2 June 2020

Card Factory plc ("Card Factory" or the "Group")

Preliminary results for the year ended 31 January 2020

Card Factory, the UK's leading specialist retailer of greeting cards, dressings and gifts, announces its preliminary results for the year ended 31 January 2020 ('FY20').

Highlights

Financial Metrics	**Note**	**FY20**	**FY19**	**Change**
Revenue		**£451.5m**	£436.0m	3.6%
Card Factory LFL sales	(i)	**(0.5%)**	(0.1%)	
Underlying Profit before tax	(i)	**£67.2m**	£76.2m	(11.8%)
Profit before tax		**£65.2m**	£68.2m	(4.4%)
Underlying EBITDA	(i)	**£125.9m**	£132.7m	(5.1%)
Underlying Basic EPS	(i)	**15.7p**	18.0p	(12.8%)
Basic EPS		**15.1p**	15.4p	(1.9%)
Leverage	(i)	**2.30x**	2.20x	

Adjusted Financial Metrics excluding accounting for IFRS 16 *Leases*	(ii)	**FY20**	**FY19**	**Change**
Adjusted Underlying Profit before tax	(i)	**£65.8m**	£74.6m	(11.8%)
Adjusted profit before tax	(i)	**£63.8m**	£66.6m	(4.2%)
Adjusted Underlying EBITDA	(i)	**£81.2m**	£89.4m	(9.2%)
Adjusted Underlying Basic EPS	(i)	**15.4p**	17.6p	(12.5%)
Adjusted Basic EPS	(i)	**14.8p**	15.0p	(1.3%)
Adjusted Leverage	(i)	**1.76x**	1.58x	

Notes to table above:

i. See explanatory Note 2 "Alternative Performance Measures" for further information and definitions.
ii. Adjusted financial metrics, which exclude the impact of transition to IFRS 16 *Leases*, have been provided in order make clear the effects of the new standard. A reconciliation between each financial metric and its Adjusted comparative is provided in the Chief Financial Officer's Review.

Resilient sales performance in challenging conditions

- Single card volume market share continued to increase in a stable card market, now 33% by volume
- -0.5% like-for-like ("LFL") sales, reflecting weak consumer confidence and high street footfall decline in the second half
- Sales from retail partners totalled £3.1m (FY19:£0.1m)
- Valentine's and Mother's Days' record sales for the third consecutive year, driven by range, design and innovation for both card and complementary gifting
- Weaker Christmas performance a consequence of: macro back drop, reduced demand and execution issues
- 50 net new stores opened

Development of complementary online sales channels

- **cardfactory.co.uk** sales increased by 14.8% (FY19: 56.3%), reflecting strong prior year comparatives and a delay in the launch of the new platform
- **gettingpersonal.co.uk** sales were disappointing and continued to be affected by the cost of customer acquisition and promotional-led competitor pricing

Strong margin performance and cash generation

- Continue to deliver sector-leading margins, despite impact of poor LFL performance, one-off costs and increased recurring costs
- Good cash generation with working capital brought in line with year-end target

Strategy Update

Since IPO the business has been conducted in line with our four pillar strategy. This year we have invested a significant amount of time reviewing our approach in detail and looking at all elements of our customer and operating models. This has resulted in the evolution of our strategy to drive long-term sustainable and profitable growth.

The vision which shaped the strategy is for Card Factory to be recognised as '*the world's best greeting card retailer*'; helping people celebrate their life moments by offering products that are affordable and available for everyone. Critically, while this strategy focuses on delivering growth predominately in the UK market, it also allows us to leverage our assets internationally, taking the Card Factory brand into new geographies.

The objective of the refreshed strategy is to ensure Card Factory establishes itself as a robust, scalable and sustainable international greeting card retailer with diversified routes to market. This strategy will focus on delivering: a superior proposition for customers; meaningful career opportunities for our people; positive impacts on the world around us; and attractive returns for shareholders.

The successful delivery of this strategy will be structured around enhancing our strong card-led retail proposition, making our products available everywhere, however our customers wish to shop.

Covid-19 and liquidity update

The priority for Card Factory in the response to the Covid-19 pandemic has been the health and safety of both its colleagues and customers. As announced on 6 May 2020, whilst our stores have been closed we have continued to trade both of our online businesses, manage our expenses and cash flow and support our 3rd party partners who remain trading during this time.

