

## Card Factory plc (“Card Factory” or the “Group”)

### Preliminary results for the year ended 31 January 2019

#### *Robust performance in a challenging consumer environment*

Card Factory, the UK’s leading specialist retailer of greeting cards, dressings and gifts, announces its preliminary results for the year ended 31 January 2019 (‘FY19’).

#### Summary

- Grown market share in volume and value of single cards in a stable card market
- Flat like-for-like (“LFL”) sales despite widespread high street footfall decline
- Strong seasonal and non-card performance underpinned by design and innovation
- Extending store footprint and trialling new routes to market and formats through third party partnerships
- FY19 profit in line with expectations after impact of easing cost headwinds
- Strong cash generation and robust returns to shareholders

#### Financial highlights

Financial Metric	FY19	FY18	Change
Revenue	<b>£436.0m</b>	£422.1m	3.3%
Card Factory LFL sales growth*	<b>(0.1%)</b>	+2.9%	
Underlying EBITDA*	<b>£89.4m</b>	£94.0m	(4.9%)
EBITDA	<b>£93.6m</b>	£86.1m	8.7%
Underlying operating profit*	<b>£78.5m</b>	£83.4m	(5.9%)
Operating profit	<b>£70.8m</b>	£75.5m	(6.2%)
Underlying profit before tax*	<b>£74.6m</b>	£80.5m	(7.3%)
Profit before tax	<b>£66.6m</b>	£72.6m	(8.3%)
Underlying Basic EPS*	<b>17.6p</b>	18.9p	(7.1%)
Basic EPS	<b>15.0p</b>	17.1p	(12.0%)
Ordinary Dividend Cover	<b>1.89x</b>	2.03x	
Leverage	<b>1.58x</b>	1.72x	

- Total ordinary dividend per share, including proposed final, maintained at 9.3p (FY18: 9.3p)
- A special dividend of 5.0p per share was paid in December 2018 (FY18: 15.0p)
- We remain focused on shareholder returns and committed to distributing surplus cash to shareholders; a further return is expected to be made towards the end of the FY20 financial year

\* See Explanatory note 2 “Alternative Performance Measures” for further information and definitions

#### Business highlights

Further progress on all four pillars of the Group’s growth strategy:

##### 1. Like-for-like sales

- Like for like sales impacted by footfall
- Further improvements in card ranges and designs, including new everyday premium ranges
- Strong performance in seasonal cards across key occasions
- Continued growth in average basket value with further new ranges in non-card offering
- Market-leading quality and price position maintained
- Utilising EPOS data to enhance product offer and range

##### 2. Continuing new store roll out

- 51 net new stores opened in the period, bringing the total store estate to 972 (including seven in the

Republic of Ireland)

- First franchise store opened in Jersey
- Strong pipeline of new store opportunities for FY20

### 3. Delivering business efficiencies

- Underlying EBITDA margin of 20.5% (FY18: 22.3%) reflects flat LFL performance and cost headwinds but remains industry leading
- Improved efficiency in vertical integration driving savings, particularly through lower printing costs with further opportunities identified for FY20 and beyond
- Targeted business efficiencies achieved, increasing in-store productivity and warehouse and supply chain optimisation
- Confidence in the ongoing plan with FY20 business efficiencies identified to mitigate easing cost headwinds

### 4. Development of complementary online sales channels

- **cardfactory.co.uk** sales increased by 56.3% against strong prior year comparatives and was a profitable contributor to the Group
- Attracted new customers to the online brand and introduced new products not available in store
- **gettingpersonal.co.uk** sales decline was disappointing; the increasing cost of customer acquisition and promotional led competitor pricing resulted in a substantial reduction in EBITDA in the year.

#### **Karen Hubbard, Chief Executive Officer, commented:**

“We delivered a robust performance for the year, maintaining flat like-for-like sales despite a tough consumer environment. Our focus has been on continual improvements to our customer offer, producing better, more innovative ranges of everyday and seasonal cards and maintaining our quality and value positioning, while also being more efficient and driving savings across the business. EBITDA for the year however, was impacted by lower footfall and Getting Personal’s disappointing performance.

“We continue to look to leverage our unique, vertically integrated model to improve our competitive advantage and drive margins. We have further initiatives planned for the current year which will bring further production back to the UK, whilst also implementing additional plans that will allow an improved focus on customer service in store.

“New stores remain our biggest growth channel, and we opened a net 51 in the year, with a good pipeline going forward. We are now also exploring other opportunities to extend our reach beyond 1,200 stores in the UK and internationally to drive profitable growth. Encouragingly, some initial trials with Aldi in the UK, in an Australian retailer, and with a franchise partner in Jersey show that the Card Factory brand is a footfall driver that has real resonance; we will pursue these types of opportunities to open new routes to market where we see attractive returns.

“Whilst the new financial year is just two months old, we are satisfied with the start we have made and are particularly pleased with record seasonal performances from Valentine’s Day and Mother’s Day. As previously stated, EBITDA for the forthcoming year is anticipated to be broadly flat year-on-year (excluding the impact of IFRS 16) in light of various external pressures, but we are confident we are laying the right foundations for future profit growth, whilst continuing to deliver healthy returns of cash to our shareholders.”

#### **Preliminary results presentation**

A presentation for analysts will be held today starting at 9.00am at UBS Limited, 5 Broadgate, London EC2M 2QS. Those analysts who wish to attend are requested to contact Nessyah Hart of MHP on the number below or at [nessyah.hart@mhpc.com](mailto:nessyah.hart@mhpc.com). A copy of the presentation will be made available on the Card Factory investor relations website ([www.cardfactoryinvestors.com](http://www.cardfactoryinvestors.com)).

#### **Enquiries**

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## Explanatory notes

### 1. Background information

Card Factory focuses on the value and mid-market segments of the UK's large and resilient greeting cards market, in addition to offering customers a range of complementary products associated with card giving occasions.

Card Factory's mission is to help customers celebrate their life moments by providing a range of quality cards, wraps, dressings, party and gifting products at value prices. The Group principally operates through its nationwide chain of over 950 Card Factory stores, as well as through its transactional web sites: [www.cardfactory.co.uk](http://www.cardfactory.co.uk) and [www.gettingpersonal.co.uk](http://www.gettingpersonal.co.uk).

Card Factory commenced operations in 1997 with just one store and has expanded its store estate primarily through organic growth into a market-leading value retailer with a nationwide presence.

The Group's stores are in a wide range of locations including on high streets in small towns through to major cities, shopping centre developments, out-of-town retail parks and factory outlet centres.

Since 2005, Card Factory has developed a vertically integrated business model with an in-house design team, an in-house printing facility and central warehousing capacity of over 360,000 sq. ft. This model differentiates the Group from its competitors by significantly reducing costs and adding value to customers in terms of both price and quality.

### 2. Alternative Performance Measures ("APMs")

This announcement contains the following APMs:

- "EBITDA" and "Underlying EBITDA" are defined in note 4 of the attached preliminary results;
- "Leverage" is calculated as the ratio of net debt to Underlying EBITDA for the previous 12 months;
- "Underlying" profit figures exclude certain transactions to provide a more meaningful comparison of performance year-on-year (see note 1 and the accounting policies to the attached preliminary results). The non-underlying loss in the year principally relates to the impairment of getting personal goodwill, partly offset by future foreign exchange transactions that cannot be hedge accounted; and
- "Like-for-like" sales is defined below and is consistent year-on-year.

The Group defines Card Factory store like-for-like ("LFL") sales as the year-on-year growth in sales for Card Factory stores which have been opened for a full year, calculated on a calendar week basis. The reported LFL sales figure excludes sales:

- made via the Card Factory website, [www.cardfactory.co.uk](http://www.cardfactory.co.uk);
- made via the separately branded personalised card and gift website, [www.gettingpersonal.co.uk](http://www.gettingpersonal.co.uk);
- by Printcraft, the Group's printing division, to external third-party customers; and
- from stores closed for all or part of the relevant period (or the prior year comparable period).

Card Factory stores are included in the reported LFL figures for each week of trading completed after having been open for a full 52 weeks, as compared to the same relevant week in the previous period.

Total Card Factory LFLs include the impact of the Card Factory website.

The Group defines Getting Personal LFL sales as the year-on-year growth in sales for the Getting Personal website, calculated on a calendar week basis.

### 3. Cautionary Statement

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.

**Card Factory plc (“Card Factory” or the “Group”)  
Preliminary results for the year ended 31 January 2019**

**CHAIRMAN’S STATEMENT**

Card Factory performed robustly in FY19 with like-for-like sales flat in a challenging consumer environment, whilst profits were impacted by headwinds from foreign exchange and national living wage.

Whilst this year marked the fifth anniversary of our IPO, the year also marked the 21st anniversary of the Company’s formation. Having started life as a local family-owned discounter, the Group has developed into a market leading, high margin, national, value retailer with over 950 stores and two websites. During the last 21 years, the Group has demonstrated an ability to increase market share and generate significant profit, resulting in strong returns for shareholders. The Board’s objective is to continue to build on this strong track record in the years ahead.

The Group remains focused on its successful four pillar growth strategy, underpinned by its unique vertically integrated model, which provides significant competitive advantage. This is of particular value in the current, challenging consumer environment. In our Chief Executive Officer’s report, Karen provides an update on the Group’s current strategic priorities. The Board is excited by the opportunities, both strategic and operational, that Karen and her team are exploring to improve further an already very successful business.

