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Celebrate all life's moments

Card Factory plc
FY23 Full Year results

3 May 2023

Agenda

1. ***Introduction*** — *Darcy Willson-Rymer*
2. ***Financial Performance*** — *Simon Comer*
3. ***Strategy Update*** — *Darcy Willson-Rymer*
4. ***Summary & Outlook*** — *Darcy Willson-Rymer*
5. ***Q&A*** — *Darcy Willson-Rymer & Simon Comer*

Section 1

Introduction

Darcy Willson-Rymer

FY23 a year of building momentum

- Positive momentum across the business driving revenue growth with cardfactory LFL [1] of +6.7%.
- Strong performance of stores and Everyday card ranges.
- Compelling customer proposition across card and gifts.
- Effective management of inflationary pressures driving margin growth.
- Continued strengthening of balance sheet with significant reduction in net debt compared to three years ago.
- Good progress on our strategic priorities – investing in our people, systems , IT infrastructure and ESG to deliver growth.

[1] "cardfactory LFL" is defined as Like-for-like sales in stores plus Like-for-like sales from the cardfactory website www.cardfactory.co.uk;

Section 2

Financial Performance

Simon Comer

A summary of our financial performance

Financial KPIs	FY23	FY22
Revenue	£463.4m	£364.4m
EBITDA	£112.0m	£85.6m
Profit before tax (PBT)	£52.4m	£11.1m
Basic earnings per share	12.9 pence	2.4 pence
Net debt	£57.2m	£74.2m
Net debt and lease liabilities	£162.6m	£194.0m
Cash from operations	£107.8m	£113.6m
Leverage	0.5x	0.9x
Operating cash conversion	96%	133%

Like-for-like Sales (LFL)	FY23	FY22
cardfactory LFL	+6.7%	-3.9%

Strong set of financial results ahead of management expectations.

First full year of trading since FY20 delivered encouraging PBT result: £41.3 million increase year-on-year.

Driven by strong sales performance with Group sales up £99 million year-on-year: +6.7% Card Factory LFL.

Successful mitigation of inflationary headwinds through targeted price increases, hedging and actions to improve productivity.

This delivered a robust cash performance: 96% operating cash conversion inclusive of clearing all Covid-19 related VAT and rent deferrals.

Continued focus on de-leveraging business driving significant net debt reduction.

- EBITDA is earnings before interest, tax, depreciation, amortisation and impairment. Net debt is borrowings less cash and cash equivalents.
- Leverage is EBITDA divided by net debt, expressed as a multiple
- Operating cash conversion is cash from operating activities as a percentage of EBITDA
- Profit before tax includes £3.5 million of one-off benefits due to the release of CJRS provision and refinancing of debt facilities.
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Momentum in store sales

Strong performance in stores +7.6% LFL compared to FY22. Total Store sales for FY23 slightly ahead of pre-pandemic levels with LFL of -0.3% compared to FY20.

Approximately two-thirds of LFL growth driven by targeted price increases, with both transactions and average basket values increased compared to prior year.

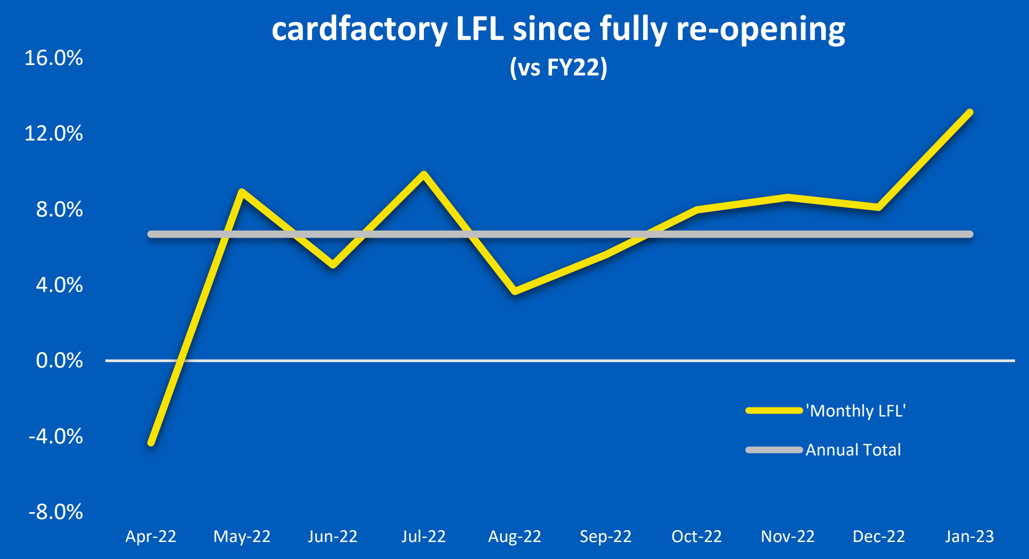
Encouraging sales performance with strength in Everyday ranges.

