £ 000	H1 19 £ 000[1]
Operating profit before adjusting items	8,399	4,553
Depreciation and amortisation[2]	19,458	8,630
Losses/(profits) arising on property-related items	74	(156)
Share based payments	90	-
Total Adjusted EBITDA	28,021	13,027
IFRS 16 impact (net rent payable)	(14,886)	-
Pre IFRS 16 Adjusted EBITDA	**13,135**	**13,027**

Notes:
The Group has adopted IFRS 16 effective 25 November 2019 using the modified retrospective approach option. Under this option the comparative information is not restated.
For the 26-week period ended 24 May 2020 depreciation charge is £11.5m higher as a result of adopting IFRS 16.

IFRS16 reconciliation
Net Debt

	As at H1 20 £ 000	As at H1 19 £ 000	As at FY 19 £ 000
Cash at bank and in hand	**70,793**	36,906	36,999
Term Loan and revolving facility available until May 2022	**(150,000)**	(124,980)	(129,500)
Less: unamortised issue costs	**1,809**	1,218	962
	(148,191)	(123,762)	(128,538)
Other borrowings	**(2,545)**	-	-
Lease liabilities	**(204,322)**	(2,840)	(2,580)
Net debt	**(284,265)**	(89,696)	(94,119)
Lease liabilities - IFRS 16 impact	*202,221*	-	-
Net debt pre IFRS 16	*(82,044)*	*(89,696)*	*(94,119)*

Notes:
The Group has adopted IFRS 16 effective 25 November 2019 using the modified retrospective approach option. Under this option the comparative information is not restated.

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