EVE SLEEP PLC: INTERIM RESULTS AND FSP UPDATE

Released 07:00:30 20 September 2022

Eve Sleep plc (EVE)
Eve Sleep plc: Interim Results and FSP Update

20-Sep-2022 / 07:00 GMT/BST
Dissemination of a Regulatory Announcement that contains inside information in accordance with the Market Abuse Regulation (MAR), transmitted by EQS Group.
The issuer is solely responsible for the content of this announcement.

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION FOR THE PURPOSES OF ARTICLE 7 OF THE MARKET ABUSE REGULATION (EU) 596/2014 AS IT FORMS PART OF UK DOMESTIC LAW BY VIRTUE OF THE EUROPEAN UNION (WITHDRAWAL) ACT 2018 ("MAR"), AND IS DISCLOSED IN ACCORDANCE WITH THE COMPANY'S OBLIGATIONS UNDER ARTICLE 17 OF MAR.

eve Sleep plc (“eve”, “eve sleep” the “Company”)

Interim Results and FSP update

eve Sleep, the direct-to-consumer sleep wellness brand operating in the UK, Ireland (together the “UK&I”) and France, today issues its results for the six months ended 30 June 2022 (the “Period”).

Key financials[1]

	2022 H1 £m	2021 H1 £m	Movement
Revenue	11.6	13.9	-16%
Gross profit	5.1	7.6	-33%
Gross profit margin	43.8%	55.0%	-1127bps
Marketing costs as a % of revenue	32.8%	32.7%	+12bps
Marketing contribution[2]	(1.2)	0.7	-£1.9m
Underlying EBITDA Loss[3]	(4.2)	(1.9)	-£2.3m
Loss before tax	(4.6)	(2.3)	-£2.3m
Cashflow from operations	(2.7)	(3.1)	+£0.4m
Cash at period end	1.4	5.2	-£3.8m

Financial highlights

- UK revenues 18% lower year-on-year, against a homewares market estimated to be down 23%[4]
- B2C UK revenue outperformed the wider business and the market, decreasing 14% year-on-year
- Revenues in France decreased year-on-year by 8% against a market estimated to be down 32%[4]
- Gross margin reduction reflects the need to compete in a highly promotional UK market as well as cost inflationary pressures
- Effective cash management limited the net cash outflow in the period to below the EBITDA loss and below H1 2021

Business highlights

- Product ranges have been consolidated in the period to focus on the most profitable lines
- The new partnership with DFS, which launched in March, has expanded both its range of products available on the DFS and Dwell websites and increased the number of stores to 10
- Launch of Channel 4 TV campaign from April, sponsoring 'late nights on 4' for 12 months

Post Period End

- Completed cost saving measures to cut overheads on an annualised basis by c.£2.5m
- Positive marketing contribution in July and August (H1 2022: loss £1.2m), which management expect to remain positive for H2 as a whole
- Launched the ‘well slept club’ sleep wellness content platform in July as part of eve’s content and digital experience led strategy to improve marketing efficiency
- At 31 August the Company’s cash balance was £1.0m. In addition, the Company had a drawn working capital facility of £0.7m

Current Trading and Outlook

There has been no let-up in the challenging market backdrop over the summer, with UK consumer confidence reaching another new record low in August of -44, according to data and analytics specialist GfK, as rising inflation continues to erode real household incomes. The impact on demand for big ticket items and the Homewares market in particular has been profound. Against this backdrop eve’s direct-to-consumer (B2C) sales orders for the months of July and August are down 14% in the UK&I against the same period in 2021, in what remains a highly promotional market. In France, B2C sales orders for the same period are down year-on-year by 16%.

Having had a very strong start to the year, with January ahead of plan, it became clear over February and March that a combination of the war in Ukraine, falling consumer confidence, and increasing inflation were affecting the homewares market significantly. The business underwent a rapid and wide-ranging cost saving exercise during Q2 and into Q3 to minimise costs and preserve the cash. This included substantial salary reductions for the non-executive board and board level directors, a restructuring of the eve team and cost savings across all overheads in the business. The cost of these actions has been taken in Q3, with the benefit of these measures fully realised in the second half of the year, with overheads in Q4 expected by management to be approximately 30% lower than Q1 2022. On an annualised basis the collective savings are expected to reduce overheads by c.£2.5m, and result in reduced losses in the second half of this year and into 2023.