Online trading from our two web sites has been strong with cardfactory.co.uk LFL since lockdown, at +302% and at +153% YTD. In addition, gettingpersonal.co.uk has also see a strong surge in sales and has been trading, since lockdown with LFL, at +68% and at +27% YTD. In response to this increased demand and to support social distancing we have established a second fulfilment unit in Wakefield leveraging existing capacity. In H1 FY21 we will conclude the work on the new platform and will launch our new website for cardfactory.co.uk which will enable a significantly improved customer experience and the delivery of our multi-channel roadmap. Alongside the online activity, we have continued to supply both Aldi and our Australian partner, The Reject Shop, with card ranges, with both experiencing a solid level of sales during this time.

With our stores closed, over 90% of our colleagues have been furloughed under the Government's Job Retention Scheme. Where required, our Support Centre colleagues are working effectively from home.

Given the recent announcements by the Government we are planning to open 10% of our stores around the 15th June, ensuring that we are compliant with the requirements for "Covid-Secure" to enable us to test trading under these new conditions. We have worked through the detail of social distancing in our stores, received appropriate PPE and other equipment. Subject to our early learnings, we have plans for further openings of stores ensuring that we do so with customers and colleagues safety at the forefront of our approach. It is clear that in some shops social distancing will impact the number of transactions that we are able to deal with; however our teams are looking to introduce innovative ways to process customer transactions to optimise sales in stores including helping customers reduce the frequency of their visits, but increase the average basket value in each shop. We will conclude the learnings from our trial stores and then rollout future store openings in line with Government guidance.

Whilst the audit report will contain an emphasis of matter in respect of Covid-19, the Board is confident that the Group has access to sufficient liquidity for navigating the times ahead. This has been driven by management focusing on cash conservation, its current banking facilities and the additional available support from the Bank of England. The cash conservation measures have included utilising relevant government schemes where applicable, managing stock intake and supplier terms and controlling the cost base. Capital investment has been focused on a small number of key projects that remain important to the Group's long-term strategic objectives. The business has in place an existing £200m Revolving Credit Facility ("RCF") maturing in October 2023 with our commercial banks, who have remained supportive of the business during this period. Alongside the current bank facilities, the Bank of England have confirmed access to additional funding under the Covid Corporate Financing Facility ("CCFF").

Outlook

Before the impact of Covid-19, we had made a satisfactory start to the year. In the first major season of the year, Valentine's Day, we achieved our fourth consecutive year of record sales growth in both volume and value. However, the Covid-19 pandemic has impacted trading and, given the uncertain economic backdrop, we do not think it is appropriate to provide financial guidance for FY21.

Our four pillar strategy has been a simple and effective part of delivering the growth of the business to date. However,

as customer buying habits evolve and the consumer landscape changes, we are planning for a new stage of growth. We have tested price positioning and new ranges and are well progressed on the implementation of a new multi-channel enabling online platform ensuring ongoing growth in the UK business. We have already established some key retail partnerships within the UK and overseas, leveraging our industry leading position and vertically integrated business model. We will continue to look at new, similar opportunities both within the UK and beyond.

The combination of the new growth strategy with Card Factory's market position, vertically integrated business model and management team means that we are confident we will continue to grow our market leading position. We have clear investment plans to support the delivery of our strategy and remain focused on delivering strong returns for our shareholders. We are looking forward to sharing this new strategy with you in due course, as the situation with Covid-19 becomes clearer.

Karen Hubbard, Chief Executive Officer, commented:

"We delivered a reasonable sales performance in a challenging year for the high street, growing both our volume and value card market share in the mature and stable UK greeting card market. Our profitability was, however, impacted by a number of recurring cost pressures and other one off operational costs which we were not able to fully mitigate.

"Across the year we also developed a refreshed long term strategy for future profitable growth. The strategy is focused on strengthening both our market position and the financial performance of the UK business. During the second half of the year we tested our price positioning and elasticity, trailed new customer propositions, and developed partnerships to grow our UK market share through concessions and supply arrangements. These partnerships have enabled us to serve card shoppers when they are on impulse-driven purchases away from our own retail stores. We have developed further our online infrastructure and capability to ensure that we are set to deliver in what is increasingly becoming a multi-channel environment. We agreed a five year contract with The Reject Shop in Australia following a successful concession trial. This contract represents our first international business and is a potential template for other markets. We believe there is an opportunity to leverage our current infrastructure and supply chain and build market share in other card markets across the world under the Card Factory brand.

