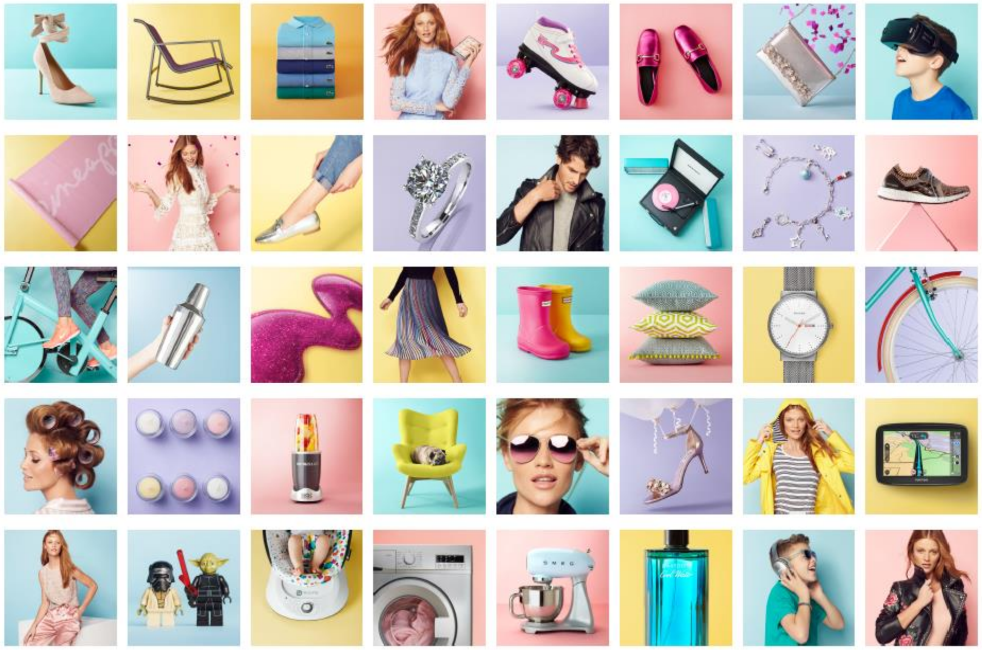

Shop Direct Limited

Q2 FY19 YTD Results

Six months ended 31 December 2018

12 February 2019

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Continued profitable growth in a challenging market

Quarter 2 FY19 YTD[1] Highlights versus prior year

- Group revenue grew 2.7% to £1,128.5m (Q2 FY18 YTD: £1,099.2m)
  - Very revenue up 8.1% to £831.8m (Q2 FY18 YTD: £769.3m)
  - Littlewoods revenue down 10.1% to £296.7m (Q2 FY18 YTD: £329.9m)
- Interest income as a percentage of the debtor book increased 0.4%pts to 11.9% (Q2 FY18 YTD: 11.5%)
- Retail gross margin performance was strong with full price performance partially offset by continued switch to Very from Littlewoods
- Group gross margin, excluding the impact of IFRS 9[2], down 0.9%pts to 37.5% (Q2 FY18 YTD: 38.4%), with the adverse variance reflecting the timing of bad debt provision movements in the prior year
- As a result, bad debt as a percentage of the debtor book, excluding the impact of IFRS 9[2], increased by 0.8%pts to 4.1%. Default rates broadly in line year-on-year
- Reported EBITDA, excluding the impact of IFRS 9[2], increased by 5.9% to £122.4m (Q2 FY18 YTD £115.6m), with the margin up 0.3%pts to 10.8% reflecting good trading and continued strong cost performance
- Underlying free cash flow[3] of £159.0m (Q2 FY18 YTD: £140.6m)
- An adverse bad debt provision movement of £11.4m due to differences between IAS 9 and IFRS 9[2] has been excluded for comparison purposes. This is expected to largely reverse as the debtor book falls in the second half of the year and reflects the change in timing of recognising provisions under IFRS 9, from an incurred basis to an expected basis

Notes

1. Q2 FY19 YTD is the 6 months ended 31 December 2018. Q2 FY18 YTD is the 6 months ended 31 December 2017
2. Q2 FY19 YTD reported under IFRS 9. Q2 FY18 YTD reported under IAS 39
3. Underlying free cash flow defined on page 12

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Continued revenue growth and cost discipline

Income statement

(£ millions)	Q2 FY19 YTD	Q2 FY18 YTD[2]	Variance %
Excluding impact of IFRS 9[2]			
Very	831.8	769.3	8.1 %
Littlewoods	296.7	329.9	(10.1)%
Group Revenue	**1,128.5**	**1,099.2**	**2.7 %**
Gross margin	423.6	422.6	0.2 %
% Margin	*37.5%*	*38.4%*	*(0.9)%pts*
Distribution expenses	(125.2)	(116.6)	
Administrative expenses	(177.4)	(190.8)	
Other operating income	1.4	0.4	
EBITDA	**122.4**	**115.6**	**5.9 %**
% Margin	*10.8%*	*10.5%*	*0.3 %pts*
Reported basis			
Gross margin	**412.2**	**422.6**	**(2.5)%**
% Margin	*36.5%*	*38.4%*	*(1.9)%pts*
Reported EBITDA	**111.0**	**115.6**	**(4.0)%**
% Margin	*9.8%*	*10.5%*	*(0.7)%pts*

Highlights

- **Group revenue** grew 2.7% to £1,128.5m driven by Very (+8.1%) partially offset by Littlewoods managed decline (-10.1%)
- Excluding the impact of IFRS 9, **gross margin** down 0.9%pts to 37.5%. Strong underlying retail margin performance partially offset by the continued switch to Very from Littlewoods, with the reduction reflecting the timing of bad debt provision movements in the prior year
- **Costs as a percentage of group revenue** reduced principally due to lower marketing spend
- **EBITDA** excluding the impact of IFRS 9 increased by 5.9% to £122.4m, with margin up 0.3%pts to 10.8%. **Reported EBITDA** reduced by (4.0)% to £111.0m due to the £11.4m IFRS 9 impact

Notes

1. Q2 FY19 YTD is the 6 months ended 31 December 2018. Q2 FY18 YTD is the 6 months ended 31 December 2017
2. Q2 FY19 YTD reported under IFRS 9. Q2 FY18 YTD reported under IAS 39. An adverse bad debt provision movement of £11.4m due to differences between IAS 9 and IFRS 9 has been excluded for comparison purposes. This is expected to largely reverse as the debtor book falls in the second half of the year

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Retail revenue progression

Retail revenue

	Clothing & Footwear	Electrical	Seasonal	Furniture & Homeware
				
YoY %	+2.9%	+3.2%	+4.2%	(4.8)%
Q2 FY19 YTD Mix %	*33%*	*40%*	*17%*	*10%*
Q2 FY18 YTD Mix %	*32%*	*40%*	*17%*	*11%*