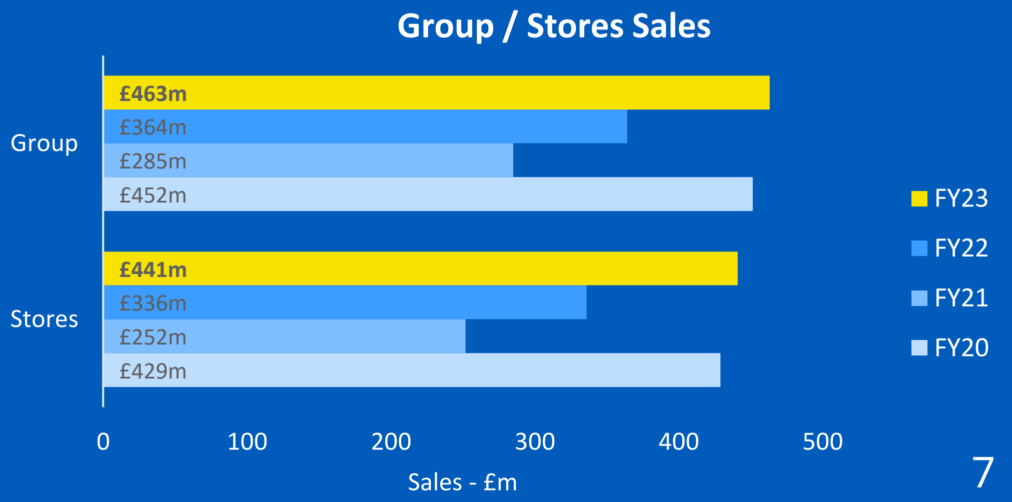
Double-digit LFL growth in wedding, life moments and children's categories.

Targeted price increases supported mitigation of inflationary impacts with minimal impact on customer switching.

Continued focus on expansion in under-penetrated markets (London & Republic of Ireland); growth in store portfolio to 1,032.

Like-for-like Sales (LFL)	FY23	FY22
Stores (UK & Republic of Ireland)	+7.6%	-5.7%
cardfactory LFL	**+6.7%**	**-3.9%**





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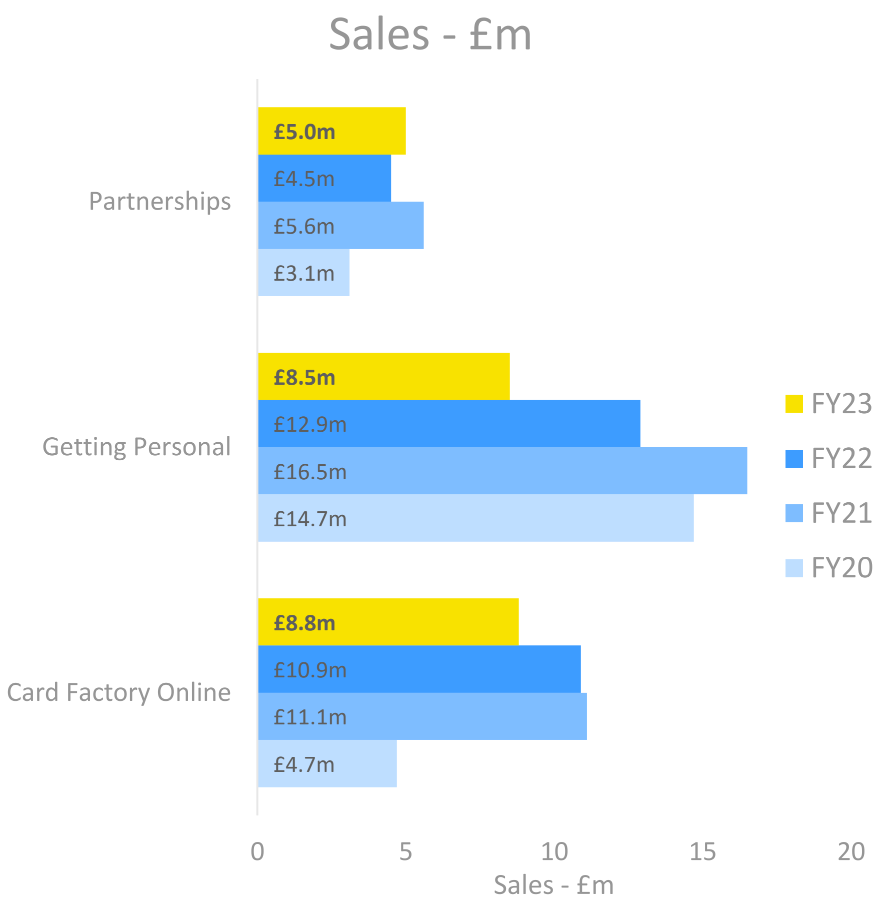
A strategic focus on partnerships and online