"Since the year end, whilst we have continued to evolve our medium and longer term plans, a key focus has been on appropriately managing our business and protecting our staff through the Covid-19 crisis. We have developed flexible plans which will ensure the safety of our colleagues and customers whilst allowing a phased re-opening of our stores from the 15th June in line with Government guidelines. Our Board and management team have reacted rapidly to the very dynamic situation and I am confident that we will exit this crisis with an operating model and customer proposition that will make Card Factory the customers' first choice for greeting cards, everywhere and for all occasions, however the customer wishes to shop, although given the uncertainty we are unable to provide guidance on future performance.

"I look forward to sharing in detail our exciting plans for growth on 28 July 2020."

Preliminary results announcement

There will be a preliminary results webcast for analysts and investors today, starting at 9.30am, and available via https://webcasting.brrmedia.co.uk/broadcast/5ebeab0b31da814c9fc71af9. Those analysts who wish to attend are requested to contact Yasemin Balman of Tulchan Communications on the number provided below or by emailing cardfactory@tulchangroup.com. A copy of the webcast and accompanying presentation will be made available on the day via the Card Factory investor relations website: www.cardfactoryinvestors.com.

Enquiries

Card Factory plc — via Tulchan Communications (below)
Karen Hubbard, Chief Executive Officer
Kris Lee, Chief Financial Officer

Tulchan Communications — +44 (0) 207 353 4200
James Macey White / Elizabeth Snow / Amber Ahluwalia — cardfactory@tulchangroup.com

Explanatory notes

1. Alternative Performance Measures ("APMs") and other explanatory information

'Adjusted' APMs have been included to aid comparability with the prior year released financial statements but that the disclosure of adjusted APMs isn't anticipated going forwards.

"Adjusted profit before tax / EBITDA / EPS" is defined as profit before tax / EBITDA / EPS excluding the impact of IFRS 16 *Leases*. For further information see note 18 to the attached preliminary results.

"Adjusted Leverage" is calculated as the ratio of Adjusted Net Debt to Adjusted Underlying EBITDA for the previous 12 months. This definition excludes the impact of IFRS 16 *Leases* but is consistent with the Group's Capital Policy and with the terms of its borrowing arrangements.

"Adjusted Net Debt" comprises total borrowings, overdrafts and the value of capitalised debt issues costs less cash. This measures excludes lease liabilities reported under IFRS 16 *Leases*.

"EBITDA" is defined as earnings before interest, tax, depreciation and amortisation and represents profit for the period before net finance expense, taxation, depreciation and amortisation.

"Card Factory like-for-like sales" is defined as Like-for-like sales plus the year-on-year growth in sales from the Card Factory website.

"Getting Personal like-for-like sales" is defined as the year-on-year growth in sales from the Getting Personal website, calculated on a calendar week basis.

"Leverage" is calculated as the ratio of Net Debt to Underlying EBITDA for the previous 12 months.

"Like-for-like" or "LFL" is defined as follows:

The Group defines Card Factory store like-for-like 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 and excluding third party retail channels. The reported like-for-like sales figure excludes sales:

- made via the Card Factory website, www.cardfactory.co.uk;
- made via the separately branded personalised card and gift website, Getting Personal, 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 like-for-like figures for each week of trading after having been open for 52 weeks.

"Net Debt" comprises total borrowings, overdrafts, lease liabilities reported under IFRS 16 *Leases* and the value of capitalised debt issues costs less cash.

"Percentage Movements" have been calculated before figures were rounded to £0.1m.

"Underlying" The Group has chosen to present underlying profit and earnings measures. Transactions are categorised as non-underlying if the resulting underlying profit and earnings information is believed to assist comparison of year-on-year performance.

2. 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 2020

CHAIRMAN'S STATEMENT

Whilst sales overall were relatively resilient in FY20, underlying like-for-like revenue showed a modest decline against last year. Profit was impacted by non-recurring operational costs and, as expected, the cost of the increase in the National Living Wage. Although the management team took a number of bold mitigating actions, they were insufficient to entirely off-set the incremental costs.