Highlights

- **Clothing & Footwear** growth increased in Q2 against the prior quarter. Sportswear was the standout category and has grown by 12.4% in the year-to-date. Full price sales participation represented 65% of total C&F sales (Q2 FY18 YTD 61%)
- **Electrical** performance driven by mobiles and smart tech, with both categories posting double digit year-on-year growth. Solid performance further supported by the growth in small domestic appliances and audio visual categories
- **Seasonal** growth underpinned by a strategic focus on Toys, with the category posting a 14.4% increase in revenue in the year-to-date
- **Furniture & Homeware** market continues to be slow and competitors continue to have a stronger credit offer in furniture. Revenue trajectory has shown improvement against the (9.5)% reported in FY18 through changes in marketing approach

Notes

1. Q2 FY19 YTD is the 6 months ended 31 December 2018. Q2 FY18 YTD is the 6 months ended 31 December 2017

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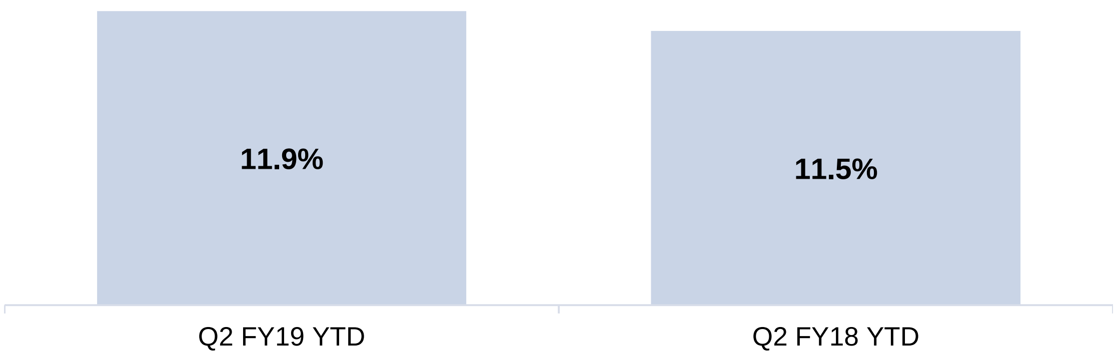
Growth in FS Revenue driven by Very

Financial Services revenue

£m	Q2 FY19 YTD	Q2 FY18 YTD	Variance %
Interest Income	195.1	186.6	4.6%
Other	22.6	26.2	(13.8)%
FS revenue	**217.7**	**212.8**	**2.3%**

Interest Income as % of Debtor Book



Highlights

- **Interest income** up 4.6% to £195.1m driven by Very. Very, with its higher interest bearing element, comprises 82% of total interest income at Q2 FY19 YTD, compared to 71% of debtor book (78% of total interest and 67% of debtor book in prior year)
- As a percentage of the debtor book, interest income increased by 0.4%pts to 11.9%, driven by shift in brand mix towards Very (now 74% of group revenue compared to 70% in prior year)
- **Other** financial services revenue reduction reflects lower insurance and warranty volumes year-on-year
- **Average debtor book** grew 1.5% to £1,644.9m driven by revenue growth across Very and Littlewoods Ireland

Notes

1. Q2 FY19 YTD is the 6 months ended 31 December 2018. Q2 FY18 YTD is the 6 months ended 31 December 2017

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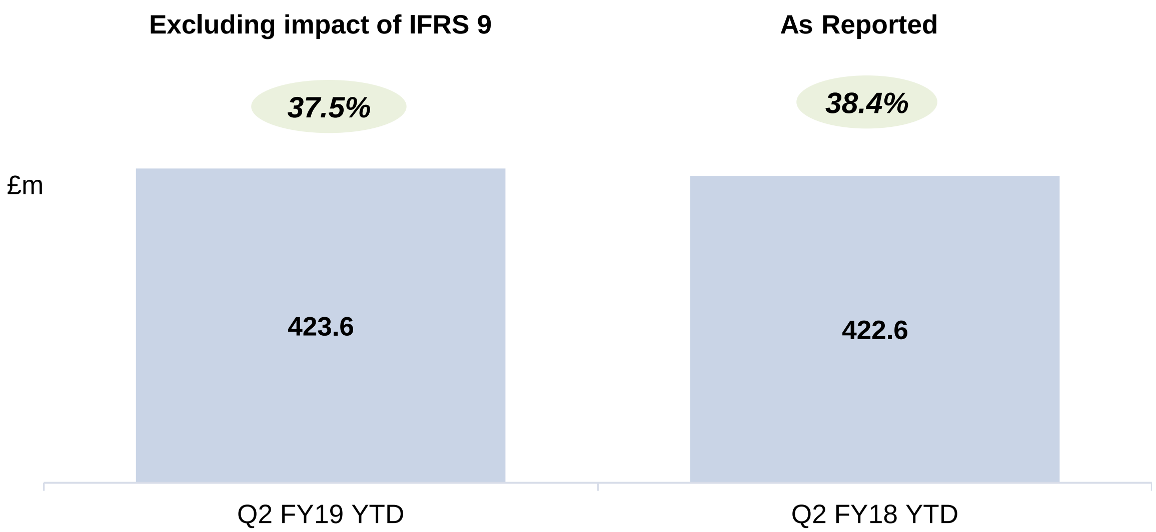
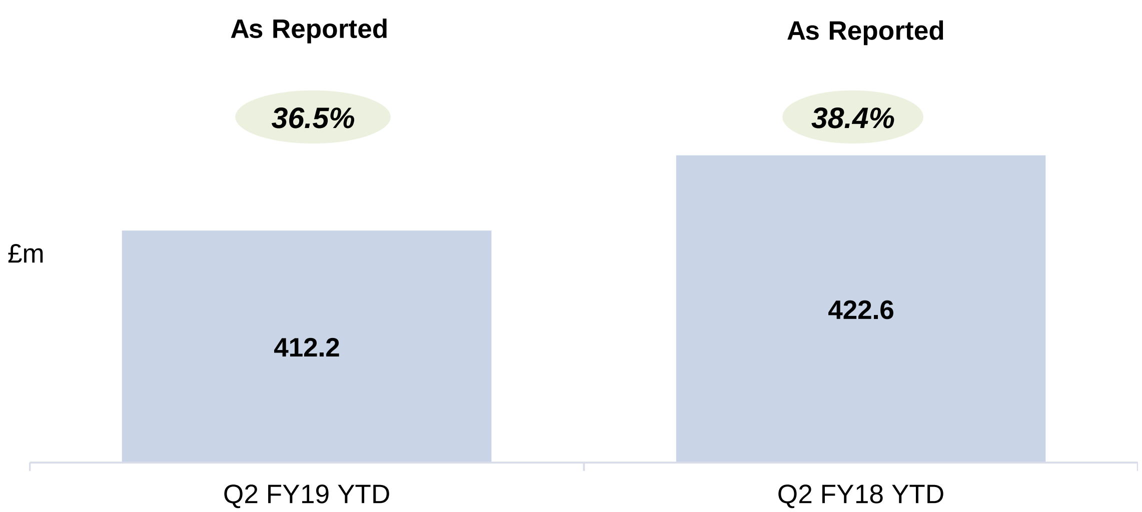
Strong retail gross margin performance year-to-date