Partnerships

- 10% increase in sales year-on-year - robust performance of existing partnerships.
- 3% increase in points of sale – now selling through 949 partner locations.
- Investment in team and capability to support account management.
- Foundations in place to support future growth.

Online *(cardfactory.co.uk and gettingpersonal.co.uk)*

- Sales lower than FY22 – impacted by Royal Mail strikes, phase of investment in the business, and the return of customers to the high street following the pandemic.
- cardfactory.co.uk sales remain significantly ahead of pre-pandemic levels.
- Phased expansion of online range (flowers, gift experiences, alcohol) accretive to sales.
- New gettingpersonal.co.uk platform deployed in March 2023 which will enable range development.

Price and cost control delivering margin improvement

	FY23	FY23 % of Revenue	FY22	FY22 % of Revenue	YoY
Sales	**£463.4m**		**£364.4m**		
COGS	(£145.3m)	(31.4%)	(£121.5m)	(33.4%)	2.0 ppts
Product Margin	**£318.1m**	**68.6%**	**£242.9m**	**66.6%**	**2.0 ppts**
Store & Warehouse Wages	(£109.6m)	(23.7%)	(£91.4m)	(25.1%)	1.4 ppts
Store Property Costs	(£26.3m)	(5.7%)	(£15.8m)	(4.3%)	(1.4 ppts)
Other Direct Expenses	(£21.5m)	(4.7%)	(£19.2m)	(5.2%)	0.5 ppts
Gross Profit	**£160.7m**	**34.7%**	**£116.5m**	**32.0%**	**2.7 ppts**
Operating Expenses	(£48.7m)	(10.5%)	(£38.9m)	(10.7%)	0.2 ppts
Other Income	-	-	£8.0m	2.2%	(2.2 ppts)
EBITDA	**£112.0m**	**24.2%**	**£85.6m**	**23.5%**	**0.7 ppts**
Depreciation, amortisation & impairment	(£48.2m)	(10.4%)	(£54.0m)	(14.8%)	4.4 ppts
Net Finance Expense	(£11.4m)	(2.4%)	(£20.5m)	(5.5%)	3.1 ppts
Profit Before Tax	**£52.4m**	**11.3%**	**£11.1m**	**3.2%**	**8.1 ppts**

Higher sales and costs reflect increased trading days compared to FY22 – margins improved through a combination of targeted price increases, efficiency gains and inflation mitigation.

COGS
- Product margins enhanced by 2.0 ppts as a result of targeted price increases, 2.4 ppts on a constant currency basis.
- Effective currency hedge in both periods with achieved rate comparable – retain good hedge in place for coming year.
- Management of material inflation pressures.

Store & Warehouse Wages
- 1.4ppts improvement - living wage increases offset by efficiency gains; no trading interruptions.
- One-off £2.5 million benefit following CJRS settlement.