During the year, the Group remained focused on executing plans that support the current four pillar strategy, underpinned by Card Factory's unique vertically integrated model. An important competitive advantage, the model is particularly key in the current environment, and will remain so in the future. During the second half of the year, the executive and senior leadership team worked towards a refreshed strategic framework that will enable the Group to better address, and exploit, the rapidly changing consumer environment. In our view, the emergence of the Covid-19 global pandemic will only accelerate changes in customer behaviour and present opportunity and challenge in equal measure. In our Chief Executive Officer's report, Karen provides a brief, high-level, update on these emerging strategic priorities.

The Board had intended to present the revised strategy to coincide with the announcement of the preliminary results. The government guidelines in relation to social distancing and meetings of no more than two people, has meant that we have decided to defer the Capital Markets Day to 28 July 2020.

As the potential consequences of Covid-19 became clearer, the management team and Board collectively prioritised actions to protect our colleagues and customers, preserve cash by taking advantage of government backed financial support and ensure that we dynamically plan for the anticipated relaxation of government guidelines. These remain our priorities.

In order to help protect our balance sheet at this challenging time, as previously announced, the Board decided that a final dividend would not be paid. Our dividend policy remains unchanged over the medium term, and we will regularly review the most appropriate actions to take in the shorter term; however, currently we do not expect to pay any dividends in relation to FY21.

The business performance in the last year was significantly impacted by a very challenging market. As we look to the short and, most likely, medium term, the consumer market landscape will remain challenging. The time and effort focused on the development of a refreshed strategy, that means we will be better able to address that changing market with more agility and innovation, gives the Board greater confidence in the longer term prospects of the Card Factory business

Paul Moody
Chairman
2 June 2020

CHIEF EXECUTIVE OFFICER'S REVIEW

Overview

During FY20, Card Factory produced a resilient sales performance despite poor consumer confidence and lower high street footfall, particularly in the second half. Like-for-like sales were broadly flat for the year, with record volume and like-for-like sales performances in Valentine's Day and Mother's Day. Sales over the Christmas season were more subdued, reflecting the market backdrop, a decline in demand, together with some execution issues.

Our business model remains unique, with continual investment in our vertically integrated supply chain to improve our competitive advantage in the market. This improves our ability to bring to market new ranges with shorter lead times, allowing us to provide an unrivalled offer of quality and value to our customers whilst generating attractive gross margins. This investment will allow Card Factory to take advantage of growth opportunities both in the UK and in other geographies. We are utilising EPOS information to inform future designs and ranges, and to automate replenishment in store driving sales growth, deliver cost efficiencies and improve our market share.

Despite tough market conditions and cost headwinds, our model and focus on the customer and business efficiencies enabled us to deliver good EDITDA margins and we continue to generate strong cash returns.

In the year, the management team focused on three key aspects of the business:

- Maximising our financial performance, while investing in key parts of the business which will support longer term future growth
- Developing the five year growth strategy
- Testing elements of this growth strategy to ensure it will deliver tangible and sustainable results, thereby providing assurance to all stakeholders over Card Factory's long-term prospects

Market update

The fundamentals of the card market remain intact – it is a large, and broadly stable market. Our updated analysis shows that the increasing average prices of cards fully offsets the very modest year-on-year volume decline. We see interesting areas of growth that are consistent with wider consumer trends, such as the growth of new and non-standard occasions offsetting a long-term decline in Christmas card giving, and a growing minority of shoppers now buying cards on impulse rather than in planned shopping missions. These present new opportunities to our business, which has increased its volume share once more to 33% of single greetings cards, despite increasingly aggressive competition.

Our proposition continues to resonate with customers. OC&C Strategy Consultants have found us once more to be the #1 ranked UK retailer for 'value for money', whilst our own research shows that:

- Card Factory is the top-rated retailer by greetings card shoppers both overall, and for their most important "choice" factor, having a wide range of cards available;
- More than 40% of card shoppers consider Card Factory to be their main shop for greetings cards, which is up 4 ppts on last year; and
- When we look at the nine different shopper segments that make up all out-of-home card buying, despite their considerable differences in terms of social and economic indicators, we find that Card Factory is the market leader by volume in every single segment.