Gross Margin and Gross Margin Rate





Highlights

- Excluding the impact of IFRS 9, **gross margin rate** decreased by 0.9%pts to 37.5%:
  - Retail margins saw an improvement in underlying rate as a result of a strong full price performance across all product divisions. This was partially offset by the switch to Very from Littlewoods;
  - After adjusting for IFRS 9, margin reduced due to the timing of bad debt provision movements in prior year
- On a reported basis, Q2 FY19 YTD **gross margin rate** decreased 1.9%pts to 36.5% (Q2 FY18 YTD: 38.4%)

Notes

1. Q2 FY19 YTD is the 6 months ended 31 December 2018. Q2 FY18 YTD is the 6 months ended 31 December 2017
2. Q2 FY19 YTD reported under IFRS 9. Q2 FY18 YTD reported under IAS 39

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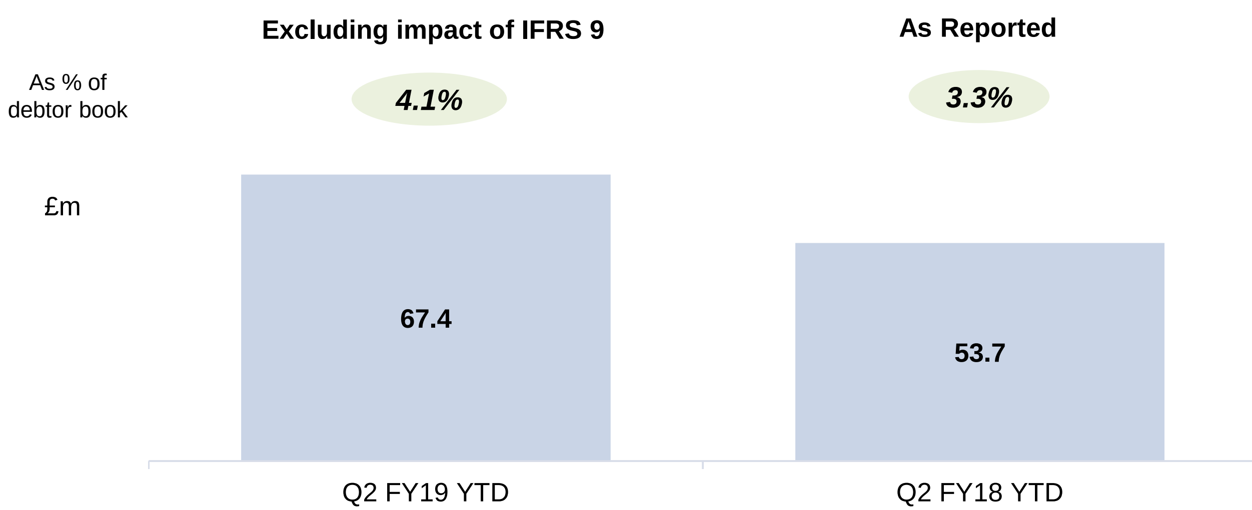
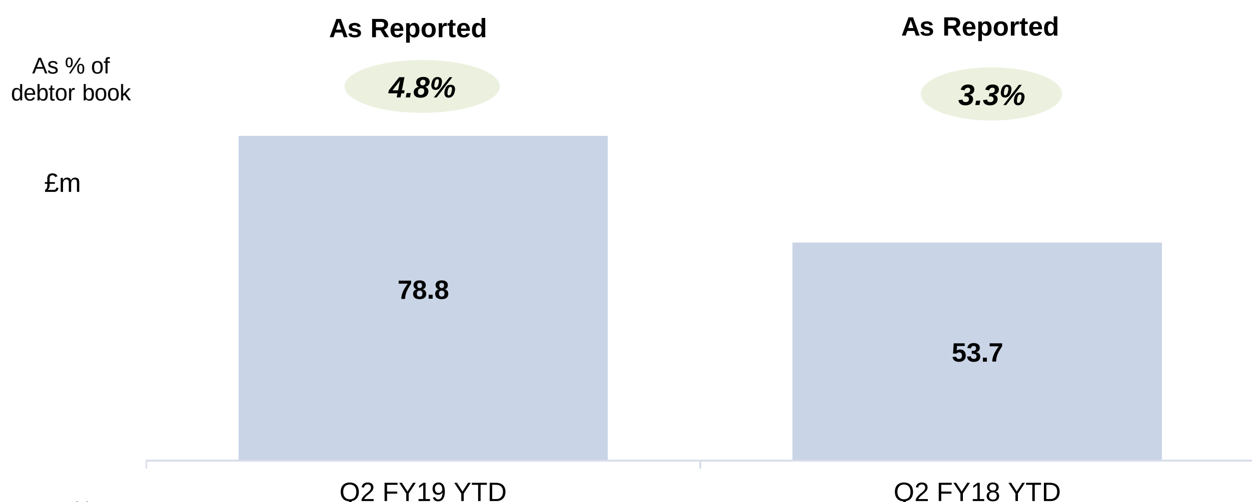
Quality of debtor book maintained with year-on-year bad debt reflecting timing of provision movements