Update on the FSP

The Board commenced a Formal Sales Process on 6 June 2022 to explore the strategic and financing options available to the Company, including the possibility of a sale of the Company. To date, a number of indicative offers have been received but have not yet translated into firm offers following discussions and the facilitation of due diligence. As noted above, significant costs savings have been made in the business in order to conserve cash. Notwithstanding these savings, eve will require further funding in October 2022, based on current management forecasts. If further funding cannot be raised, or a firm offer for the Company is not received before the Company's cash reserves are fully depleted, the Board will take the appropriate steps to preserve value for creditors. Further announcements will be made as appropriate. There can be no certainty that the terms of any offer or investment received will be suitable for the Company and its stakeholders.

Cheryl Calverley, CEO of eve Sleep, commented:

"We are doing everything possible to manage the business through these incredibly difficult times, whilst speaking with potential investors and strategic partners to secure fresh investment aiming to put eve on a more secure and sustainable footing. The business has been streamlined dramatically, with cash preservation our absolute focus.

eve has a strong brand, an award-winning product range, a differentiated position in sleep wellness and a restructured business with a greatly reduced breakeven point, all backed up by a fantastically talented team. Truly unprecedentedly appalling market conditions have stopped 2022 being the transformative year that it was intended to be despite a very bright start and our focus is now on navigating the current storm through to calmer waters with a much more efficient business."

Footnotes

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

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

3. Underlying EBITDA is defined as earnings before interest, taxation, depreciation, amortisation, impairment, share-based payment charges connected with employee remuneration and fundraising-related expenditure.

4. Source: IMRG in the UK and FEVAD in France

For further information, please contact:

eve Sleep plc Cheryl Calverley, Chief Executive Officer Tim Parfitt, Chief Financial Officer	via M7 Communications LTD
finnCap Limited (NOMAD and broker) Matt Goode / Teddy Whiley (Corporate Finance) Alice Lane / Charlotte Sutcliffe (ECM)	+44(0)20 7220 0500
M7 Communications LTD Mark Reed	+44(0) 7903 089 543

Summary

Challenging first half

The Group had been planning for significant growth in 2022 and as such was structured to deliver increased sales volumes. At the start of the period revenue was on target and comfortably ahead of 2021. From late February, the impact of the war in Ukraine, consumer price inflation, the fear of rising fuel prices and four increases In UK base rates in the period weakened consumer confidence and led to reduced spending on household furniture.

The outcome was a fall in Group revenue in H1 of 16%, compared to the same period in 2021. The direct-to-consumer (B2C) channels fared better than the wholesale (B2B) business with UK B2C declining 14% and France B2C declining by just 2%. These results were achieved against tough comparatives (2021 H1 revenue +13% vs 2020) and in a market reported by industry monitors to be 23% down in the UK (source: IMRG) and 32% in France (source: FEVAD).

Promotional activity in the UK market has increased with larger discounts being offered to consumers. In May, eve launched a new UK pricing and promotional strategy, and this has driven higher sales volumes than would otherwise have been possible but with a lower margin. At the same time, the decision was taken to exit less profitable product lines in both the UK and France which diluted the total margin. Further margin pressure came from cost increases on the key mattress and furniture product ranges.

Actions to reduce losses

In addition to the new UK pricing and promotional strategy, several initiatives to improve margins were launched in the period. The production of most of the foam mattresses was moved to a new supplier to achieve significant cost savings from H2. The hybrid mattresses which comprise foam and springs, were not moved and working with the existing manufacturer has enabled some cost savings. The benefit of these actions will also be seen from H2.

Several projects had been launched in H1 including developing an improved customer returns experience, upgrades to the website, building a new data infrastructure and scoping a sleep wellness customer offering. These were all one-off costs and ceased before the end of the period. In total one-off project costs in the period were approximately £0.2m.

In order to adapt to the economic environment, the headcount has reduced from 55 at the start of the year to around 30 by August, through a combination of natural attrition and some restructuring.

As a result of the completion of the one-off projects, combined with lower employee costs, overhead costs in Q4 are expected to be 30% lower than the same period in 2021. Marketing contribution is expected to be positive in H2.