These figures give me enormous confidence that this business benefits greatly from its 21-year history of delivering a unique blend of the broadest choice of high quality cards, the majority of which are manufactured in Yorkshire, at very attractive price points.

FY20 Strategic performance

In FY20, we continued to make good progress against our established four strategic pillars:

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

Card Factory LFL sales were -0.5% (FY19: -0.1%) reflecting lower consumer confidence and footfall, particularly in the second half.

Although we did not see growth in our overall like-for-like sales, we offset the footfall decline with a number of successes in range and product development, resulting in a higher average basket value. In the year, the volume of Everyday Cards sold increased both in total and on a like-for like-basis, in addition we grew the average selling price of both Everyday and seasonal cards. We saw substantial growth in Open cards suitable for all occasions, with the

introduction of higher price points and new modern styles, and within our Everyday Milestone-Age card range, whilst Baby, gift and sentiment all saw significant like-for-like sales increases. Our seasonal ranges also performed well in Valentine's Day and Mother's Day, achieving record sales volumes and value on a like-for-like basis.

Christmas was a disappointing season driven by: the macro backdrop; a reduction in demand for single and boxed cards; and some execution issues which left us with unsatisfied demand for some key captions. Our detailed review of our seasonal performance using data from all of our stores has resulted in better planning for Christmas in 2020.

We continue to learn from and leverage our EPOS data – to guide our design studio; to ensure that our top selling card ranges are available in every store; and to drive auto-replenishment, which was implemented for Everyday cards in most stores in Q4. We also used our vertically integrated supply chain to quickly produce new concepts and ranges, in response to changing customer trends.

For the year as a whole, the proportion of sales from non-card items increased to 45.8% (FY19: 44.6%).

The Card Factory website, cardfactory.co.uk, performed well during the year with an increase in both visitors and average order value, providing further evidence of the potential of this channel, as detailed further below.

2. New store rollout

We achieved our target net new store openings for this year, opening 50 net new stores across the UK and Republic of Ireland, including a variety of retail locations - high streets, shopping centres and retail parks. We ended the year with 1,009 UK stores (31 January 2019: 965), with a further 13 stores in the Republic of Ireland (31 January 2019: 7), bringing our total estate of Card Factory managed stores to 1,022. The quality of our estate remains very strong with the average time to lease break of 2.5 years.

We remain mindful of the ongoing high street challenges, and we continue our twice yearly review of all stores, assessing potential opportunities to upsize, downsize, co-locate or relocate. This helps to ensure the whole of the estate is well positioned to best meet customer demand and benefit from shifting footfall.

Whilst our store roll-out programme remains an important part of the growth strategy, Covid-19 has impacted the pace at which we will open stores in the coming year. We now expect to open seven new stores in 2021, being those which we are already legally committed to and will revise our plans as appropriate. The overall scale of the store roll out programme will be considered as we assess the implications of Covid-19 on store trading.

3. Business efficiencies

The Group has consistently delivered best-in-class operating profit margins, although these have slightly declined in recent years, mainly due to National Living Wage and foreign exchange headwinds. This year cost pressures continued, with National Living Wage increases, higher card payment fees and storage for increased stock levels. We sought to mitigate these through our established multi-year programme of cost efficiencies.

The key business initiatives in the year included:

(1) We invested in our vertical supply model, continuing to improve the quality of our products through better and more efficient production techniques. This reduced our unit cost of production while also ensuring our cards remain of the highest quality. Investments included a replacement press, which resulted in a reduction of head count, and a foiling machine that produces cards at three times the rate of the old machine. We have a clear plan in place for future investments in the latest technologies in dye cutting, printing, foiling and packing efficiency. We have also been focusing on how we can move even more production in-house and away from overseas suppliers, improving margins, and providing greater control over our supply chain.

(2) We continually review our supply chain and relationships with our UK and overseas manufacturers to ensure we have the most effective sourcing in what is a tough commodity market. We successfully negotiated new supplier terms which resulted in better margins for Card Factory. Alongside those efforts, we also introduced a new freelance designer base that delivered new, fresher designs to our online business, with strong sales growth within an effective pricing model.

(3) We have delivered significant improvements in efficiency and effectiveness in our distribution centres, with the introduction of voice picking, warehouse consolidation and improved warehouse productivity measures such as the development of pre-pack operations. All of these actions enable a more cost effective and efficient operation, in particular for key seasons.