Since August 2018, in recognition that we are approaching our 1,200 UK store target, we have been conducting a strategic review of how we can expand the ways in which customers access the Card Factory brand both at home and in new markets, and we are currently undergoing a number of trials to test these potential new sales channels.

The Board remains mindful of the continuing risk to the business from the range of uncertain Brexit developments and outcomes, including volatility in the strength of Sterling versus the US dollar and the threat of supply chain disruption due to delays at UK ports. The short-to-medium term risk of FX volatility is addressed by our existing currency hedging policy and we have alleviated the supply chain risk by increasing our inventory levels.

The Board has maintained the total ordinary dividend for the year at 9.3p per share, reflecting our strong cash generation in a challenging consumer environment and our confidence in the future prospects of the business. This is in addition to the 5.0p per share special dividend paid in December 2018. In line with our stated capital policy, we currently expect to make a further return of surplus cash to shareholders towards the end of the current financial year, and further information is included in our CFO’s review.

**Paul Moody**  
Chairman

16 April 2019

## CHIEF EXECUTIVE OFFICER'S REVIEW

### Overview

I am pleased to report that Card Factory produced a robust performance in FY19 despite poor high street footfall and a challenging consumer environment. Like-for-like sales were flat for the year, with record volume and sales performances across the year in most seasonal periods and our highest ever sales day in Card Factory's history during the Christmas trading period, whilst sales in everyday cards were more subdued. We continue to grow our market share in single and boxed greeting cards by both volume and value.

Our unique business model, with its integrated supply chain, together with continued investment in technologies, allows us to provide an unrivalled offer to our customers whilst generating attractive gross margins. We utilised insights and efficiencies gained through our EPOS system to make informed decisions regarding product re-design and ranging. We see further opportunities to continue to grow sales, deliver cost efficiencies and improve our market share.

The cardfactory.co.uk online business continued to grow strongly as we expanded our product offering, which is resonating well with customers, whilst the gettingpersonal.co.uk performance was disappointing, impacted by an increase in cost of customer acquisition and aggressive competitor discounting.

Whilst margins were impacted by the prevailing foreign exchange and national living wage headwinds already identified, these combined pressures are easing and the margin impact has been well managed as we continue to deliver best in class EBITDA margins. We have developed a robust programme of business efficiencies to ensure we maintain margins.

Cash flow generation in the period remained strong with a focus on returning surplus cash to shareholders.

Whilst our four pillar strategy has driven our store and online growth, we are exploring additional opportunities in alternative sales channels and have conducted a number of trials in the year to test these in the UK and internationally.

### Market update

The latest independent research, produced by OC&C in March 2019, has confirmed that a number of important and established market trends that were highlighted at the time of our IPO in 2014 remain as valid today:

- the market for single greeting cards is well established, robust and resilient; it continues to show modest growth in value terms, despite a slight decline in volume, as expected. The number of cards purchased by 18–34 year olds has also increased consistently for the last four years;
- Card Factory further increased its market share in single greeting cards to 32.4% by volume and 19.3% by value;
- 62% of card buyers have shopped in Card Factory in the last 12 months, with 82% of all visits planned;
- there continues to be no meaningful shift to digital greeting cards, with fewer customers than ever suggesting that they are replacing a physical card with a digital greeting;
- there has been continued significant growth in seasonal events such as Valentine's Day and Thank You Teacher;
- the online personalised and non-personalised card segment remains an attractive niche for Card Factory where we have made good progress and delivered growth, albeit this still represents a relatively small proportion of the market at 4.6%;
- 50% of Card Factory store customers are unaware of the Card Factory online business, representing a massive opportunity to exploit; and
- Card Factory continues to maintain significant clear blue water versus its competitors in terms of the consumer's perception of value and quality.

During the year we were recognised as the 10<sup>th</sup> most popular retail brand by YouGov and the 26<sup>th</sup> most famous brand, showing the continued strength and recognition of the Card Factory proposition. In addition, we were recognised as the leading value brand in the OC&C value proposition index for the fourth year running.

## Strategic performance

We continue to make good progress against our four established strategic pillars:

### **1. Like-for-like ('LFL') sales growth**

Card Factory stores delivered like-for-like sales in the year of -0.5% (FY18: +2.6%) reflecting lower levels of high street footfall and consumer confidence, as seen across the general retail sector. Including [cardfactory.co.uk](http://cardfactory.co.uk), LFL sales from the Card Factory fascia were -0.1% (FY18: +2.9%), showing the increasing impact of online growth.

In the second half of the year, we extended our premium ranges that have been successful in seasons, into our male and female everyday ranges, which has proved very popular. We merchandised these extra special ranges at £1.49 and £1.79 into our core racks in every store, holding our entry price point at 59p, providing customers with more choice and ensuring that they could find the right card for the recipient at Card Factory value.

Our EPOS data has enabled us to focus our unique in house design studio on redesigning underperforming lines, rather than redesigning by rotation.

For everyday cards in FY20, we will continue to focus on introducing new styles and designs, whilst preserving our value offer. Our focus remains on maintaining the gap in both price and quality compared to the competition.

In our complementary non-card offering, our design and buying teams developed a number of new ranges, including a broader selection of wedding gifts, new gift bags and boxes and new trend-led designs. This design and innovation has been well received by our customers and is reflected in Card Factory's transaction volumes outperforming the footfall declines seen on the high street. Our non-card ranges continue to perform strongly as incremental purchases to our card ranges, further increasing our average basket value. In addition to new designs, we introduced more promotional activity focused on driving sell through of existing stock, whilst still achieving targeted margin and providing our customers with more choice and even better value. This, combined with offering customers gift cards and stamps, ensured we continue to provide them a compelling one stop shop for their card and gifting needs.

For the year as a whole, the proportion of sales from non-card items increased to 44.6% (FY18: 44.0%).

Looking forward, we intend to maximise LFL growth through: (i) ensuring we leverage our design studio to continue to innovate across both our card and complementary non-card ranges; and (ii) focusing on retail disciplines, with greater availability through improved stock management, better space and merchandising planning, a greater focus on customer service and operational standards, and the removal of tasks from store colleagues to enable them to focus on helping our customers.

We continue to make good progress with our Card Factory website, [cardfactory.co.uk](http://cardfactory.co.uk), which performed strongly during the year. We remain confident that further progress within the online market is possible, with further strategic investment planned in FY20 to enable click and collect and in-store ordering, to take increased market share of the online channel and leverage the number of customers in our stores that have never shopped the Card Factory brand online.

### **2. New store roll out**

Our internal property team has yet again enabled us to achieve our target net new store openings for this year. We opened 51 net new stores in FY19 across a variety of retail locations including high streets, shopping centres and retail parks, providing the opportunity for more customers to experience the proposition in areas where they did not previously have easy access to a Card Factory store. In total we had 965 UK stores (31 January 2018: 915), with a further seven stores in the Republic of Ireland (31 January 2018: six), at the end of the financial year. The quality of our estate remains very strong: of our stores open for over one year, only c1% were loss making.

Looking forward, we have a strong pipeline of potential new stores, including a number of opportunities in retail parks, a segment of the market where we are seeking to increase our presence; however there will continue to be a blended mix of different retail locations. Given the success of our trial stores in the Republic of Ireland, we will look to open further stores this financial year, having now developed a greater understanding of the market and customer. The plan for the year ahead is to open around 50 net new stores (including stores in the Republic of Ireland); however we will only open new stores if they meet the necessary return thresholds.

As well as assessing new store opportunities, we are very mindful of the ongoing high street challenges and have introduced a half-yearly review of all stores in the portfolio to agree the strategy for each, in terms of potential opportunities to upsize, downsize, co-locate or relocate. This helps to ensure the whole of the estate is well positioned for our customers and the level of footfall. In addition, we agree relatively short term leases to ensure we have the flexibility to adapt to the changes on the high street.

We continue to monitor developments across our competitors and the broader retail space to ensure that we are well positioned to take advantage of property opportunities that may materialise. Opening new stores remains appropriate for Card Factory in the medium term to bring our offer to parts of the UK and the Republic of Ireland where customers don't have access to our quality and value proposition.

Across both geographies, we continue to target a cost-effective estate of 1,200 stores, capable of driving strong returns whilst maintaining the quality inherent in the Card Factory brand.

### **3. Business efficiencies**

The Group has consistently delivered best in class operating profit margins. In order to continue achieving this, whilst offering our customers value, we have to maintain the most efficient cost base.

As identified in last year's preliminary results announcements, we anticipated some, albeit reducing, cost pressures in the year, in particular foreign exchange and national living wage costs. To mitigate these we introduced a multi-year programme of cost efficiencies. This year every one of those areas delivered their expected efficiencies and provided us with a solid platform for ongoing efficiency and lean operation.