Bad Debt and as % of Debtor Book





Notes

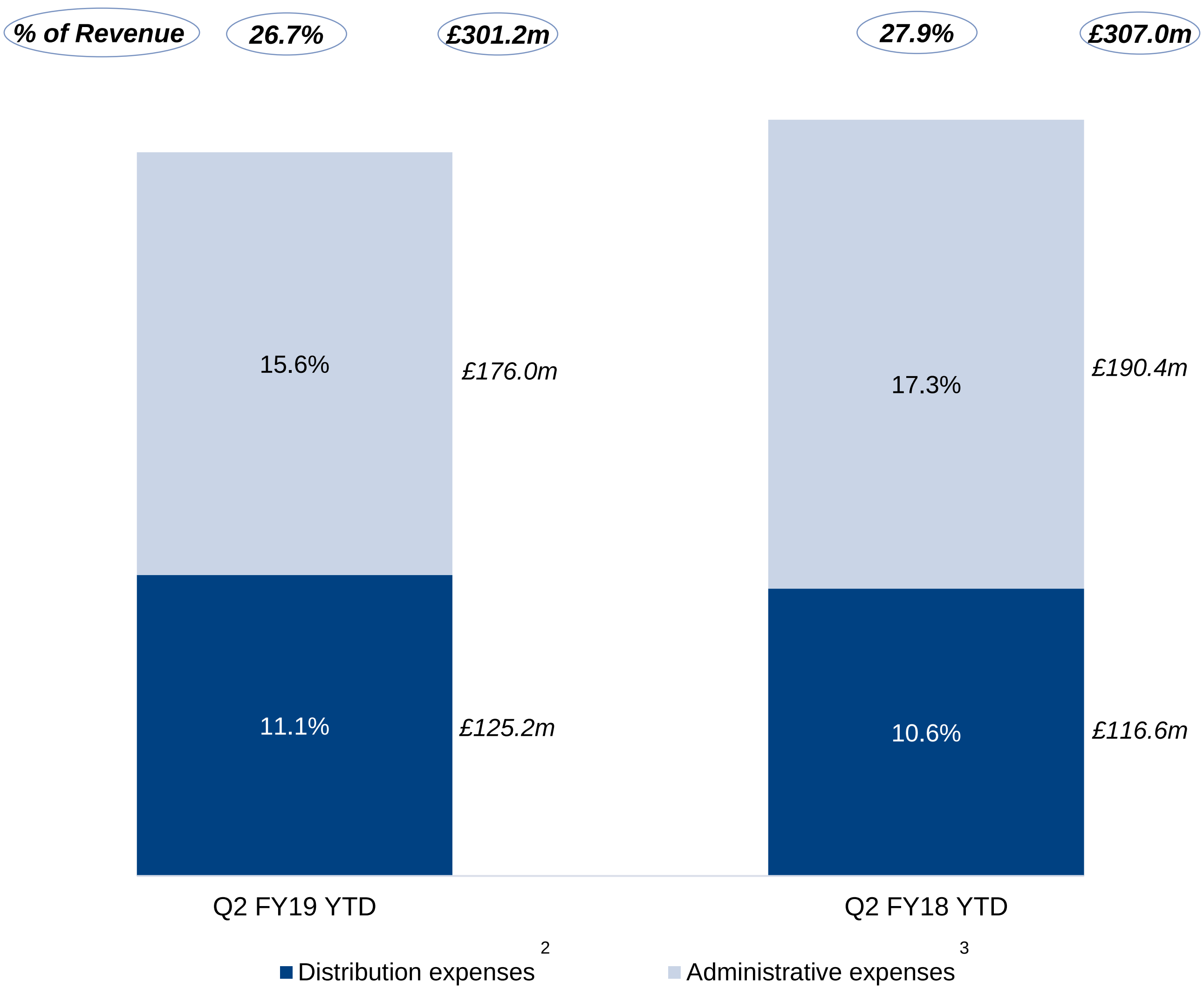
1. Q2 FY19 YTD is the 6 months ended 31 December 2018. Q2 FY18 YTD is the 6 months ended 31 December 2017
2. Q2 FY19 YTD reported under IFRS 9. Q2 FY18 YTD reported under IAS 39

Highlights

- On 1 July 2018 IFRS 9 Financial Instruments was adopted. As an expected loss model this changes the profile of the bad debt expense line during the course of the year. Excluding the £11.4m adverse provision movement which resulted in the quarter relative to accounting under IAS 39, **bad debt as a percentage of the debtor book** of 4.1% (Q2 FY18 YTD reported: 3.3%; 3.9% excluding provision movement)
- The adverse year-on-year variance was driven by the timing of bad debt provision movements in prior year
- The underlying quality of the debtor book remains in line with prior year with a strong focus on responsible lending and assessment of customer sustainability at both acquisition and during the lifetime of lending, as well as increasing proportion of lower risk Very customers
- On a reported basis, Q2 FY19 YTD **bad debt as a percentage of the debtor book** adverse to prior year at 4.8% (Q2 FY18 YTD: 3.3%)

Cost control continues

Operating costs



Highlights

- Total costs as a percentage of revenue reduced by 1.2%pts to 26.7% reflecting:
  - **Administrative costs** as a % of revenue decreased by 1.7%pts to 15.6% driven by lower marketing spend including through shorter TV advertising and reducing spend which does not drive demand, as we find more efficient ways to communicate with our customers
  - **Distribution costs** as a % of revenue increased by 0.5%pts to 11.1% including the impact of higher fuel costs, inflation and product mix

Notes

1. Q2 FY19 YTD is the 6 months ended 31 December 2018. Q2 FY18 YTD is the 6 months ended 31 December 2017
2. Distribution expenses comprise distribution and fulfilment costs
3. Administrative expenses comprise marketing, contact centres, head office costs and other operating income, excluding depreciation and amortisation

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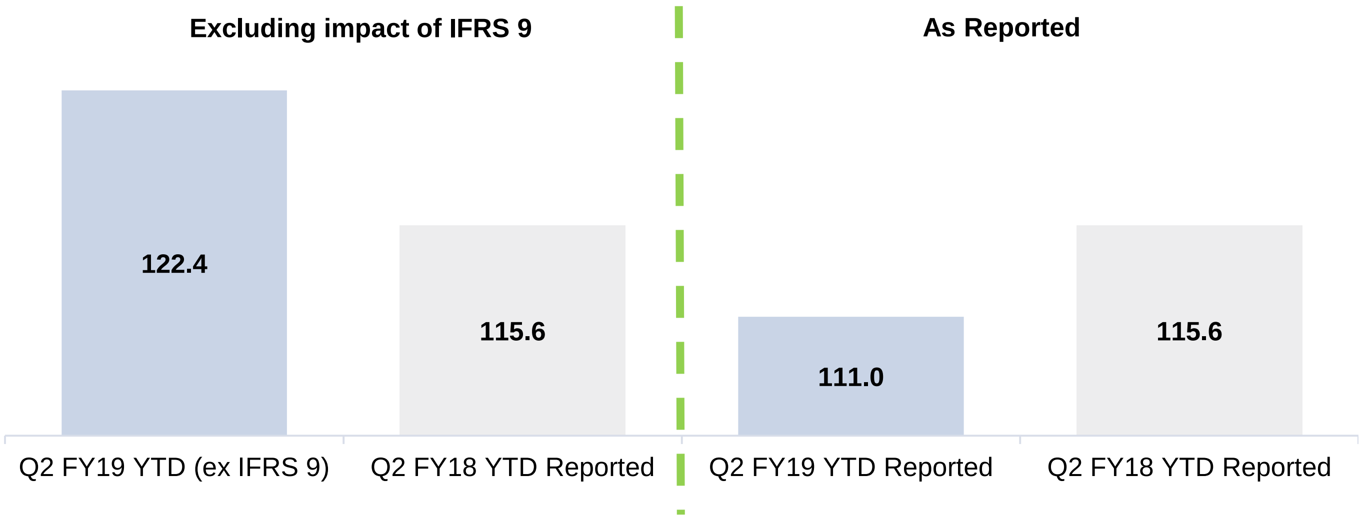
Strong growth in EBITDA excluding IFRS 9 impact