Notwithstanding the above actions, there remains a material uncertainty that may cast doubt upon the ability of eve to continue as a going concern.

Cash

At the period end, cash at bank was £1.4m. A funding facility was commenced in the period with ClearCo which provides a mechanism for delaying the settlement of inventory and marketing costs by offsetting against future ecommerce revenue receipts. At the end of the period £0.9m was owed to ClearCo. This is recorded in 'Trade and Other Payables' in the balance sheet below. As at 31 August, cash at bank was £1m, with £0.7m owed to ClearCo.

Consolidated Statement of Profit and Loss and Other Comprehensive Income

	Note	**6-month period ended 30 June 2022 (Unaudited)**	**6-month period ended 30 June 2021 (Unaudited)**	**12-month period ended 31 December 2021 (Audited)**
		£m	£m	£m
Revenue	2	**11.6**	**13.9**	**26.6**
Cost of sales	2	(6.5)	(6.3)	(11.9)
Gross profit		**5.1**	**7.6**	**14.7**
Distribution expenses	2	(2.1)	(1.9)	(3.7)
Administrative expenses		(7.6)	(8.0)	(14.2)
Share-based payment charges		-	-	(0.2)
Operating loss		**(4.6)**	**(2.3)**	**(3.4)**
Finance income		-	-	-
Loss before tax		**(4.6)**	**(2.3)**	**(3.4)**
Taxation		-	-	0.3
Loss for the period		**(4.6)**	**(2.3)**	**(3.1)**
Other comprehensive income				
Foreign currency differences from overseas operations		0.0	0.1	0.1
Total comprehensive loss for the period		**(4.6)**	**(2.2)**	**(3.0)**
Basic and diluted loss per share	3	(1.67p)	(0.83p)	(1.12p)

Consolidated Statement of Financial Position

	Note	**6-month period ended 30 June 2022 (Unaudited)**	**6-month period ended 30 June 2021 (Unaudited)**	**12-month period ended 31 December 2021 (Audited)**
		£m	£m	£m
Non-current assets				
Property, plant and equipment		0.5	-	0.7
Intangible assets		0.4	0.5	0.4
		0.9	0.5	1.1
Current assets				
Inventories		1.1	1.2	1.3
Trade and other receivables		1.0	1.6	1.3

Cash and cash equivalents	1.4	5.2	4.5
Current tax receivable	-	-	-
Total current assets	3.5	8.0	7.1
Total assets	**4.4**	**8.5**	**8.2**
Current liabilities			
Trade and other payables	3.9	2.7	2.8
Provisions	0.6	1.2	0.8
Lease liabilities < 12 months	0.4	-	0.4
Total current liabilities	4.9	3.9	4.0
Lease liabilities > 12 months	0.1	-	0.3
Total liabilities	**5.0**	**3.9**	**4.3**
Net (liabilities) / assets	**(0.6)**	**4.6**	**3.9**
Equity attributable to the equity holders of the parent			
Share capital	0.3	0.3	0.3
Share premium	49.5	49.5	49.5
Share-based payment reserve	0.3	0.7	0.3
Retained earnings	(51.0)	(46.1)	(46.4)
Foreign currency translation reserve	0.3	0.2	0.2
Total equity	**(0.6)**	**4.6**	**3.9**

Consolidated Statement of Changes in Equity

For the 6 months ended 30 June 2022

	Share capital	**Share premium**	**Share-based payment reserve**	**Retained earnings**	**Foreign currency translation reserve**	**Total equity**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
	£	£	£	£	£	£
Balance at 1 January 2022	**274,322**	**49,518,786**	**297,987**	**(46,420,508)**	**233,501**	**3,904,088**
Exercise of employee share options	421	-	-	-	-	**421**
Share-based payment charge	-	-	26,579	-	-	**26,579**
Transfer on cancelled, lapsed and forfeiture of employee share options	-	-	(5,138)	5,138	-	**-**
Transfer on exercise of employee share options	-	-	(18,791)	18,791	-	**-**
Total transactions with owners	**421**	**-**	**2,650**	**23,929**	**-**	**27,000**
Loss for the period	-	-	-	(4,585,635)	-	**(4,585,635)**
Other comprehensive income for the period					40,984	40,984
Balance at 30 June 2022	**274,743**	**49,518,786**	**300,637**	**(50,982,214)**	**274,485**	**(613,563)**