The key business efficiency areas are identified below:

- (1) in ensuring we maintain high margins, we continue to focus on vertical integration, driving improvements in our product quality through better and more efficient production techniques which has enabled us to further enhance our competitive position and reduce our unit costs of production;
- (2) better buying and sourcing in a tough commodity market through which we made further improvements in our product margin;
- (3) we delivered significant improvements in our supply chain enabling us to reduce our distribution costs through innovations such as voice picking, warehouse consolidation and improved warehouse productivity. This is part of a multi-year programme of supply chain improvement;
- (4) improved operational productivity through the removal of tasks that took our colleagues off the shop floor and simplified store operations. There are some significant ongoing programmes of in-store efficiency to enable better focus on the customer and make it easier for our colleagues; and
- (5) we continued a programme of cost efficiency, in areas such as targeted rent savings at lease renewal, driving down operating costs across the business and Loss Prevention delivering targeted reductions in stock and cash loss.

These programmes continue in FY20.

### **4. Online development**

We have two transactional websites – [cardfactory.co.uk](http://cardfactory.co.uk) and [gettingpersonal.co.uk](http://gettingpersonal.co.uk) and a Group Digital Director who is dedicated to the strategy and growth of these channels.

The **[www.cardfactory.co.uk](http://www.cardfactory.co.uk)** offer has continued to grow strongly over the last year. The team delivered sales growth of 56% (FY18: 67%), through focusing on four key areas – product design, range growth, improving the customer experience and growing our customer base.

Our online proposition is resonating well with customers. Through listening to their feedback and analysing trading patterns, we have expanded our ranges and offered increased newness in design and choice to help our customer celebrate their life moments. We continue to test new propositions to understand what is of most appeal to our existing and new customers.

As our customers' shopping habits evolve and consumer expectations around convenience increase, we will continue to develop the online offer into a multi-channel proposition. In order to attract more customers to our website, we know we need to continue to improve the customer experience and the way in which our customers can interact with us both online and in store and this is a key opportunity which we will be developing in FY20. We see material growth opportunities in this area.

The **[www.gettingpersonal.co.uk](http://www.gettingpersonal.co.uk)** business has continued to face challenges. Whilst this remains a relatively small part of the Group in terms of both sales and profit contribution, its financial performance in the year was disappointing with sales decreasing by 8.4%. Lower conversion rates with the shift to mobile, increasing costs of customer

acquisition and a competitive discounting-led landscape have all impacted the business. There is increased focus on how we evolve other sales channels and move the business away from pay per click as a key driver of customer acquisition, with further efforts being targeted on customer retention and lifetime value of customers. However, EBITDA performance of £1.2m (FY18: £2.9m) was below our expectations.

Looking ahead, the key focus across both online channels will be implementing a new and better digital marketing approach; improving the experience on our websites; and further innovating our personalised and non-personalised product ranges.

### **Ongoing investment to drive shareholder value**

We have continued to invest in our infrastructure to support the long-term strategy of the business where we can see opportunity for the business to grow sales further, improve product margins or be more cost-efficient. We now have the annualisation of EPOS data, with all stores on the same EPOS platform, which is giving us much more insight into product performance and the impact of redesigns and refreshed ranges.

In FY20, we are looking to improve further our stock management including the use of auto replenishment for stores which will reduce missed sales from stock availability, whilst at the same time reducing stock holdings. Furthermore, with the availability of line item detail from our EPOS data, we have greater visibility of stock loss by store to ensure that we are more effectively targeting the losses in stores and driving better stock management.

Further development of our vertically integrated model remains an important part of our investment strategy to ensure our industry leading margins are maintained regardless of any cost inflation impact, with a focus on how we can move even more to our in-house production, for improved margins and greater control over our supply chain.

We have also invested in our cardfactory.co.uk online business's marketing team and various support centre functions to ensure that we have the right infrastructure, talent and capacity to drive online growth during the forthcoming year. In FY20, we will replatform the business onto a full multi-channel solution towards the end of the year, with the full cost included within the FY20 capex plan, details of which are in the CFO's review. This will provide a much improved customer experience. It will also enable us to introduce click and collect, instore ordering and wider range availability to our instore customers which should drive further footfall and increase average spend and opportunistic purchases in store.

The Board will continue to assess further incremental investment across the Group, especially in relation to new revenue channels, on a case by case basis, taking into account the scale, likelihood and timing of anticipated returns. This ongoing, controlled investment will ensure that we continue to deliver on the four pillar strategy and provide strong returns to our shareholders over the medium term.

### **Retail colleagues and performance culture**

In the year we continued to develop our organisational capability, with the ongoing leadership and management development programmes such as 'Raise the bar' and the nationwide expansion of our 'Retail ACardemy' that we introduced in the last few years. We are also in the process of implementing a new HR system and time and attendance system which will ensure more efficient processes and further business efficiencies in store with improved hours' management.

Our aim is to create a performance culture with focused objectives that not only support the delivery of our strategy but develop our colleagues and provide a pipeline of future leaders from within the business.

We also want to ensure that our frontline colleagues who represent Card Factory to our customers are engaged and respected for the job that they do. Achieving our employee engagement ambitions will ensure that all of our teams remain trained and motivated to continue to deliver quality and value to our customers and the best possible service and experience in-store.

### **Customer engagement and experience**

Across the business we are looking to drive a culture of improved customer engagement. Our entire management team and many of our support centre colleagues worked in our stores, serving customers in our busiest weeks of the Christmas and other seasonal trading periods. This not only supported our store colleagues but also helped us to develop our understanding of what our customers expect and enabled us to ensure that everything we do improves the offer to our customers. We are renowned for leading the way in providing great quality and value for our customers and staying close to them in this way helps us to listen and then respond to their changing needs.

The improved navigational signage, making our stores easier to shop, has had great feedback from customers, especially during busy trading periods, in addition to helping our store colleagues to operate more efficiently. The speed of service in-store has also significantly improved with EPOS and contactless payment in all of our stores;

however we recognise that, at key trading times, there is more we can do to improve the service we deliver to our customers. In support of this, we are evaluating how we can use new technology and make things simpler for our store colleagues by removing more tasks from stores, including how stock is delivered to store, and reduce administrative tasks utilising technology, giving them more time to provide great customer service.

### **Third party trials**

We are currently assessing ways in which we can extend the Card Factory brand into other customer segments, channels and new markets to enable us to continue to grow our card volume. In the year we embarked on a number of small trials to test the opportunities available. Whilst it is early days, the trials have proven the power of the Card Factory brand and have demonstrated its ability to drive footfall into our retail partners.

Our trial with Aldi, the industry leading quality/value grocery retailer, whilst in its infancy, is seeing Card Factory ranges resonate well with Aldi customers in 112 trial stores and we have learned about our own capability to appeal to impulse card buyers through other sales channels, without cannibalising our own store sales.

In addition, we are considering international opportunities and announced in January that we have commenced a trial branded concession in a number of stores within an Australian retailer. The Australian market is the 3<sup>rd</sup> largest Greeting Card market in the World and we will continue to assess the opportunity there. We have also opened our first franchise trial in Jersey, with two further franchises opening in quarter 1 of FY20.

### **Outlook**

The greetings card market remains resilient and robust with encouraging trends amongst younger customers who are buying more cards. Within this market, I am confident in our ability to continue to grow Card Factory's market leading position. We continue to innovate and create new and unique product ranges that keep to our promise to provide quality and value for our customers.

I am excited by the online opportunity for [cardfactory.co.uk](http://cardfactory.co.uk) as we look to replatform the website in FY20. This will enable us to offer a truly multi-channel proposition and leverage our store estate. We expect this to improve footfall in stores, by giving our customers access to a wider range of products and the flexibility of options such as click and collect and in-store ordering.

Our four pillar strategy continues to drive growth and now is the right time to explore other opportunities to extend our reach beyond 1,200 stores in the UK and the Republic of Ireland. We have already established a number of trials to explore the impulse purchase market in the UK and new sales channels outside of the UK and we are optimistic that we can leverage our industry leading position in these new channels.

We have a targeted programme of cost and operational efficiencies for FY20 and are confident we can build on this going forward. Whilst the new financial year is just two months old, we are satisfied with the start we have made and are particularly pleased with the record seasonal performances from Valentine's Day and Mother's Day.

I look forward to providing a further trading update at our AGM in June. As previously stated, EBITDA for the forthcoming year is anticipated to be broadly flat year-on-year (excluding the impact of IFRS 16) as we anticipate another challenging consumer environment due to external factors.

The Board, having considered, inter alia, the current debt position of the Company and trading and investment expectations for the year ahead, currently expects to declare a special dividend at the time of the Company's interim results. Any such dividend will be paid together with the interim dividend for the year and will be dependent on trading and other developments in the period from now until the time of the interim results.

**Karen Hubbard**  
Chief Executive Officer

16 April 2019

## CHIEF FINANCIAL OFFICER'S REVIEW

The "FY19" accounting period refers to the year ended 31 January 2019 and the comparative period "FY18" refers to the year ended 31 January 2018.

### Revenue

Total Group revenue during the year grew by 3.3% to £436.0m (FY18: £422.1m), driven by growth in the Card Factory store network:

	FY19 £'m	FY18 £'m	Increase/ (Decrease)
Card Factory	419.7	404.3	3.8%
Getting Personal	16.3	17.8	(8.4%)
<b>Group</b>	<b>436.0</b>	<b>422.1</b>	<b>3.3%</b>

The Group's established new store roll out programme continues to be an important driver of sales growth for the business. In the year under review, 51 net new stores were opened, bringing the total UK estate to 972 stores at the year-end, including seven stores in the Republic of Ireland.