(4) Improved operational productivity in stores through the removal of non-customer facing tasks via automation and simplified store operations. We also introduced electronic rotas and new communication tools, enabling the removal of over 300,000 non-customer facing store hours. In addition, we laid the groundwork for further

store operation efficiencies in FY21.

(5) We continued to reduce other store operating costs by achieving our targeted rent savings and by reducing store stock and cash loss and store stock holding. In FY20, we introduced auto-replenishment of Everyday Card in almost all of our stores, and reduced overall stock holding levels.

4. Online development

We have two transactional websites – **cardfactory.co.uk** and **gettingpersonal.co.uk**.

We were encouraged by the growth in the online business. The **www.cardfactory.co.uk** team delivered sales growth of 15% in FY20 against a strong comparator (FY19: 56%). The development of the existing website and investment in marketing was limited to allow the team to focus on: the development of the new digital platform, which we expect to launch shortly; test and learn from channel specific marketing campaigns; and trial product/design ranges from independent designers. In the year we added 3,835 new product ranges and 83% of the range are for online exclusive products not available in store. This product offering resonates well with existing customers, with strong sales in cards and party ranges driving frequency of shop and basket size. New customer acquisition was focussed on our existing store customers, a large proportion of whom we know shop online and yet were unaware of the Card Factory website. New point of sale, promoting cardfactory.co.uk, was launched across the store estate in July 2019 and we saw a 7% increase in traffic to the website.

The **www.gettingpersonal.co.uk** business continued to face challenges and whilst it remains a small part of the Group, its financial performance in the year was disappointing with sales decreasing by 9.8% and EBITDA falling to breakeven (FY19: £1.2m). During the year, we reviewed the business in detail and recently concluded that while there remain significant sales opportunities in the personalised gifting market, which is serviced through our manufacturing model, we would integrate the Getting Personal business utilising the new Card Factory platform. This will enable us to retain the Getting Personal brand and its unique customers, but leverage the investment made in the Card Factory business. This integration of the business will occur in H2 of FY21.

5. Retail colleagues and performance culture

We continue to develop our colleagues and their capabilities. Our Retail ACardemy, now in its third year, has successfully offered many development opportunities. This year we had 96 colleagues graduate from the twelve-month Management Development Programme, with 48 promotions into management roles. In September 2019, we launched our third year of Retail ACardemy, accommodating a further 127 Retail colleagues and, just a third of the way through the programme, we have already seen 20 promotions into management roles.

Throughout the year, we have continued to present development opportunities through the Retail Apprenticeship offering; Retailer Level 2, Team Leader Level 3, and Retail Manager Level 4.

Our clear aim is to develop our colleagues by creating a strong performance culture, with focused objectives that support the delivery of our strategy. We recently rolled out performance reviews for all Store Managers and have completed a training needs analysis for the same population, giving us a clear view of those with potential to develop further.

We are working hard to ensure that our colleagues are engaged and feel respected for the job that they do. The Retail Forum helped us build our action plan for this year and we are focussed on getting the basics right to drive engagement and motivation for colleagues and deliver the best possible customer service in stores.

During the Covid-19 lock down period we have communicated fully with our colleagues, provided digital training for their personal development and provided support for their wellbeing. In addition, through our Charitable Foundation, we created a Covid hardship fund available to all of our colleagues who were experiencing financial hardship during this time. This hardship fund is financed in part by the directors and non-executive directors who are voluntarily donating 20% of salaries for the period of furloughing.

6. Customer engagement and experience

We continue to shape our offer to meet the changing needs of our customers to help them celebrate their life moments. In FY20, we sought to focus all colleagues on a customer first approach, whether product design, stores or evolving multi-channel propositions. Spending time in our stores, understanding website browsing behaviour and what customers are sharing and talking about through social media engagement continues to educate and inspire our thinking and plans. We have laid the foundation of our customer segmentation, which brings to life those we serve and, over the next twelve months, we will accelerate our plans to understand further our customers and trial new customer propositions.