For the 6 months ended 30 June 2021

	Share capital	**Share premium**	**Share-based payment reserve**	**Retained earnings**	**Foreign currency translation reserve**	**Total equity**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
	£	£	£	£	£	£
Balance at 1 January 2021	**272,570**	**49,421,049**	**766,749**	**(43,918,599)**	**151,852**	**6,693,621**
Exercise of employee share options	738	-	-	-	-	**738**
Share-based payment charge	-	-	43,815	-	-	**43,815**
Transfer on exercise of employee share options	-	-	(20,237)	20,237	-	**-**
Transfer on issue of equity for marketing purposes	778	77,058	(77,836)	-	-	**-**
Total transactions with owners	1,516	77,058	(54,258)	20,237	-	44,553
Loss for the period	-	-	-	(2,255,340)	-	(2,255,340)
Other comprehensive income for the period	-	-	-	-	88,914	88,914
Balance at 30 June 2021	**274,086**	**49,498,107**	**712,491**	**(46,153,702)**	**240,766**	**4,571,749**

For the 12 months ended 31 December 2021

	Share capital	Share premium	Share-based payment reserve	Retained earnings	Foreign currency translation reserve	Total equity
	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)	(Audited)
	£	£	£	£	£	£
Balance at 1 January 2021	**272,570**	**49,421,049**	**766,749**	**(43,918,599)**	**151,852**	**6,693,621**
Exercise of employee share options	765	-	-	-	-	765
Transfer of historically exercised and cancelled options	-	-	(321,764)	321,764	-	-
Share-based payment charge	-	-	182,277	-	-	182,277
Transfer on cancelled, lapsed and forfeiture of employee share options	-	-	(192,754)	192,754	-	-
Transfer on exercise of employee share options	-	-	(37,797)	37,797	-	-
Transfer on issue of equity for marketing purposes	987	97,737	(98,724)	-	-	-
Total transactions with owners	1,752	97,737	(468,762)	552,315	-	183,042
Loss for the year	-	-	-	(3,054,224)	-	(3,054,224)
Other comprehensive income for the period	-	-	-	-	81,649	81,649
Balance at 31 December 2021	**274,322**	**49,518,786**	**297,987**	**(46,420,508)**	**233,501**	**3,904,088**

Consolidated Statement of Cash Flows

	6-month period ended 30 June 2022	6-month period ended 30 June 2021	12-month period ended 31 December 2021
	(Unaudited)	(Unaudited)	(Audited)
	£m	£m	£m
Cash flows from operating activities			
Loss for the period	(4.6)	(2.3)	(3.1)
Taxation	-	0.4	-
Adjustments for:			
Amortisation and depreciation	0.4	0.3	0.6
(Increase)/Decrease in inventories	0.2	(0.6)	(0.7)
Decrease in trade and other receivables	0.3	0.3	1.0
Increase/(Decrease) in trade and other payables	1.1	(1.3)	(1.2)
Increase/(Decrease) in provisions	(0.1)	0.2	(0.2)
Share-based payment charge	-	-	0.2
Net cash inflow/(outflows) from operating activities	**(2.7)**	**(3.0)**	**(3.4)**
Cash flows from investing activities			
Development of intangible assets	(0.2)	(0.1)	(0.2)
Net cash outflows from investing activities	**(0.2)**	**(0.1)**	**(0.2)**
Cash flows from financing activities			
Proceeds from the issue of share capital	-	-	-
Lease payments	(0.2)	(0.2)	(0.4)
Net cash inflow/(outflow) from financing activities	**(0.2)**	**(0.2)**	**(0.4)**
Net cash inflow/(outflow)	**(3.1)**	**(3.3)**	**(4.0)**
Cash at the beginning of the period	**4.5**	**8.4**	**8.4**
Movement in cash	(3.1)	(3.3)	(4.0)
Effect of exchange rate fluctuations on cash held	-	0.1	0.1
Cash at the end of the period	**1.4**	**5.2**	**4.5**

Notes to the accounts

1. Basis of preparation

The unaudited interim consolidated statements of eve Sleep plc are for the six months ended 30 June 2022 and do not comprise statutory accounts within the meaning of S.434 of the Companies Act 2006. These consolidated financial statements have been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs) as endorsed by the UK. IFRS is subject to amendment and interpretation by the

International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC) and there is an ongoing process of review and endorsement by the UK Endorsement Board.