Like-for-like ("LFL") sales growth was broken down as follows by retail channels:

	FY19	FY18
Card Factory stores	(0.5%)	2.6%
Card Factory online	56.3%	67.5%
<b>Card Factory combined</b>	<b>(0.1%)</b>	<b>2.9%</b>
Getting Personal	(8.4%)	0.3%
<b>Total online combined</b>	<b>0.0%</b>	<b>5.9%</b>

Ongoing improvements to the depth, quality and merchandising of our complementary non-card product offering led to a continuation of the mix shift to this category. The full year mix for FY19 was 53.1% single cards (FY18: 53.7%), 44.6% non-card (FY18: 44.0%) and 2.3% Christmas boxed cards (FY18: 2.3%). We expect some continuation in this trend as we further improve our non-card offering to drive incremental sales and average basket value.

Revenue from the Card Factory transactional website grew by 56% (FY18: 67%).

Performance at Getting Personal continued to disappoint during FY19, with the sector impacted by heavy discounting and promotional activity. Given sales and EBITDA declines in two of the last three years, the Board has concluded that an impairment to the goodwill balance related to this business should be made. Further details are provided below. However, there is increased focus on how the business evolves and how it moves towards more profitable sales channels and away from pay per click customer acquisition.

### Underlying cost of sales and operating expenses

Cost of sales and operating expenses (excluding the non-underlying items detailed below) can be analysed as follows:

	FY19		FY18		£ Increase/ (Decrease)
	£'m	% of revenue	£'m	% of revenue	
Underlying cost of goods sold	142.1	32.6%	138.0	32.7%	3.0%
Store wages	80.8	18.5%	74.9	17.7%	7.9%
Store property costs	68.3	15.7%	65.5	15.5%	4.3%
Other direct expenses	21.3	4.9%	18.6	4.4%	14.5%
<b>Underlying cost of sales</b>	<b>312.5</b>	<b>71.7%</b>	<b>297.0</b>	<b>70.3%</b>	<b>5.2%</b>
Underlying operating expenses*	34.1	7.8%	31.1	7.4%	9.6%

\*excluding depreciation and amortisation

The overall ratio of cost of sales to revenue increased to 71.7% on an underlying basis (FY18: 70.3%). This increase was driven by the following movements in sub-categories and by the decline in LFL performance:

- **Underlying cost of goods sold:** principally comprises cost of raw materials, production costs, finished goods purchased from third party suppliers, import duty, freight costs, carriage costs and warehouse wages. The reduction in this cost ratio was due to product sourcing improvements (both annualised from FY18 and new in FY19) more than compensating for the impact of foreign exchange headwinds and the product mix shift from card to complementary non-card, both of which had less effect on margin than in prior year. The effective sterling-US dollar exchange rate for FY19 was c\$1.35 compared to c\$1.38 in FY18. The rate in FY20 is anticipated to be in line with FY19, though this remains subject to any significant shift in the exchange rate impacting the structured trades that form part of the hedging portfolio.
- **Store wages:** includes wages and salaries (including bonuses) for store-based staff, together with national insurance, apprenticeship levy, pension contributions, overtime, holiday and sick pay. As reported with the interim results, this cost increased as expected as new stores were opened and pay increases awarded, including the impact of the national living wage. However, this headwind was mitigated in part by the successful delivery of in-store task reduction initiatives and improved management of store hours.
- **Store property costs:** consists principally of store rents (net of rental incentives), business rates and service charges. As reported at the interim stage, this cost increased in absolute terms as new stores were opened and as a ratio of revenue increased slightly due to LFL performance. We continue to target improvements in our overall rent roll as we reach break points or expiries on existing leases and expect cash savings of c£0.4m in FY20.
- **Other direct expenses:** includes store opening costs, store utility costs, waste disposal, store maintenance, point of sale costs, bank charges and pay per click expenditure. This cost category is largely variable in respect of existing stores and increases with new store openings. The ratio of other direct expenses to revenue increased - as expected - from 4.4% to 4.9% due to an increasing proportion of debit/credit card transactions and increased merchant fees thereon, one-off point of sale cost increases, a rise in electricity costs, and online marketing costs in Getting Personal, mitigated in part by business efficiencies such as savings from the LED lighting roll out. The Board anticipates some additional cost pressures for FY20 arising from card transaction fees, as our proportion of card payments increases, and further electricity cost growth.
- **Underlying operating expenses:** includes items such as support centre remuneration, regional and area managers of the store estate, design studio costs and insurance together with other central overheads and administration costs. The Group has continued to invest in central infrastructure and people in recent years to support the planned growth and operational improvements; whilst this investment in infrastructure is largely complete there was an element of cost annualisation in FY19. Total operating expenses (excluding depreciation and amortisation) increased by 9.6% to £34.1m (FY18: £31.1m) representing an increase from 7.4% to 7.8% as a percentage of revenue.

Depreciation and amortisation remained broadly in line with prior year at £10.9m (FY18: £10.6m).

## Foreign exchange

With approximately half of its annual cost of goods sold expense relating to products paid for in US dollars, the Group takes a prudent but flexible approach to hedging the risk of exchange rate fluctuations. The Board adopts the policy of using a combination of vanilla forwards and structured options to hedge this exposure. The Group has used structured options and similar instruments to good effect for a number of years and the Board continues to view such instruments to be commercially attractive as part of a balanced portfolio approach to exchange rate management, even if cash flow hedge accounting may not be permitted in some instances.

The continuing uncertainty caused by Brexit is of particular concern to the Group, not least because of the increased volatility in the strength of sterling against the US dollar. The business is well hedged in the short-to-medium term, but not immune to the longer term effects of Brexit on currency movements.

At the date of this announcement, cover is in place for almost all of the anticipated FY20 US dollar cash requirement with approximately two-thirds covered by vanilla forwards and the balance under structured options. The effective P&L rate for FY20 is anticipated to be c\$1.35 (FY19: \$1.35), though this remains subject to any significant shift in Sterling impacting the structured trades that form part of the hedging portfolio. Cover is in place for approximately two-thirds of the anticipated FY21 US dollar requirement at an average rate of c\$1.35, predominantly through vanilla forwards with a proportion of structured options.

## Underlying EBITDA

The Underlying EBITDA margin of the Group decreased to 20.5% (FY18: 22.3%) impacted by like for like sales and Getting Personal's performance as described above. The business faced c£7m of cost headwinds, which we were able to mitigate in full through various business efficiency initiatives.

	FY19 £'m	FY18 £'m	Increase/ (Decrease)
<b>Underlying EBITDA</b>			
Card Factory	88.2	91.1	(3.2%)
Getting Personal	1.2	2.9	(58.6%)
Group	89.4	94.0	(4.9%)
<b>Underlying EBITDA margin</b>			
Card Factory	21.0%	22.5%	(1.5ppts)
Getting Personal	7.4%	16.4%	(9.0ppts)
Group	20.5%	22.3%	(1.8ppts)

The Group's underlying operating margin similarly decreased to 18.0% (FY18: 19.7%).

Group EBITDA increased to £93.6m (FY18: £86.1m).

Looking forward to FY20, the retail sector continues to face well-publicised cost headwinds, from national living wage increases in particular. Given its best in class margins, generated by a unique vertically integrated model, the Board believes that the business is very well placed to manage this ongoing cost pressure over the medium term and, as in previous years, a number of new business efficiency initiatives are underway.

Alongside the operational investment, which annualised in FY19, we are also continuing to invest across the Group, including further improvement of our customer proposition and ongoing investment in our digital and IT capabilities and infrastructure, in order to enable the delivery of long-term sustainable growth.

Based on our current revenue targets and subject to any unexpected product mix shift or significant exchange rate fluctuations, we anticipate that, after cost growth mitigation, our FY20 EBITDA will be broadly in line with that achieved in FY19, excluding the impact of IFRS 16 (see note 15 of the preliminary results)

## Net financing expense

Net financing expense, excluding non-underlying items, increased to £3.9m (FY18: £2.9m), which was driven by a c9% increase in average debt levels and an increase in the average effective interest rate.

## Profit before tax

Underlying profit before tax for the financial year amounted to £74.6m (FY18: £80.5m), a decrease of 7.3%. Whilst, overall profit before tax for the financial year amounted to £66.6m (FY18: £72.6m).

The table below reconciles underlying profit before tax to the statutory profit before tax for both financial years:

	FY19 £'m	FY18 £'m
<b>Underlying profit before tax</b>	74.6	80.5
Non-underlying items:		
Cost of sales		
Gain/(loss) on foreign currency derivative financial instruments not designated as a hedge	4.2	(7.6)
Operating expenses		
Impairment of goodwill (*see below)	(11.9)	-
Other non-underlying operating expenses	-	(0.3)
Net finance expense		
Refinanced debt issue cost amortisation	(0.3)	-
<b>Statutory profit before tax</b>	66.6	72.6

\* The Board deemed it necessary to undertake a review of the Getting Personal CGU (as defined in the notes to the financial statements) after sales and profitability declines in two of the last three years provided an indication of impairment. The Board concluded that its latest assessment of the CGU's recoverable amount requires an impairment loss of £11.9m to be recognised. There is no resulting impact on cash.

Further detail on the other non-underlying reconciling items is set out in note 1.