Because our customers shop on the high street and online, we continue to test our multi-channel propositions, including in-store ordering and printing, extended ranges, design newness and product bundles. Our customers are reacting positively to these trials. We have brought our online and retail customer service teams together to ensure our customers are treated as individuals rather than according to the channel they shopped. This also provides us with the opportunity to offer a consistent experience as we support customers across our channels.

7. Development of the next Card Factory five-year growth strategy

Through the year, the Board and management team have devised a long-term strategy, the objective of which is delivering sustainable and attractive returns for our shareholders. This strategy leverages Card Factory's unique, vertically integrated business model and is based on robust independent market data and research.

The vision which shaped the strategy is for Card Factory to be recognised as '*the world's best greeting card retailer*'; helping people celebrate their life moments by offering products that are affordable and available for everyone. Critically, while this strategy focuses on delivering growth predominately in the UK market, it also allows us to leverage our assets internationally, taking the Card Factory brand into new geographies.

Three key work streams have been identified for Card Factory to deliver on both the strategy and vision, outlined below.

(1) Build a winning card-led retail proposition

For our business to succeed, we are clear that our offering must be based around having a winning card-led retail proposition. To deliver this, we will continue to focus on:

- Being customer-led and leveraging the substantial data collected through c 2.5 million transactions per week to ensure the optimal and most efficient range of cards and gifts across the estate on a store by store basis, throughout the year;
- Leadership in Card Choice offering the widest range of cards with ongoing improvement and refreshment of our card ranges. Our vertically integrated model means we can trial and bring to market new ranges more quickly and efficiently than our competitors;
- Creating complementary and popular non-card products, such as wrapping paper, gifting ranges and accessories, so Card Factory can fully capitalise on each visit a shopper makes to a store, concession or website for both seasonal events and in everyday ranges;
- Targeted marketing and loyalty programmes to address certain brand perceptions, broadening the potential number of Card Factory customers; and
- Ensuring that we have a distinctive and defensive pricing strategy with a continual assessment of our pricing to ensure we continue to offer market leading value for shoppers at attractive margins for Card Factory.

(2) Making our products available everywhere and however the customer wishes to shop

One of the key drivers behind Card Factory's market leadership to date has been its substantial, and growing, 1,000+ store estate. Market research has shown that there is an opportunity to increase market share further by increasing the availability of Card Factory products through complementary alternative formats and initiatives. There are five different aspects to increasing coverage:

- Continuing to review in detail both the current UK store estate and where we are planning to open new stores to ensure they are all in the best possible locations – be it on the High Street or, increasingly, on retail parks. Whilst our store roll out programme remains an important part of the growth strategy, the pace and scale will be considered as we assess the implications of Covid-19 on store trading;
- Trialling new formats where localised demand exists, which might either be smaller in scale or of a different character where the main Card Factory facia isn't appropriate enabling us to take a local market approach to ensure that all customers can access our products;
- Capitalising on the growing trend of 'impulse purchasing' through partnerships with retailers in suitable locations and with complementary brand propositions. We are encouraged by the progress we have seen with this model through the current Aldi relationship and the ongoing trial with Matalan;
- Offering our ranges, retailing expertise and the Card Factory brand internationally, leveraging the infrastructure that we have. We have opened in Australia with The Reject Shop following an initial trial and are now trading from 355 stores, (with 170 opened at end of FY20); and
- Increasing market share of online transactions. While the number of online transactions is forecast to grow, it is still relatively modest at 8% of UK card volume. We will launch a new web platform in 1H FY21, allowing us to significantly grow our online presence and leverage our store estate – thereby significantly strengthening our ability to trade as an omni-channel retailer.

(3) Sustain & Extend our competitive advantages

Card Factory's vertically integrated business model is a key competitive advantage, allowing us to deliver both quality and value to our customers at attractive margins for the business. We will continue to invest in the business model to sustain this important differentiator. The focus will be:

- Retail operating model transformation: We have identified a number of additional opportunities across the entire business, from the design of a card or gift, through to manufacturing and supply chain, and on to the store itself, where we can deliver for our customers more efficiently. This will enable us to achieve the lowest cost to operate especially in relation to the store operating model. Technology will play an important part in the ongoing improvement of this and allow us to leverage infrastructure to support all channels; and
- Manufacturing and supply chain investments: We have already started building the infrastructure required to support new sales channels with retail partners both in the UK and internationally. We will invest in our vertical supply chain and manufacturing technology to improve product margins and lower our operational cost base. In addition, we will be assessing the opportunity to bring the manufacture of more hand-made card ranges back to the UK, increasing the flexibility to which we can respond to customer demand.