Year-on-year Reported EBITDA reconciliation



Highlights

- Excluding the impact of IFRS 9, EBITDA grew by 5.9% to £122.4m
- Reported EBITDA of £111.0m

	exc. IFRS 9[3]		Reported		
(£ millions)	Q2 FY19 YTD	Variance %	Q2 FY19 YTD	Q2 FY18 YTD	Variance %
Reported EBITDA	**122.4**	**5.9 %**	**111.0**	**115.6**	**(4.0)%**
Adjusted for:					
Fair value adjustments to financial instruments	(1.9)		(1.9)	2.6	
Foreign exchange translation movements on trade creditors	2.2		2.2	0.3	
IAS19 and IFRIC 14 pension adjustments	1.0		1.0	(0.1)	
Management EBITDA[2]	**123.7**	**4.5 %**	**112.3**	**118.4**	**(5.2)%**
Adjusted for:					
Management fee	2.5		2.5	2.5	
Securitisation interest	(21.4)		(21.4)	(17.1)	
Adjusted EBITDA post securitisation interest	**104.8**	**1.0 %**	**93.4**	**103.8**	**(10.0)%**

Notes

1. Q2 FY19 YTD is the 6 months ended 31 December 2018. Q2 FY18 YTD is the 6 months ended 31 December 2017.
2. Management EBITDA is also defined as “Underlying EBITDA” within Condensed Consolidated Interim Financial Statements.
3. Q2 FY19 YTD reported under IFRS 9. Q2 FY18 YTD reported under IAS 39. An adverse bad debt provision movement of £11.4m due to differences between IAS 9 and IFRS 9 has been excluded for comparison purposes. This is expected to largely reverse as the debtor book falls in the second half of the year

Successful extension of our securitisation facilities

Securitisation facilities

- The securitisation facility has been extended to December 2021. The size of the programme has increased from £1,490m to £1,535m through the new issue of £5m 'B' notes and £40m 'C' notes. This allows for continued funding for growth in balance sheet receivables
- There is no change in facility size for 'A' notes but as part of the renewal, the 'A' note structure is now split 'A' Senior and 'A' Junior with 'A' senior rated 'AAA' and 'A' Junior rated 'A'. 'AAA' rated notes equate to 86% of total 'A' notes
- 'B' notes – BBB rated; 'C' notes – unrated
- The overall weighted costs of the programme remain consistent with last year
- The programme continues to be fully supported by our core Bank Group and existing investors
- Following a number of years of growth and careful management of the Irish portfolio, we have successfully extended the securitisation programme to include the receivables generated in the Republic of Ireland via a facility provided by HSBC who lead our securitisation programme. The notes are unrated and expire in December 2021

Underlying free cash flow remains strong

Cash Flows

(£ millions)	Q2 FY19 YTD	Q2 FY18 YTD
Adjusted EBITDA (post securitisation interest)	**93.4**	**103.8**
Net working capital movement:		
Movement in inventories	(15.3)	(10.5)
Movement in trade receivables[2]	(163.3)	(199.2)
Movement in prepayments and other receivables[2]	(60.1)	(35.4)
Movement in trade and other payables[3]	200.4	193.7
Movement in securitisation facility	144.5	142.5
Net working capital movement (post securitisation funding)	**106.1**	**91.1**
Pension contributions	(7.2)	(10.6)
Underlying operating free cash flow	**192.3**	**184.3**
Acquisition of property, plant, equipment and intangible assets	(33.3)	(43.7)
Underlying free cash flow	**159.0**	**140.6**

Highlights

- **Net working capital movement (post securitisation funding)** driven by:
  - Trade receivables reflecting the working capital impacts of IFRS 9 and timing of bad debt provision movements;
  - Prepayments / other receivables reflecting timing of payments;
  - Trade and other payables reflecting revenue growth;
  - Draw down of securitisation facility includes current year benefit from the new issue of 'B' and 'C' notes and the impact of the securitisation of the Ireland debtor book
- **Acquisition of property, plant, equipment and intangible assets** decrease over prior year reflects timing of the business' investment in strategic projects

Notes

1. Q2 FY19 YTD is the 6 months ended 31 December 2018. Q2 FY18 YTD is the 6 months ended 31 December 2017
2. Shown in aggregate as (Increase)/decrease in trade and other receivables in the Condensed Consolidated Interim Financial Statements. Difference against aggregate position principally due to cash received from parent company of £1.0m in Q2 FY19 YTD (Q2 FY18 YTD payment to parent company £98.4m)
3. Difference against Condensed Consolidated Interim Financial Statements of £-1.5m in Q2 FY19 YTD and £-0.2m in Q2 FY18 YTD driven by the exclusion of certain non-cash charges primarily relating to the foreign exchange impact on translation of trade creditors

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Customer redress update

- Further PPI exceptional charge recognised of £41.0m in the first quarter resulting in a provision of £106.0m as at 30 September 2018
- In the 3 months to 31 December 2018, £32.1m has been paid out against the provision, in line with expectations
- Balance sheet provision of £73.9m at 31 December 2018

Corporate update

- Dominic Appleton appointed interim Group Finance Director. Derek Harding leaves Shop Direct at the end of February 2019
- Tommy Jordan appointed Financial Services CEO. Neil Chandler, former Financial Services CEO, remains with business, focussing on business development and innovation
- Sarah Willett promoted to the executive board as Group People Director. Jacqui Humphries stepped down from the role of Group People Director to become a non-executive director
- Mark McMenemy, former Group Finance Director, joins the Shop Direct board as a non-executive director

Continued profitable growth in a challenging market

Quarter 2 FY19 YTD[1] Highlights versus prior year

- Group revenue grew 2.7% to £1,128.5m (Q2 FY18 YTD: £1,099.2m)
  - Very revenue up 8.1% to £831.8m (Q2 FY18 YTD: £769.3m)
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- Reported EBITDA, excluding the impact of IFRS 9[2], increased by 5.9% to £122.4m (Q2 FY18 YTD £115.6m), with the margin up 0.3%pts to 10.8% reflecting good trading and continued strong cost performance
- Underlying free cash flow[3] of £159.0m (Q2 FY18 YTD: £140.6m)
- An adverse bad debt provision movement of £11.4m due to differences between IAS 9 and IFRS 9[2] has been excluded for comparison purposes. This is expected to largely reverse as the debtor book falls in the second half of the year and reflects the change in timing of recognising provisions under IFRS 9, from an incurred basis to an expected basis

Notes

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3. Underlying free cash flow defined on page 12