### Accounting for leases

IFRS 16: *Leases* becomes effective for the first time in the next financial year, ending 31 January 2020. It requires entities to apply a single lessee accounting model, with lessees recognising right-of-use-assets and lease liabilities on balance sheet for all applicable leases. In addition, the nature of expenses related to those leases will change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for the right-of-use assets and an interest expense relating to lease liabilities. Whilst the cash flow profiles of such operating lease arrangements will not change, EBITDA profitability will improve significantly as a result. The Group intends to adopt the standard's full retrospective approach, the currently anticipated financial statement impact from which is set out in note 15.

### Tax

The tax charge for the year increased to 22.8% of profit before tax (FY18: 19.7%). The underlying tax charge (excluding the impairment of goodwill) reduced to 19.4% of profit before tax (FY18: 19.6%).

### Earnings per share

Basic and diluted underlying earnings per share for the year were 17.6p (FY18: 18.9p), a decrease of 7.1%. After the non-underlying items described above, basic and diluted underlying earnings per share for the year were 15.0p (FY18: 17.1p), a decrease of 12.0%.

### Capital expenditure

Capital expenditure in the year amounted to £12.1m (FY18: £13.1m), including strategic investments of £4.7m, principally in relation to commercial initiatives in store, EPOS and vertical integration.

The Board anticipates capital expenditure for FY20 to be c£18m, including (i) further investment in the business's vertically integrated supply chain equating to c£6.0m, with the replacement of one of two digital printing presses, replacing card finishing machines and installing new robotic technology reducing manufacturing unit costs; (ii) investment in a new cardfactory.co.uk platform, including enabling click and collect from Card Factory stores; and (iii) investment in new warehouse technology.

## Strong financial position

The Group remains highly cash generative, driven by its strong operating margins, limited working capital absorption and the relatively low ongoing capital expenditure requirements of its expansion programme.

Cash conversion, calculated as Underlying EBITDA less capex and underlying working capital movements divided by Underlying EBITDA, increased to 96.5% (FY18: 85.3%). This increase reflects a short-term favourable working capital timing difference as at 31 January 2019.

Whilst the Group has limited exposure to the possible risks and uncertainties in relation to trading arrangements, customs agreements, tariffs etc. post Brexit, it is concerned about the potential for border disruption at UK ports and the impact this might have on supply chain and product availability. As such, the business has taken the opportunity to build up its inventory levels in recent months and expects to maintain increased inventory levels until this risk diminishes. In addition, and as discussed above, the Group seeks to mitigate its exposure to sterling volatility via its hedging policy.

As at 31 January 2019, net debt (excluding debt issue costs of £1.3m) amounted to £141.3m, analysed as follows:

	FY19 £'m	FY18 £'m
<u>Borrowings</u>		
Current liabilities	0.1	14.9
Non-current liabilities	143.7	149.6
Total borrowings	143.8	164.5
Add: debt costs capitalised	1.3	0.4
Gross debt	145.1	164.9
Less cash	(3.8)	(3.6)
Net debt	141.3	161.3

Net debt at the year-end represented 1.58 times Underlying EBITDA (FY18: 1.72 times); notwithstanding the short-term working capital timing difference, leverage was in line with previous guidance.

During the year, the Group extended its £200m RCF, which now terminates on 31 October 2023. The facility also has an additional £100m accordion and attracts the same rate of interest for leverage levels in line with the Group's capital structure policy.

## Dividends and capital structure

### Dividends

Since IPO, the Board has adopted a progressive ordinary dividend policy for the Company, reflecting its strong earnings potential and cash flow characteristics, while allowing it to retain sufficient capital to fund ongoing operating requirements and to invest in the Company's long-term growth and profitability.

It remains the Board's intention, subject to, *inter alia*, available distributable profits, to pay annual ordinary dividends based on a targeted ordinary dividend cover of between 1.5 and 2.5 times the Company's underlying consolidated post-tax profit. Over the short-to-medium term, we expect to be at around the middle of the cover range.

Reflecting the Board's ongoing confidence in the Company's prospects, the Board is recommending to shareholders a final dividend of 6.4p per ordinary share, to give a total ordinary dividend for the year of 9.3p per ordinary share. Including this recommended dividend, and the special dividend of 5p per share paid in December 2018, total dividends for FY18 and FY19 can be summarised as follows:

	<b>FY19</b>	<b>FY18</b>
Interim dividend	2.9p	2.9p
Final dividend (recommended FY19)	6.4p	6.4p
Total ordinary dividend	9.3p	9.3p
<i>Ordinary dividend cover</i>	1.89x	2.03x
Special dividend	5.0p	15.0p
Total dividend	14.3p	24.3p

### **Capital structure and additional shareholder returns**

As stated at the time of the IPO, the Board is focused on maintaining a capital structure that is conservative yet efficient in terms of providing long-term returns to shareholders. The Board has considered further the capital structure of the Group and continues to recognise the benefits of financial leverage, whilst also wanting to ensure that the Company has sufficient flexibility to invest in the growth of the business. The Board also notes the underlying leverage of the Group given its lease portfolio, although the Board believes that the Company's average break period for its portfolio is shorter than that of its peers.

Over the medium term, the Board expects to maintain leverage broadly in the range of 1.0 to 2.0 times net debt to Underlying EBITDA, excluding the impact of IFRS 16 (see note 15 of the preliminary results). It should be noted that net debt at the half and full year period ends is lower than intra year peaks, reflecting usual trading patterns and working capital movements.

In line with this, over the short-to-medium term, the Board currently expects to target year-end net debt/Underlying EBITDA of approximately 1.7 times, excluding the impact of IFRS 16 (see note 15 of the preliminary results). Reflecting the highly cash generative nature of the business, absent any material investments, the Board expects to generate surplus cash which it will return to shareholders; currently the Board expects to return surplus cash on an annual basis.

### **Special dividend**

In line with the above, the Board has considered, inter alia, the current debt position of the Company and trading and investment expectations for the year ahead. Taking these into account, the Board currently expects to declare a special dividend at the time of the Company's interim results, paid together with the interim dividend for the year. Any such dividend will be dependent on trading and other developments in the period from now until the time of the interim results.

Including the impact of this special dividend, the Board currently expects FY20 year-end net debt/Underlying EBITDA in the current financial year to be in line with the above stated target, excluding the impact of IFRS 16 (see note 15 of the preliminary results).

Kris Lee  
Chief Financial Officer  
16 April 2019

## Consolidated income statement

For the year ended 31 January 2019

	2019			2018			
	<i>Note</i>	Underlying £'m	Non- underlying (note 1) £'m	Total £'m	Underlying £'m	Non- underlying (note 1) £'m	Total £'m
<b>Revenue</b>		<b>436.0</b>	-	<b>436.0</b>	422.1	-	422.1
Cost of sales		(312.5)	4.2	(308.3)	(297.0)	(7.6)	(304.6)
<b>Gross profit/(loss)</b>		<b>123.5</b>	<b>4.2</b>	<b>127.7</b>	125.1	(7.6)	117.5
Operating expenses		(45.0)	(11.9)	(56.9)	(41.7)	(0.3)	(42.0)
<b>Operating profit/(loss)</b>	3,4	<b>78.5</b>	<b>(7.7)</b>	<b>70.8</b>	83.4	(7.9)	75.5
Finance income	6	-	-	-	0.1	-	0.1
Finance expense	6	(3.9)	(0.3)	(4.2)	(3.0)	-	(3.0)
<b>Net finance expense</b>		<b>(3.9)</b>	<b>(0.3)</b>	<b>(4.2)</b>	(2.9)	-	(2.9)
<b>Profit/(loss) before tax</b>		<b>74.6</b>	<b>(8.0)</b>	<b>66.6</b>	80.5	(7.9)	72.6
Taxation	7	(14.5)	(0.7)	(15.2)	(15.8)	1.5	(14.3)
<b>Profit/(loss) for the year</b>		<b>60.1</b>	<b>(8.7)</b>	<b>51.4</b>	64.7	(6.4)	58.3
<b>Earnings per share</b>		<b>pence</b>		<b>pence</b>	pence		pence
- Basic and diluted	9	<b>17.6</b>		<b>15.0</b>	18.9		17.1

All activities relate to continuing operations.