They do not include all disclosures that would otherwise be required in a complete set of financial statements. The consolidated financial statements are presented in Sterling, which is also the Group's functional currency.

Statutory accounts for the year ended 31 December 2021 have been delivered to the registrar of companies. The auditor has reported on those accounts; their report was (i) unqualified, (ii) did include a reference to which the auditor drew attention by way of emphasis without qualifying their report in respect of going concern and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Going concern

The interim consolidated statements are prepared on a going concern basis notwithstanding that the group is generating losses and is currently seeking additional funding through a Strategic Review and Formal Sale Process. There is a material uncertainty that may cast doubt upon the company's ability to continue as a going concern and therefore to continue realising its assets and discharging its liabilities in the normal course of business. The Group has been reducing costs and losses but will require further funding in October 2022. No impairments or adjustments have been made to assets and liabilities that would be required if the Group was not considered to be a going concern.

Changes to accounting standards

The interim consolidated statements have been prepared in accordance with accounting policies that are consistent with the accounts of the year ended 31 December 2021 and that are expected to be applied in the Report and Accounts of the year ended 31 December 2022.

2. Segmental Analysis

IFRS 8, "Operating Segments", requires operating segments to be determined based on the Group's internal reporting to the Chief Operating Decision Maker. The Chief Operating Decision Maker has been determined to be the executive board and has determined that the primary segmental reporting format of the Group is geographical by customer location, based on the Group's management and internal reporting structure. The executive board assesses the performance of each segment based on revenue and gross profit after distribution expenses, which excludes administrative expenses.

For the period 1 January 2022 - 30 June 2022
(Unaudited)

	UK&I £m	France £m	Total £m
Revenue	**9.6**	**2.0**	**11.6**
Cost of sales	(5.4)	(1.1)	(6.5)
Gross Profit	**4.2**	**0.9**	**5.1**
Distribution expenses	(1.6)	(0.5)	(2.1)
Segmental results	**2.6**	**0.4**	**3.0**
Administrative expenses			(7.6)
Loss before tax			**(4.6)**

For the period 1 January 2021 - 30 June 2021
(Unaudited)

	UK&I £m	France £m	Total £m
Revenue	**11.7**	**2.2**	**13.9**
Cost of sales	(5.3)	(1.0)	(6.3)
Gross Profit	**6.4**	**1.2**	**7.6**
Distribution expenses	(1.5)	(0.4)	(1.9)
Segmental results	**4.9**	**0.8**	**5.7**
Administrative expenses			(8.0)
Loss before tax			**(2.3)**

For the year ended 31 December 2021
(Audited)

	UK&I £m	France £m	Total £m
Revenue	**22.6**	**4.0**	**26.6**
Cost of sales	(10.0)	(1.9)	(11.9)
Gross Profit	**12.6**	**2.1**	**14.7**
Distribution expenses	(2.9)	(0.8)	(3.7)
Segmental results	**9.7**	**1.3**	**11.0**
Administrative expenses			(14.2)

Share-based payment charge	(0.2)
Loss before tax	**(3.4)**

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

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

3. Earnings per share

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

	30 June 2022 (Unaudited)	**30 June 2021 (Unaudited)**	**31 December 2021 (Audited)**
Weighted average shares in issue	274,529,646	273,309,103	273,623,423
Loss attributable to the owners of the parent company (£)	(4,585,635)	(2,256,226)	(3,054,224)
Basic earnings/(loss) per share (pence)	(1.67)	(0.83)	(1.12)
Diluted earnings/(loss) per share (pence)	(1.67)	(0.83)	(1.12)

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

At 30 June 2022, options outstanding amounted to 12,089,563 (30 June 2021: 16,985,396). Given the loss for the period of £4,585,635 (six months to 30 June 2021: loss of £2,256,226), these options are anti-dilutive.

ISIN: GB00BYWMFT51
Category Code: IR
TIDM: EVE
LEI Code: 2138007BAC29AUXWQE6
Sequence No.: 189046
EQS News ID: 1445633

End of AnnouncementEQS News Service