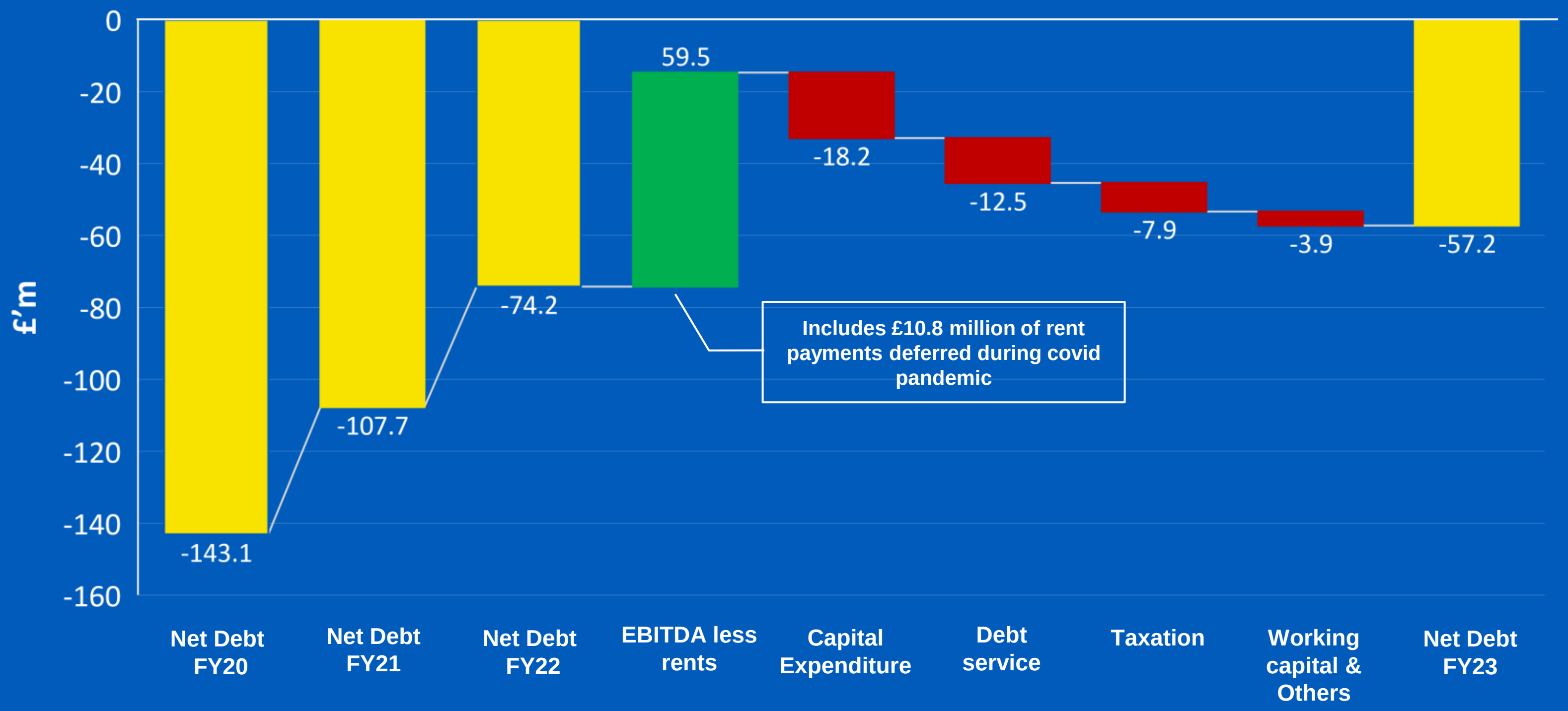
Property Costs
- Cessation of business rates reliefs from April 2022

Other Direct Expenses
- Energy costs hedged to September 2024.

Operating Expenses
- Investment in people and infrastructure to deliver growth.

Depreciation & Finance Expenses
- Prior year includes increased store impairment charges following pandemic
- Finance costs reflect normalisation of debt portfolio and financing arrangements following April 2022 refinancing

Substantial reduction in Net Debt from FY20 to FY23



Year	Net Debt £m	Leverage[1]
FY20	(143.1)	1.8x
FY21	(107.7)	2.4x
FY22	(74.2)	0.9x
FY23	(57.2)	0.5x

1. Leverage calculated as Net Debt (excluding lease liabilities) / EBITDA.

- Net debt, excluding lease liabilities, of £57.2 million is significantly reduced compared to a 3-year pre-pandemic view (FY20: £143.1 million).
- Reflects a strong performance, with VAT and rent deferrals now fully repaid.