## Consolidated statement of comprehensive income

For the year ended 31 January 2019

	2019 £'m	2018 £'m
<b>Profit for the year</b>	<b>51.4</b>	<b>58.3</b>
<i>Items that are or may be recycled subsequently into profit or loss:</i>		
Cash flow hedges - changes in fair value	6.5	(7.2)
Cash flow hedges - reclassified to profit or loss	-	(1.5)
Cost of hedging reserve - changes in fair value	1.4	-
Cost of hedging reserve - reclassified to profit or loss	(0.2)	-
Tax relating to components of other comprehensive income	(1.4)	1.7
<b>Other comprehensive expense for the period, net of income tax</b>	<b>6.3</b>	<b>(7.0)</b>
<b>Total comprehensive income for the period attributable to equity shareholders of the parent</b>	<b>57.7</b>	<b>51.3</b>

## Consolidated statement of financial position

As at 31 January 2019

	Note	2019 £'m	Restated—note14 2018 £'m
<b>Non-current assets</b>			
Intangible assets	11	320.2	331.6
Property, plant and equipment		40.4	40.0
Deferred tax assets		0.8	1.9
Other receivables		0.7	0.8
Derivative financial instruments		0.1	0.2
		<b>362.2</b>	<b>374.5</b>
<b>Current assets</b>			
Inventories		68.6	51.5
Trade and other receivables		17.8	16.6
Derivative financial instruments		2.3	0.3
Cash and cash equivalents	12	3.8	3.6
		<b>92.5</b>	<b>72.0</b>
<b>Total assets</b>		<b>454.7</b>	<b>446.5</b>
<b>Current liabilities</b>			
Borrowings	13	(0.1)	(14.9)
Trade and other payables		(64.3)	(37.7)
Tax payable		(7.7)	(5.5)
Derivative financial instruments		(0.2)	(7.0)
		<b>(72.3)</b>	<b>(65.1)</b>
<b>Non-current liabilities</b>			
Borrowings	13	(143.7)	(149.6)
Trade and other payables		(9.8)	(10.0)
Derivative financial instruments		(1.1)	(3.4)
		<b>(154.6)</b>	<b>(163.0)</b>
<b>Total liabilities</b>		<b>(226.9)</b>	<b>(228.1)</b>
<b>Net assets</b>		<b>227.8</b>	<b>218.4</b>
<b>Equity</b>			
Share capital		3.4	3.4
Share premium		202.2	202.2
Hedging reserve		0.9	(5.0)
Cost of hedging reserve		0.4	(0.3)
Reverse acquisition reserve		(0.5)	(0.5)
Merger reserve		2.7	2.7
Retained earnings		18.7	15.9
<b>Equity attributable to equity holders of the parent</b>		<b>227.8</b>	<b>218.4</b>

## Consolidated statement of changes in equity

For the year ended 31 January 2019

	Share capital	Share premium	Hedging reserve	Cost of hedging reserve	Reverse acquisition reserve	Merger reserve	Retained earnings	Total equity
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
<b>At 1 February 2017 (as previously stated)</b>	3.4	201.9	2.0	-	(0.5)	2.7	40.0	249.5
Adjustment (see note 14)	-	-	-	(0.3)	-	-	0.3	-
<b>At 1 February 2017 (restated)</b>	<b>3.4</b>	<b>201.9</b>	<b>2.0</b>	<b>(0.3)</b>	<b>(0.5)</b>	<b>2.7</b>	<b>40.3</b>	<b>249.5</b>
<b>Total comprehensive income for the period</b>								
Profit or loss	-	-	-	-	-	-	58.3	58.3
Other comprehensive expense	-	-	(7.0)	-	-	-	-	(7.0)
	-	-	(7.0)	-	-	-	58.3	51.3
<b>Transactions with owners, recorded directly in equity</b>								
Issue of shares	-	0.3	-	-	-	-	-	0.3
Share-based payment charges	-	-	-	-	-	-	(0.1)	(0.1)
Dividends (note 8)	-	-	-	-	-	-	(82.6)	(82.6)
<b>Total contributions by and distributions to owners</b>	-	0.3	-	-	-	-	(82.7)	(82.4)
<b>At 31 January 2018</b>	<b>3.4</b>	<b>202.2</b>	<b>(5.0)</b>	<b>(0.3)</b>	<b>(0.5)</b>	<b>2.7</b>	<b>15.6</b>	<b>218.4</b>
Opening balance adjustment (see note 14)	-	-	0.6	0.2	-	-	(0.3)	0.5
<b>Balance at 1 February 2018</b>	<b>3.4</b>	<b>202.2</b>	<b>(4.4)</b>	<b>(0.1)</b>	<b>(0.5)</b>	<b>2.7</b>	<b>15.6</b>	<b>218.9</b>
<b>Total comprehensive income for the period</b>								
Profit or loss	-	-	-	-	-	-	51.4	51.4
Other comprehensive expense	-	-	5.3	1.0	-	-	-	6.3
	-	-	5.3	1.0	-	-	51.4	57.7
Hedging gains and losses and costs of hedging transferred to the cost of inventory	-	-	-	(0.5)	-	-	-	(0.5)
<b>Transactions with owners, recorded directly in equity</b>								
Share-based payment charges	-	-	-	-	-	-	0.6	0.6
Dividends (note 8)	-	-	-	-	-	-	(48.9)	(48.9)
<b>Total contributions by and distributions to owners</b>	-	-	-	-	-	-	(48.3)	(48.3)
<b>At 31 January 2019</b>	<b>3.4</b>	<b>202.2</b>	<b>0.9</b>	<b>0.4</b>	<b>(0.5)</b>	<b>2.7</b>	<b>18.7</b>	<b>227.8</b>

## Consolidated cash flow statement

For the year ended 31 January 2019

	Note	2019 £'m	2018 £'m
<b>Cash inflow from operating activities</b>	10	<b>99.1</b>	89.7
Corporation tax paid		(13.4)	(17.0)
<b>Net cash inflow from operating activities</b>		<b>85.7</b>	72.7
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(10.4)	(10.6)
Purchase of intangible assets		(1.7)	(2.5)
Proceeds from sale of property, plant and equipment		0.2	-
Interest received		-	0.1
<b>Net cash outflow from investing activities</b>		<b>(11.9)</b>	(13.0)
<b>Cash flows from financing activities</b>			
Proceeds from bank borrowings		-	20.0
Interest paid		(3.4)	(2.7)
Repayment of bank borrowings		(6.4)	-
Proceeds from new shares issued		-	0.3
Dividends paid		(48.9)	(82.9)
<b>Net cash outflow from financing activities</b>		<b>(58.7)</b>	(65.3)
Net increase/(decrease) in cash and cash equivalents		15.1	(5.6)
Cash and cash equivalents at the beginning of the year		(11.3)	(5.7)
<b>Closing cash and cash equivalents</b>	12	<b>3.8</b>	(11.3)

## Notes to the financial statements

### General information

Card Factory plc ('the Company') is a public limited company incorporated in the United Kingdom. The Company is domiciled in the United Kingdom and its registered office is Century House, Brunel Road, 41 Industrial Estate, Wakefield WF2 0XG.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group').

### Basis of preparation

This preliminary announcement has been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards as adopted by the EU ("adopted IFRSs"), IFRIC interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. It does not include all the information required for full annual accounts.

The financial information contained in this preliminary announcement does not constitute the company's statutory accounts for the years ended 31 January 2019 or 31 January 2018 but is derived from these accounts. Statutory accounts for the year ended 31 January 2018 have been delivered to the registrar of companies, and those for the year ended 31 January 2019 will be delivered to the registrar in due course. The auditor has reported on those accounts; the audit reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

### Accounting policies

The preliminary announcement has been prepared using the accounting policies published in the Group's accounts for the year ended 31 January 2018 (available on the Company's website) except to the extent impacted by the following standards, amendments and interpretations which were adopted by the Group from 1 February 2018:

- IFRS 9 Financial Instruments – see note 14 for a summary of the impact
- IFRS 15 Revenue from Contracts with Customers – no significant impact

### Underlying profit and earnings

The Group has chosen to present an underlying profit and earnings measure. Transactions are categorised as non-underlying if the resulting underlying profit and earnings information provides a more meaningful comparison of performance year-on-year.

Underlying earnings is not a recognised profit measure under EU IFRS and may not be directly comparable with 'adjusted' profit measures reported by other companies.

### Non-underlying adjustments:

#### *Net fair value remeasurement gains and losses on derivative financial instruments*

The Group utilises foreign currency derivative contracts to manage the foreign exchange risk on US Dollar denominated purchases and interest rate derivative contracts to manage the risk on floating interest rate bank borrowings. Fair value gains and losses on

such instruments are recognised in the income statement to the extent they are not hedge accounted under IFRS 9. Such gains and losses relate to future cash flows. In accordance with the commercial reasoning for entering into the agreements, these gains/losses are deemed not representative of the underlying financial performance in the year and presented as non-underlying items. Any gains or losses on maturity of such instruments are presented within underlying profit to the extent the gain or loss is not recognised in the hedging reserve or cost of hedging reserve.

#### *Impairment of goodwill*

During the period goodwill attributable to the Getting Personal cash generating unit ('CGU') has been impaired. The impairment is a non-cash charge to the income statement reflecting a reduction in future performance expectations of Getting Personal and is presented as a non-underlying item in the year.

#### *Refinanced debt issue cost amortisation*

Debt issue costs totalling £0.3 million were expensed to the income statement in the year, on completion of an extended borrowing facility on 31 October 2018. This expense relates to costs that were not yet amortised in relation to the re-financed facility and is presented as a non-underlying item.

#### *Other non-underlying operating expenses*

In January 2017, Card Factory plc announced the succession of the CFO. Costs attributable to recruitment and dual remuneration costs during the handover periods were presented as non-underlying items in prior periods.

## 1 Non-underlying items

	2019 £'m	2018 £'m
<b>Cost of sales</b>		
Profit/(loss) on foreign currency derivative financial instruments not designated as a hedge	4.2	(7.6)
<b>Operating expenses</b>		
Impairment of goodwill (note 11)	(11.9)	-
Other non-underlying operating expenses	-	(0.3)
	(11.9)	(0.3)
<b>Net finance expense</b>		
Refinanced debt issue cost amortisation	(0.3)	-

## 2 Segmental reporting

The Group has two operating segments trading under the names Card Factory and Getting Personal. Card Factory retails greeting cards, dressing and gifts principally through an extensive UK store network. Getting Personal is an online retailer of personalised cards and gifts. Getting Personal does not meet the quantitative thresholds of a reportable segment as defined in IFRS 8. Consequently the results of the Group are aggregated and presented as a single reportable segment.