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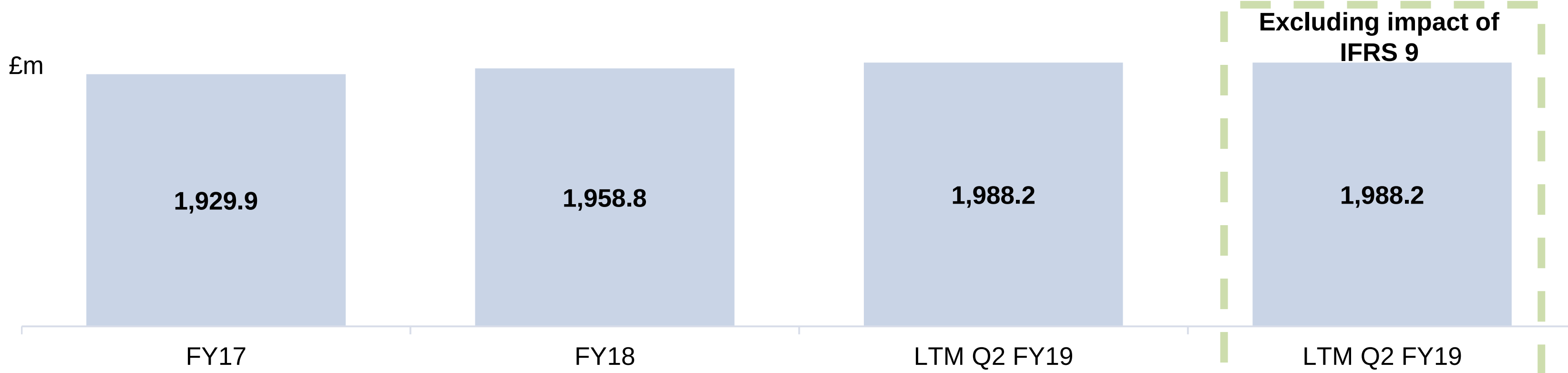
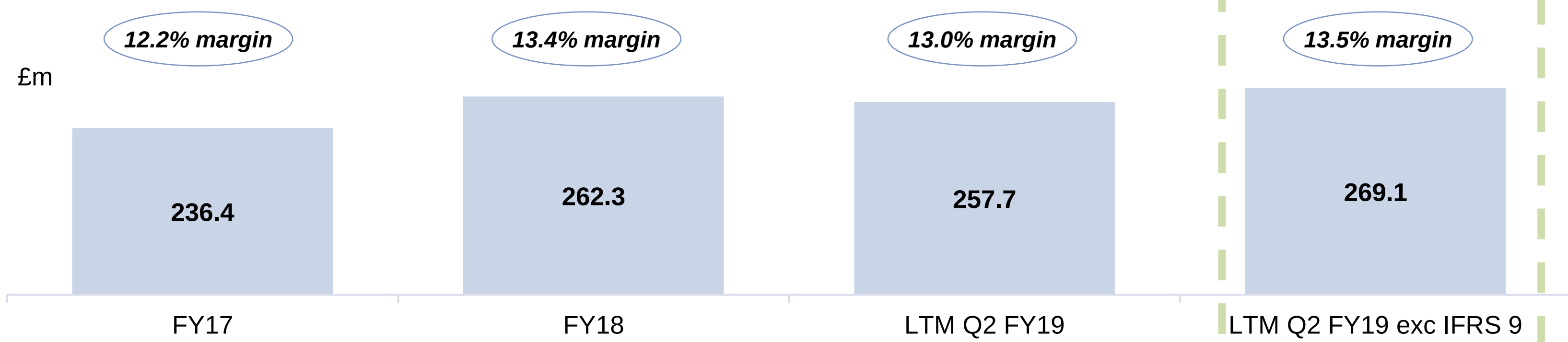
Appendix A: LTM KPIs

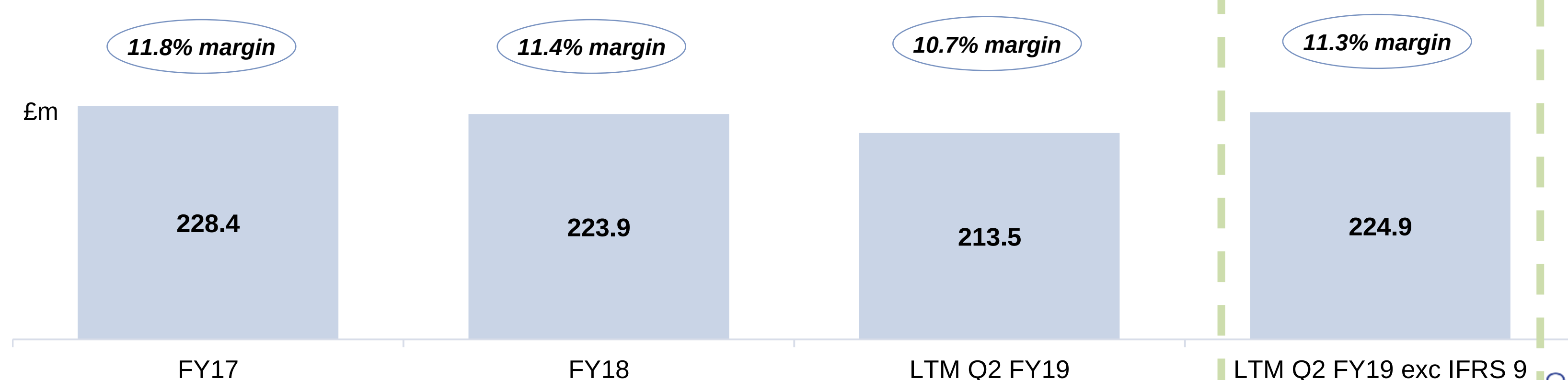
LTM Revenue



LTM Reported EBITDA



LTM Adjusted EBITDA post securitisation interest



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Appendix B: Cash Flow Statement

Cash Flow Statement

(£ millions)	Q2 FY19 YTD	Q2 FY18 YTD
Adjusted EBITDA (post securitisation interest)	**93.4**	**103.8**
Net working capital movement:		
Movement in inventories	(15.3)	(10.5)
Movement in trade receivables[2]	(163.3)	(199.2)
Movement in prepayments and other receivables[2]	(60.1)	(35.4)
Movement in trade and other payables[3]	200.4	193.7
Movement in securitisation facility	144.5	142.5
Net working capital movement (post securitisation funding)	**106.1**	**91.1**
Pension contributions	(7.2)	(10.6)
Underlying operating free cash flow	**192.3**	**184.3**
Capital expenditure	(33.3)	(43.7)
Underlying free cash flow	**159.0**	**140.6**
Interest paid (excluding securitisation interest)	(26.3)	(24.7)
Income taxes (paid) / received	0.1	(3.7)
Cash impact of exceptional items	(5.0)	(5.6)
Management fees	(2.5)	(2.5)
Cash paid to the parent company	1.0	(98.4)
(Repayments of) / draw downs from finance leases	(0.7)	0.6
(Repayments of)/draw downs from bank borrowings	-	(500.0)
Proceeds from issue of senior secured notes	-	550.0
Net increase in cash and cash equivalents pre customer redress	**125.6**	**56.3**
Customer redress payments	(67.5)	(42.0)
Net increase in cash and cash equivalents	**58.1**	**14.3**