Free cash flow reflects post Covid-19 normalisation

	FY23 £m	FY22 £m	Change £m
Profit before tax	**52.4**	**11.1**	**41.3**
Net finance expense	11.4	20.5	(9.1)
Depreciation, amortisation and impairments	48.2	54.0	(5.8)
Corporation tax	(7.9)	0.1	(8.0)
Operating cash flow after tax before working capital	**104.1**	**85.7**	**18.4**
Working capital and other movements	(4.2)	28.0	(32.2)
Operating cash flow net of working capital movements	**99.9**	**113.7**	**(13.8)**
Lease liability payments (rent)	(52.5)	(54.8)	2.3
Operating cash flow less rents	**47.4**	**58.9**	**(11.5)**
Capex	(18.2)	(6.6)	(11.6)
Net interest paid	(10.7)	(9.8)	(0.9)
Free cash flow	**18.5**	**42.5**	**(24.0)**
Net repayment of borrowings	(45.1)	(8.0)	(37.1)
Other financing costs	(1.8)	(8.7)	6.9
Net cash flow	**(28.4)**	**25.8**	**(54.2)**

Operating cash flow before working capital significantly increased reflecting improved trading performance.

- Pre-tax operating cash conversion (96%) [1]
- Working capital movement in FY22 (+£28m) included cash inflows associated with Covid-19 grants, CJRS and fall in inventory due to global supply chain issues.
- FY23 outflow – increase in inventory following cessation of supply chain issues that affected FY22 (£11m) and settlement of CJRS (£5m provision released / utilised) offset by timing of VAT payments.
- Lease liability payments in both periods include rents deferred from pandemic (£10.8 million in FY23) – no deferrals outstanding at 31 January 2023.
- Investment in strategic projects drives increase in capex year-on-year.

1. Operating cash conversion calculated as Operating Cash Flow before Corporation Tax divided by EBITDA

Enhanced liquidity and pathway to dividends

Debt Facilities

- £150m facilities agreed April 2022 - £100m RCF, £11m Term Loan ‘A’, £19m Term Loan ‘B’, and £20m CLBILs.
- Scheduled term loan and CLBILs repayments commenced January 2023 (£6m).

Liquidity

- Reduction in net debt and leverage – strengthened balance sheet and foundation for investment and growth.
- Headroom on current facilities - £75 million undrawn at year-end.

Capital Policy

- Restrictions on dividends continue to apply until CLBILs and Term Loan ‘A’ fully repaid – January 2024.
- Intention to consider dividend payments after this point – subject to maintaining dividend cover of 2-3x consolidated profit and leverage[1] below 1.5x.

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[1] Leverage calculated as net debt divided by EBITDA and assessed across the financial year

A strong financial performance

- A strong set of financial results underpinned by positive trading performance and +6.7% LFL sales.

- Improved margins delivered by successful management of inflationary pressures – targeted price increases, hedging and productivity actions.

- Refinancing delivered, strengthened balance sheet with substantial reduction in net debt.

- Foundations in place for strategic growth and pathway to recommencing dividends.

Section 3

Strategy Update

Darcy Willson-Rymer

Opening Our New Future

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The leading omnichannel retailer in our sector with extensive UK and ROI footprint and growing international presence

At cardfactory, we make sharing in and celebrating life's moments special and accessible for everyone

Value/Choice

Leadership in card

We will always be the leader in card range and value

Authority in Gifts & Celebration Essentials

We will build authority as a destination for gifts & celebration essentials

Convenience

Digital Experience Innovation

We will move at pace to innovate in technology and digital experience

Extensive UK & ROI Footprint

We will elevate our store experience, grow our footprint and drive LFL transactions

Growing International Presence

We will invest and grow our brand and business in key international markets

Experience

Customer & Community Focus

We will use data and insights to put customers at the heart of our business

Passionate Colleagues

We will invest in our colleagues to recognise their passion and commitment, and ensure they share in our success

Scalable Central Model Driving Org Efficiency

Creative

Insight driven product, design & creative content publisher at the heart of cardfactory IP

Manufacturing

Ability to scale up production to meet increased demand in line with projections

Technology

Enabling greater efficiency, more agile practices and the ability to do business world-wide

Significant milestones achieved in card and gifts

Leadership in card - FY23 milestones:

- Range development and pricing strategy drove revenue growth.
- Permanent 3 for 2 mechanic on general card range delivered sales growth.
- Introduced expanded diversity across card ranges.