Group revenue is almost entirely derived from retail customers. Average transaction value is low and products are transferred at the point of sale. Group revenue is presented as a single category subject to substantially the same economic factors that impact the nature, amount, timing and uncertainty of revenue and cash flows. Revenue from non-retail customers and revenue from outside the UK are both less than 1% of Group Revenue.

## 3 Operating profit

Operating profit is stated after charging/(crediting) the following items:

	2019 £'m	2018 £'m
Staff costs (note 5)	114.1	106.2
Depreciation expense		
- owned fixed assets	9.7	9.5
Amortisation expense	1.2	1.1
Operating lease rentals:		
- land and buildings	42.6	40.4
- plant, equipment and vehicles	0.7	0.6
Loss on disposal of fixed assets	0.1	0.2
Foreign exchange (gain) / loss	(5.7)	3.3
Impairment of goodwill	11.9	-

Non-underlying items included in the above are detailed in note 1.

#### 4 EBITDA

Underlying earnings before interest, tax, depreciation and amortisation ('Underlying EBITDA') represents underlying profit for the period before net finance expense, taxation, depreciation and amortisation.

	2019	2018
	£'m	£'m
<b>Underlying operating profit</b>	<b>78.5</b>	83.4
Depreciation and amortisation	<b>10.9</b>	10.6
<b>Underlying EBITDA</b>	<b>89.4</b>	94.0

Earnings before interest, tax, depreciation and amortisation ('EBITDA') represents profit for the period before net finance expense, taxation, depreciation, amortisation and impairment of goodwill.

	2019	2018
	£'m	£'m
<b>Operating profit</b>	<b>70.8</b>	75.5
Depreciation and amortisation	<b>10.9</b>	10.6
Impairment of goodwill	<b>11.9</b>	-
<b>EBITDA</b>	<b>93.6</b>	86.1

#### 5 Staff numbers and costs

The average number of people employed by the Group (including Directors) during the year, analysed by category, was as follows:

	2019	2018
	Number	Number
Management and administration	<b>416</b>	393
Operations	<b>9,568</b>	9,543
	<b>9,984</b>	9,936

The aggregate payroll costs of all employees including Directors were as follows:

	2019	2018
	£'m	£'m
Employee wages and salaries	<b>102.8</b>	96.2
Equity-settled share-based payment expense	<b>0.6</b>	(0.1)
Social security costs	<b>6.3</b>	5.8
Defined contribution pension costs	<b>0.8</b>	0.4
<b>Total employee costs</b>	<b>110.5</b>	102.3
Agency labour costs	<b>3.6</b>	3.9
<b>Total staff costs</b>	<b>114.1</b>	106.2

#### 6 Finance income and expense

	2019	2018
	£'m	£'m
<b>Finance income</b>		
Bank interest received	-	(0.1)
<b>Finance expense</b>		
Interest on bank loans and overdrafts	<b>3.5</b>	2.6
Amortisation of loan issue costs	<b>0.5</b>	0.2
Loss on interest rate derivative contracts	<b>0.2</b>	0.2
	<b>4.2</b>	3.0
<b>Net finance expense</b>	<b>4.2</b>	2.9

## 7 Taxation

### Recognised in the income statement

	2019	2018
	£'m	£'m
<b>Current tax expense</b>		
Current year	15.7	13.9
Adjustments in respect of prior periods	(0.1)	-
	<b>15.6</b>	13.9
<b>Deferred tax (credit)/charge</b>		
Origination and reversal of temporary differences	(0.4)	0.5
Adjustments in respect of prior periods	-	(0.1)
	<b>(0.4)</b>	0.4
<b>Total income tax expense</b>	<b>15.2</b>	14.3

The effective tax rate of 22.8% (2018: 19.7%) is higher than the standard rate of corporation tax in the UK, principally in respect of non-deductible impairments. The tax charge is reconciled to the standard rate of UK corporation tax as follows:

	2019	2018
	£'m	£'m
Profit before tax	66.6	72.6
Tax at the standard UK corporation tax rate of 19.0% (2018: 19.2%)	12.7	13.9
Tax effects of:		
Expenses not deductible for tax purposes	2.6	0.5
Adjustments in respect of prior periods	(0.1)	(0.1)
<b>Total income tax expense</b>	<b>15.2</b>	14.3

## 8 Dividends

The Board is recommending a final dividend in respect of the financial year ended 31 January 2019 of 6.4 pence per share (2018: 6.4 pence per share), resulting in a total final dividend of £21.9 million (2018: £21.9 million). The dividend will, subject to shareholders' approval at the Annual General Meeting on 5 June 2019, be paid on 18 June 2019 to shareholders on the register at the close of business on 10 May 2019. No liability is recorded in the financial statements in respect of this final dividend as it was not approved at the balance sheet date.

<i>Dividends paid in the year:</i>	Pence per share	2019	2018
		£'m	£'m
Special dividend for the year ended 31 January 2019	5.0p	17.1	
Interim dividend for the year ended 31 January 2019	2.9p	9.9	
Final dividend for the year ended 31 January 2018	6.4p	21.9	
Special dividend for the year ended 31 January 2018	15.0p		51.2
Interim dividend for the year ended 31 January 2018	2.9p		9.9
Final dividend for the year ended 31 January 2017	6.3p		21.5
<b>Total dividends paid to shareholders in the year</b>		<b>48.9</b>	82.6
Dividend equivalents paid under long term incentive schemes		-	0.3
<b>Total dividends per the cash flow statement</b>		<b>48.9</b>	82.9

Dividend equivalents totalling £0.1 million (2018: £nil) were accrued in the year in relation to share-based long term incentive schemes.

## 9 Earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share is based on the weighted average number of shares in issue for the period, adjusted for the dilutive effect of potential ordinary shares. Potential ordinary shares represent employee share incentive awards and save as you earn share options.

The Group has chosen to present an alternative earnings per share measure, with profit adjusted for non-underlying items to reflect the Group's underlying profit for the year. Underlying earnings is not a recognised profit measure under IFRS and may not be directly comparable with 'adjusted' profit measures used by other companies.

	2019 (Number)	2018 (Number)
Weighted average number of shares in issue	341,527,355	341,260,105
Weighted average number of dilutive share options	-	37,572
Weighted average number of shares for diluted earnings per share	<b>341,527,355</b>	<b>341,297,677</b>

	£'m	£'m
Profit for the financial period	51.4	58.3
Non-underlying items	8.7	6.4
Total underlying profit for underlying earnings per share	<b>60.1</b>	<b>64.7</b>

	Pence	pence
Basic earnings per share	15.0	17.1
Diluted earnings per share	15.0	17.1
Underlying basic earnings per share	17.6	18.9
Underlying diluted earnings per share	<b>17.6</b>	<b>18.9</b>

## 10 Notes to the cash flow statement

Reconciliation of operating profit to cash generated from operations

	2019 £'m	2018 £'m
<b>Profit before tax</b>	<b>66.6</b>	72.6
Net finance expense	4.2	2.9
<b>Operating profit</b>	<b>70.8</b>	75.5
Adjusted for:		
Depreciation and amortisation	10.9	10.6
Goodwill impairment	11.9	-
Loss on disposal of fixed assets	0.1	0.2
Cash flow hedging foreign currency movements	-	(3.4)
Share-based payments charge	0.6	(0.1)
<b>Operating cash flows before changes in working capital</b>	<b>94.3</b>	82.8
(Increase)/decrease in receivables	(0.8)	3.0
Increase in inventories	(16.5)	(0.1)
Increase in payables	22.1	4.0
<b>Cash inflow from operating activities</b>	<b>99.1</b>	89.7

## 11 Intangible assets

	Goodwill £'m	Software £'m	Total £'m
<b>Cost</b>			
At 1 February 2018	328.2	8.9	337.1
Additions	-	1.7	1.7
At 31 January 2019	328.2	10.6	338.8
<b>Amortisation/Impairment</b>			
At 1 February 2018	-	5.5	5.5
Amortisation in the period	-	1.2	1.2
Impairment in the period	11.9	-	11.9
At 31 January 2019	11.9	6.7	18.6
<b>Net book value</b>			
<b>At 31 January 2019</b>	<b>316.3</b>	<b>3.9</b>	<b>320.2</b>
At 31 January 2018	328.2	3.4	331.6

	Goodwill £'m	Software £'m	Total £'m
<b>Cost</b>			
At 1 February 2017	328.2	6.4	334.6
Additions	-	2.5	2.5
At 31 January 2018	328.2	8.9	337.1
<b>Amortisation</b>			
At 1 February 2017	-	4.4	4.4
Provided in the period	-	1.1	1.1
At 31 January 2018	-	5.5	5.5
<b>Net book value</b>			
At 31 January 2018	328.2	3.4	331.6
At 31 January 2017	328.2	2.0	330.2

### Impairment testing

For the purposes of impairment testing, goodwill has been allocated to the Group's CGU's as follows:

	2019 £'m	2018 £'m
Card Factory	313.8	313.8
Getting Personal	2.5	14.4

The recoverable amounts has been determined based on value-in-use calculations. Value-in-use calculations are based on 5 year management forecasts and operating cash flows with a 2% (2018: 2%) terminal growth rate applied thereafter, representing management's estimate of the long term growth rate of the sector. Forecasts do not include new or additional revenue streams such as new stores, to reflect the value-in-use of the existing business.