Notes

1. Q2 FY19 YTD is the 6 months ended 31 December 2018. Q2 FY18 YTD is the 6 months ended 31 December 2017
2. Shown in aggregate as (Increase)/decrease in trade and other receivables in the Condensed Consolidated Interim Financial Statements. Difference against aggregate position principally due to cash received from parent company of £1.0m in Q2 FY19 YTD (Q2 FY18 YTD payment to parent company £98.4m)
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Appendix C: Net Leverage

Net Leverage

(£ millions)	Excluding impact of IFRS 9 Q2 FY19 exc IFRS 9	Q2 FY19	Q1 FY19	Q4 FY18	Q3 FY18	Q2 FY18
Cash & Cash Equivalents	**97.9**	**97.9**	**79.3**	**140.5**	**12.3**	**103.2**
Fixed Rate Notes	(550.0)	(550.0)	(550.0)	(550.0)	(550.0)	(550.0)
Term Facilities	-	-	-	-	-	-
Revolving Credit Facility	-	-	(120.0)	(95.0)	(100.0)	(35.0)
Other debt	(6.1)	(6.1)	(12.0)	(12.4)	(13.5)	(8.4)
Total Gross Debt (excluding Securitisation)	**(556.1)**	**(556.1)**	**(682.0)**	**(657.4)**	**(663.5)**	**(593.4)**
Total Net Debt (excluding Securitisation)	**(458.2)**	**(458.2)**	**(602.7)**	**(516.9)**	**(651.2)**	**(490.2)**
Total Net Debt (excluding Securitisation)	**(458.2)**	**(458.2)**	**(602.7)**	**(516.9)**	**(651.2)**	**(490.2)**
LTM Adjusted EBITDA (post securitisation interest)	**224.9**	**213.5**	**227.5**	**223.9**	**217.8**	**225.8**
Q2 FY19 to Q2 FY18 Actual	**2.0x**	**2.1x**	**2.6x**	**2.3x**	**3.0x**	**2.2x**

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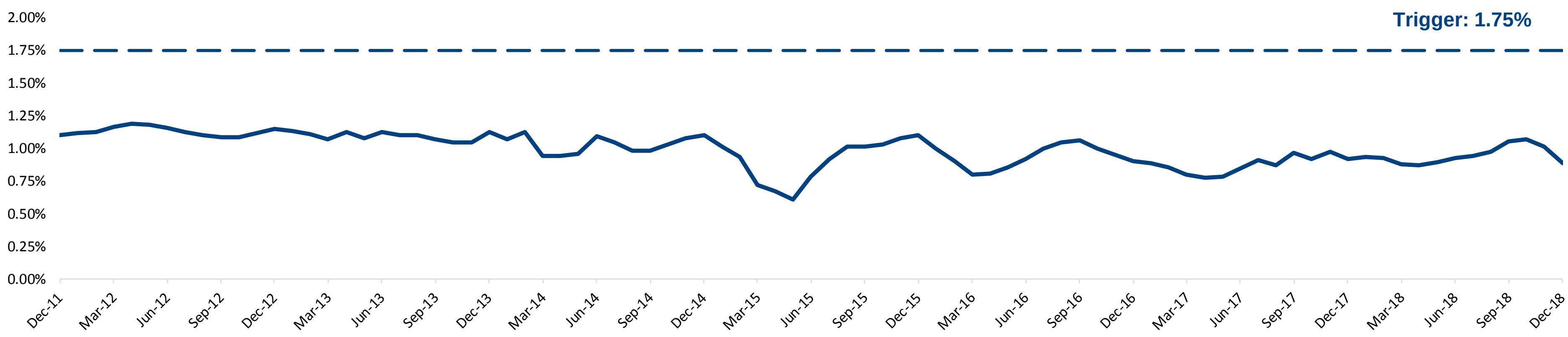
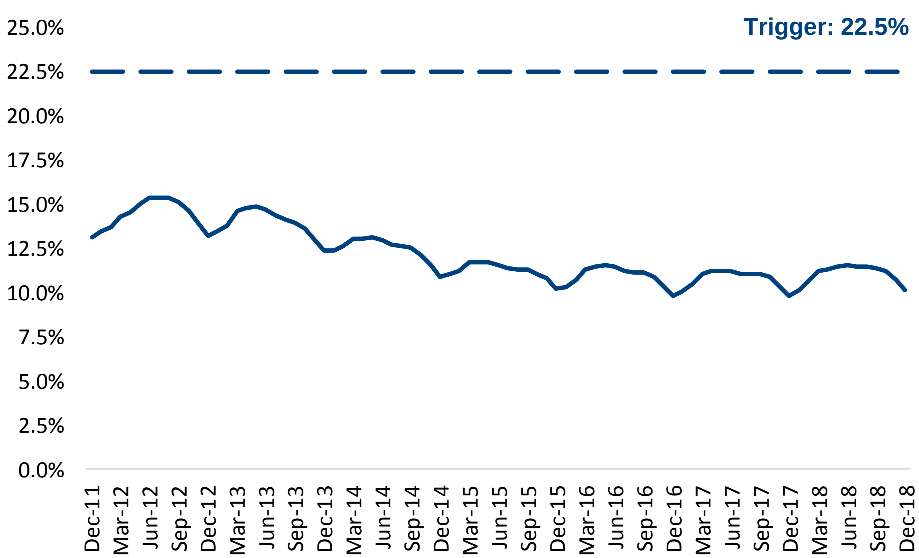
Appendix D: Securitisation Performance Covenants

Key triggers and historical performance – stable performance over economic cycles