Gifting opportunity - FY23 milestones:

- Everyday LFL gifting growth +11.4%.
    - Confectionery largest sales growth area at +111%
    - Tableware achieved the largest volume increase at +124%
- Introduced third-party brands and licensed ranges.
- Expanded soft toys range and added boxed and pocket money toys.
- Online, five new categories introduced.

Foundations in place for omnichannel and digital growth

First Omnichannel proposition live – FY23 milestones:

- Successful Click & Collect trial across 87 stores.
    - AOV 16% higher than online average.
    - 7% of customers purchased an additional item in store.
- UK nationwide rollout completed at end of April with further developments to the service planned in FY24.
- Continued progress on delivery of phase 2 of ERP programme.

Digital progress – FY23 milestones:

- Multiship functionality introduced.
- Major app update with new features added.
- Completed replatforming of cardfactory.co.uk and gettingpersonal.co.uk.

Successful trial leads to new Store Evolution Programme

Extensive UK&I Store footprint - FY23 milestones:

- Successful Model Store trial informing development of Store Evolution Programme which involves 3 components
    1. Space realignment - reallocating space so that slightly more priority for gifts than before. 750 stores this year with capex light payback within a year.
    2. Display reorganisation - modifies how we present cards and gifts in our stores with cards arranged around the perimeter while gifts will be placed in the central aisles. 50 stores this year as we fine-tune costs and returns.
    3. Updated store design - for new stores or a select number of full refurbishments. The costs are in line with existing refit costs and there is no impact on our store capex forecasts.
- Expansion in underpenetrated markets: Central London trial and expansion in Republic of Ireland.

Positive progress on partnerships

New partnership agreement signed:

- Long-term master franchise agreement signed with Middle East-based, Liwa, who will act as our exclusive franchise partner in the region, to open c. 36 cardfactory branded stores in the Middle East.

Acquisition of SA Greetings:

- Foothold into target South African market with 28 “Cardies” retail stores.
- Local wholesaling offer through the company’s printing, merchandising and warehousing capacity.
- Provides opportunity to build out further wholesale partnerships in South Africa.

Partnerships - FY23 Milestones:

- Market opportunity research validates international markets of interest.
- Foundations scoped and in development to support franchise and wholesale partnership models.

Updates underway to our five-year ESG strategy and roadmap

ESG - FY23 Milestones:

- Five-year ESG strategy update and roadmap development underway, including refreshed materiality assessment and assessment of our scope 3 greenhouse gas emissions.
- Entered into partnership with the Woodland Trust.
- Awarded 2-star ‘outstanding’ accreditation from Best Companies.
- Ranked #1 best big retail business and #3 best big company to work for in Best Companies Q1 2023 league table.

Section 4

Summary & Outlook

Darcy Willson-Rymer

FY23 in summary

- Encouraged by continued positive momentum in performance.
- Demonstrated our ability in FY23 to mitigate inflationary headwinds.
- Investment in people, systems and IT infrastructure to deliver on our strategy.
- Strategy delivery underway with significant progress now beginning to show through in results.
- Financial strength of the business continues to build.

Confident outlook for continued strategic and financial progress

- Expect performance for FY24 to reflect continued progress on our strategic growth initiatives.
- Trading since year-end has been encouraging and slightly ahead of the Board's expectations.
- Robust performance across both Valentine’s Day and Mother's Day in FY24.
- Confident that we will continue to make strategic and financial progress in the year ahead.
- Pathway for revenues of around £650m and margins of around 14% in FY27 will be outlined at our Capital Markets Strategy Update.

Section 5

Q&A

Darcy Willson-Rymer &
Simon Comer

This announcement contains certain forward-looking statements with respect to the financial condition, results of operations, and businesses of Card Factory plc. These statements and forecasts involve risk, uncertainty and assumptions because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. These forward-looking statements are made only as at the date of this announcement. Nothing in this announcement should be construed as a profit forecast. Except as required by law, Card Factory plc has no obligation to update the forward-looking statements or to correct any inaccuracies therein.

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