The key assumptions used to forecast operating cash flows include: sales growth, based on historic performance and latest forecasts; product mix; foreign exchange rates, based on hedges in place and market forecasts for unhedged items; and the Group's current expectations in relation to efficiency initiatives. The values assigned to each of these assumptions were determined based on historical performance of the CGU and expected future trends.

The forecast cash flows are discounted at a pre-tax discount rate of 10.5% (2018: 10.0%) for Card Factory and 11.9% (2018: 10.0%) for Getting Personal.

#### Card Factory

No impairment loss was identified in respect of the Card Factory CGU (2018: £nil). The valuations indicate sufficient headroom such that a reasonably possible change to key assumptions would not result in an impairment of the related goodwill.

### Getting Personal

Following deteriorating performance, a reduction in management expectations of future performance for the Getting Personal CGU gave rise to an £11.9 million impairment (2018: £nil). The sensitivity of the Getting Personal valuation to terminal growth rates and discount rates is shown below:

	Valuation assumption	100bps increase £'m	100bps decrease £'m
Terminal growth rate	2%	0.3	(0.2)
Pre-tax discount rate	11.9%	(0.3)	0.4

## 12 Cash and cash equivalents

	2019 £'m	2018 £'m
Cash at bank and in hand	3.8	3.6
Unsecured bank overdraft (note 13)	-	(14.9)
Net cash and cash equivalents	3.8	(11.3)

## 13 Borrowings

	2019 £'m	2018 £'m
<b>Current liabilities</b>		
Unsecured bank loans and accrued interest	0.1	-
Unsecured bank overdraft	-	14.9
	0.1	14.9
<b>Non-current liabilities</b>		
Unsecured bank loans	143.7	149.6

## 14 Transition to IFRS 9

IFRS 9 'Financial Instruments' is effective for periods beginning on or after 1 January 2018 and has been adopted by the Group in the year. IFRS 9 sets out requirements for recognising and measuring financial assets and financial liabilities and replaces IAS 39 'Financial Instruments: Recognition and Measurement'. The impact on the consolidated financial statements of the Group is detailed below.

### Classification of financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and the cash flow characteristics of the assets.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. The new classification requirements do not impact the accounting for the Group's financial assets.

### Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with a forward-looking 'expected credit loss' model. The new impairment model will apply to financial assets measured at amortised cost. Revenue from retail customers represents over 99% of Group revenues and consequently trade and other receivables measured at amortised cost are not material to the financial statements. There is no impact on the values reported in the financial statements from adopting IFRS 9 in respect of expected credit losses.

### Cash and cash equivalents

Cash and cash equivalents are held at banks with a strong credit rating and are not subject to any period of notice. The Group typically maintains a low value of cash and cash equivalents and often a net overdrawn cash position as part of its RCF funding arrangement. There is no impact on the values reported in the financial statements from adopting IFRS 9 in respect of expected credit losses.

### Classification of financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The classification requirements of IFRS 9 do not impact the financial statements.

### Hedge accounting

On initial adoption of IFRS9, the Group may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. The Group has chosen to apply the new requirements of IFRS 9.

IFRS 9 requires the Group to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. IFRS 9 also introduces new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting.

Under the new model, it is possible that more risk management strategies may qualify for hedge accounting, though eligibility for hedge accounting of the Group's existing hedging activities have been assessed as unchanged.

#### *Foreign exchange hedge accounting*

The Group utilises foreign currency derivative contracts and US Dollar denominated cash balances to manage the foreign exchange risk on US Dollar denominated inventory purchases. The Group designates only the change in the fair value of the spot element of forward currency contracts as the hedging instrument in cash flow hedging relationships. Under IAS 39, the change in fair value of the forward element of the forward currency contract ('forward points') was recognised immediately in profit or loss (presented as a non-underlying item).

On adoption of IFRS 9, the Group has elected to separately account for the forward points as a cost of hedging. Consequently, changes in forward points are recognised in other comprehensive income and accumulated in a cost of hedging reserve as a separate component within equity and subsequently recognised into the hedged inventory purchase value. The Group has not applied the transitional option to retrospectively apply this treatment.

In accordance with the requirements of IFRS 9, the Group has amended the accounting policy in respect of cash flow hedge accounting. Gains or losses recognised in other comprehensive income in respect of a cash flow hedge of a forecast transaction that results in the recognition of a non-financial asset or liability are included in the initial measurement of the asset or liability. The previous accounting policy, under IAS 39, recognised such gains or losses in profit or loss in the same period or periods during which the hedged forecast transaction, or a resulting asset or liability, affects profit or loss, but did not recognise the gain or loss in the initial measurement of a resulting asset or liability.

#### *Interest rate hedge accounting*

The Group utilises interest rate derivative contracts to manage the risk on floating rate bank borrowings. The Group designates only the change in the fair value of the intrinsic element of interest rate caps as the hedging instrument in cash flow hedging relationships. Under IAS 39, the change in fair value of the time value element of the interest rate cap was recognised immediately in profit or loss (presented as a non-underlying item until the date of the hedged cash flow).

On adoption of IFRS 9, the Group has elected to separately account for the time value as a cost of hedging. Consequently, changes in time value are recognised in other comprehensive income and accumulated in a cost of hedging reserve as a separate component within equity and reclassified to profit or loss on the date of the hedged cash flow. IFRS 9 mandates retrospective application of this treatment.

#### *Transition*

The impact on the financial statements from the adoption of IFRS 9 is detailed below. The amendments to hedge accounting policies detailed above are applied prospectively except for the mandated retrospective application of the time value element of interest rate cap hedges. Consequently the comparative period is restated solely in respect of hedge accounting for the time value element of interest rate caps. Other adjustments on transition to IFRS 9 are presented as an adjustment to opening reserves at 31 January 2018.

#### *Restatement*

	<b>31 January 2018</b>	31 January 2017
	<b>£'m</b>	£'m
<b>Equity</b>		
Cost of hedging reserve	<b>(0.3)</b>	(0.3)
Retained earnings	<b>0.3</b>	0.3
	<b>-</b>	-

Movements in the cost of hedging reserve in respect of interest rate hedges from 31 January 2017 to 31 January 2018 were less than £0.1m. Consequently the consolidated income statement and the consolidated statement of comprehensive income are not restated.

#### *Opening Reserves Adjustment*

	<b>31 January 2018</b>
	<b>£'m</b>
<b>Net Assets</b>	
Deferred tax	<b>(0.1)</b>
Inventory	<b>0.6</b>
	<b>0.5</b>
<b>Equity</b>	
Hedging reserve	<b>0.6</b>
Cost of hedging reserve	<b>0.2</b>
Retained earnings	<b>(0.3)</b>
	<b>0.5</b>

## 15 Transition to IFRS 16

IFRS 16: *leases* (effective for annual periods beginning on or after 1 January 2019) will replace IAS 17 and related interpretations and requires entities to apply a single lessee accounting model, with lessees recognising right-of-use-assets and lease liabilities on balance sheet for all applicable leases. In addition, the nature of expenses related to those leases will change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for the right-of-use assets and an interest expense relating to lease liabilities.

The Group intends to adopt a full retrospective application of the standard applying the practical expedient available on transition not to reassess whether a contract existing at the date of initial application contains a lease. The Group currently anticipates the approximate impact on the financial statements as follows:

	Estimated impact	Range of outcomes *
	£'m	+/- £'m
<b>Statement of Financial Position</b> (restatement impact as at 31 January 2018)		
IFRS 16 right-of-use assets	127	10
IFRS 16 lease liabilities	(145)	10
Net IFRS 16 lease recognition	(18)	3
Remove operating lease related prepayments and accruals	6	1
Net impact at 31 January 2018	(12)	3
<b>FY19 Income Statement</b> (restatement impact)		
Remove operating lease charges (EBITDA increase)	43	1
Replace with IFRS 16 depreciation and finance charge	(41)	1
FY19 profit before tax increase under IFRS 16 versus IAS 17	2	1

\* All estimates are rounded to the nearest £million and presented as a range of outcomes as they remain subject to refinement of judgements, estimates and assumptions, further detailed review and full audit of the transition amounts in the year of transition. Any revisions to estimates, notably in respect of lease term and discount rates, would include a degree of offset between right-of-use assets and lease liabilities. Consequently the range of outcomes for the total net impact is lower than the sum of individual ranges of outcomes.

The reduction in net assets on transition to IFRS 16 reflects the timing of finance charges under a full retrospective application, whereby the finance charge is greatest at the start of each lease resulting in higher cumulative historical income statement charges prior to the date of transition versus those reported under IAS 17. Consequently the Group anticipates total future income statement charges in respect of existing leases to be slightly lower under IFRS 16 than would have been reported on a straight line basis under IAS 17, reflecting the gradual reversal of the opening restatement impact on net assets. This will be partially offset by higher initial income statement charges on new leases. The estimated impact on the FY19 income statement is shown above.