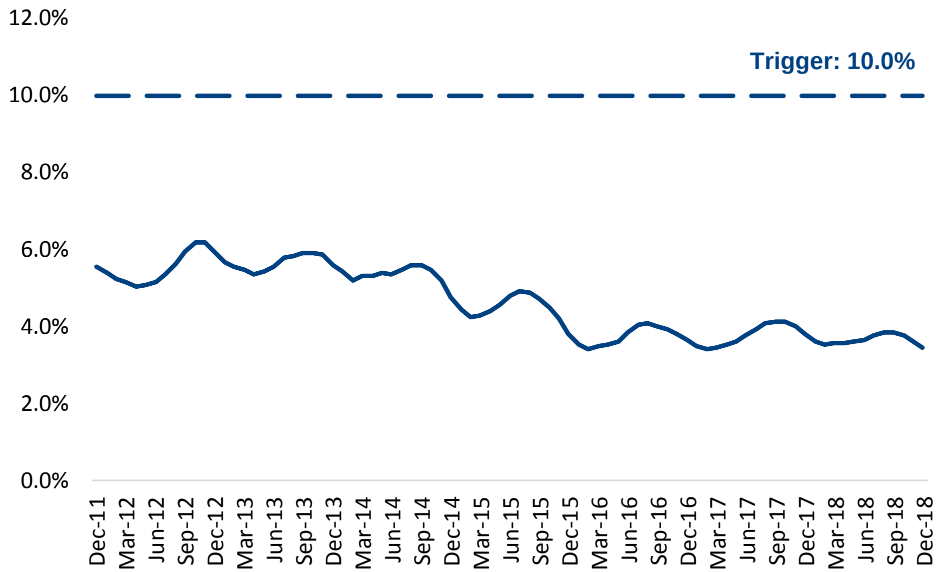
Defaults (3-month moving average)



1-5 months delinquency rates



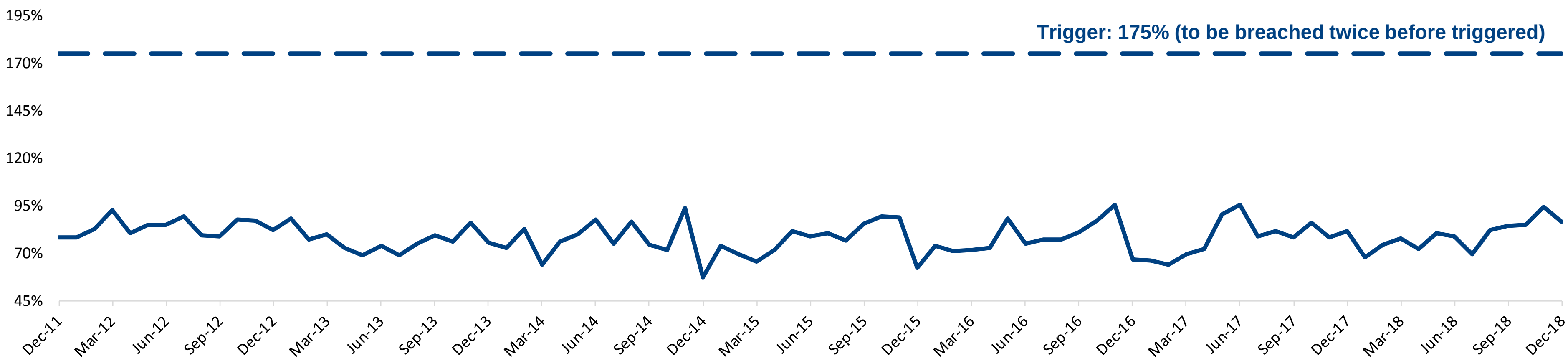
5+ months delinquency rates



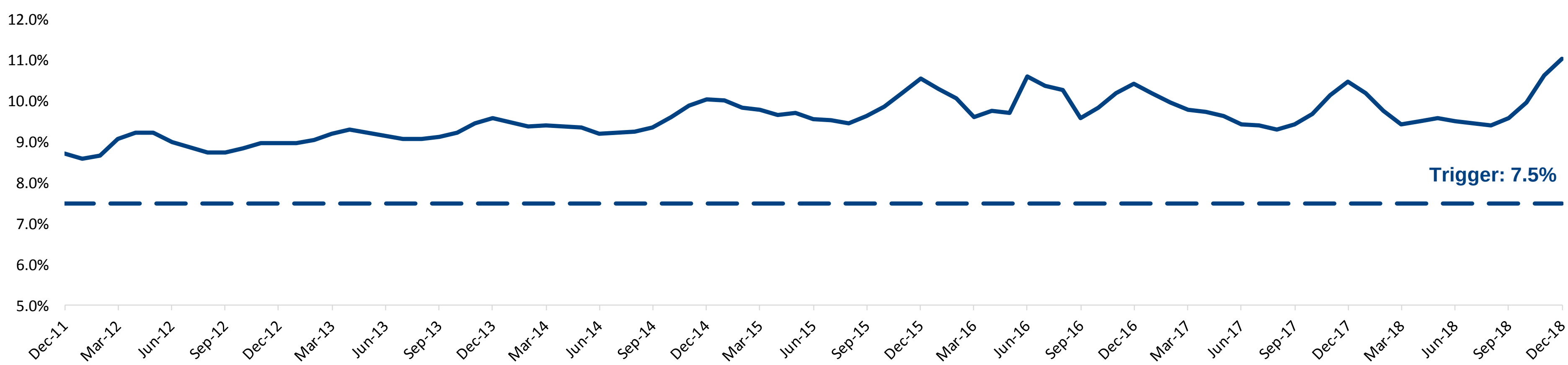
Appendix D: Securitisation Performance Covenants

Key triggers and historical performance – stable performance over economic cycles

Dilutions Ratio



Payment Rate (3-month moving average)



Appendix E: Balance Sheet

Balance Sheet

	Q2 FY19	Q2 FY18
Non-current assets	**608.1**	**526.6**
Current assets	**2,504.9**	**2,641.0**
of which:		
Inventories	117.2	124.8
Trade receivables [1]	1,539.1	1,662.4
Amounts owed by Group undertakings [1]	503.7	561.8
Cash and bank balances	97.9	103.2
Current liabilities	**(907.5)**	**(869.5)**
of which:		
Trade and other payables	(757.6)	(711.7)
Non-current liabilities	**(2,146.0)**	**(2,058.1)**
of which:		
Securitisation borrowings	(1,461.9)	(1,371.3)
Retirement benefit obligations	(66.3)	(79.5)
Total equity	**(59.5)**	**(240.0)**

Highlights

- **Non-current assets** increase driven by capital investment in strategic initiatives
- **Inventories** have decreased due to a targeted reduction in inventory cover days
- **Trade receivables** reflecting debtor book growth less increase in provision on adoption of IFRS 9 (£141m)
- **Amounts owed by Group undertakings** have decreased by £58m driven by the £100m of cash received from parent company in June 2018
- **Trade and other payables** driven by sales growth
- **Securitisation borrowings:** The ‘A’ Notes commitment of £1,325m and the ‘B’ and ‘C’ Notes commitment of £210m expire December 2021, giving a total maximum value of £1,535m. The securitisation borrowings also include £29.2m in relation to the extension of the securitisation programme to include the receivables of Shop Direct Ireland Ltd
- **Retirement benefit obligations** lower than prior year with both defined benefit schemes in technical provisions surplus. The liability reflects voluntary contributions agreed to encourage trustees to move towards buy-out

Notes
1. *Included within Trade and other receivables in Balance Sheet*
2. Q2 FY19 reported under IFRS 9. Q2 FY18 reported under IAS 39

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