Delivery of the strategy will require investment in a new ERP system, printing machinery and a new warehouse which will be fully operational by July 2020. Investments have been considered in line with the associated business benefits and timing amended given the current implications of Covid-19.

8. Covid-19 and liquidity update

The priority for Card Factory throughout Covid-19 has been the health and safety of both our colleagues and customers. As announced on Wednesday 6 May, we have continued to trade both of our online businesses. While still a small part of the overall group, we saw significant growth in visitors, conversion and sales. In response to this increased demand and to support social distancing we have established a second fulfilment unit in Wakefield. Alongside the online activity, we have continued to supply both Aldi and our Australian partner, The Reject Shop, with card ranges. Following Government guidance to close all stores, over 90% of our colleagues have been furloughed under the Government's Job Retention Scheme. Where required, our Support Centre colleagues are working effectively from home. We have prepared extensively for the re-opening of our stores, and are currently working on changes to our store operations that will help ensure colleague and customer safety. We expect to be able to facilitate appropriate social distancing in the majority of our stores.

Whilst the audit report will contain an emphasis of matter in respect of Covid-19, the Board is confident that the Group has access to sufficient liquidity for navigating the times ahead. This has been driven both by management focusing on cash conservation, its current banking facilities and the additional support from the Bank of England. The cash conservation measures have included utilising relevant government schemes where applicable, managing stock intake and supplier terms and controlling the cost base. Capital investment has been focused on a small number of key projects that remain important to the Group's long-term strategic objectives. In addition, the business has in place an existing £200m RCF maturing in October 2023 with our commercial banks, who have remained supportive of the business during this period. Alongside the current bank facilities, the Bank of England have confirmed access to additional funding under the Covid Corporate Financing Facility ("CCFF"). We will make further updates on Card Factory's response to Covid-19 as appropriate.

Given the recent announcements by the Government we are preparing for the re-opening of our stores ensuring that we are compliant with the requirements for "Covid-Secure". Over the past number of weeks the team have worked through the detail of social distancing in our stores, received appropriate PPE and other equipment and have a plan for a phased re-opening of our shops. Our priority in doing so is to ensure the ongoing safety of our colleagues and customers. It is clear that in some shops social distancing will impact our ability to trade, however our teams are working through a plan for sales optimisation and trialling that will inform us more fully of the implications and any additional changes that we may have to make. As the impact on the operating performance becomes clearer we will amend our business plans accordingly.

9. Outlook

Before the impact of Covid-19, we had made a satisfactory start to the year. In the first major season of the year, Valentine's Day, we achieved our fourth consecutive year of record sales growth in both volume and value. However, the Covid-19 pandemic has impacted trading and, given the uncertain economic backdrop, we are unable to provide financial guidance for FY21.

Our four pillar strategy has been a simple and effective part of delivering the growth of the business to date. However, as customer buying habits evolve and the consumer landscape changes, we are planning for a new stage of growth. We have already established some key retail partnerships within the UK and overseas, leveraging our industry leading position and vertically integrated business model. We will continue to look at new, similar opportunities. In addition we have tested price positioning and new ranges and are well progressed on the implementation of a new multi-

channel enabling online platform.

The combination of the new growth strategy with Card Factory's market position, vertically integrated business model and management team provides confidence we will continue to grow our market leading position. We have clear investment plans to support the delivery of our strategy, and remain focused on delivering strong returns for our shareholders. We are looking forward to sharing this new strategy with you on 28th July 2020.

Karen Hubbard
Chief Executive Officer

2 June 2020

CHIEF FINANCIAL OFFICER'S REVIEW

The "FY20" accounting period refers to the year ended 31 January 2020 and the comparative period "FY19" refers to the year ended 31 January 2019.

Unless otherwise stated, the following FY20 and FY19 information is presented as including the new accounting entries required by IFRS 16 *Leases*; references to "Adjusted" financials exclude such entries. In addition, the Group has chosen to present underlying profit and earnings measures. Transactions are categorised as non-underlying if the resulting underlying profit and earnings information is believed to assist comparison of year-on-year performance.

Revenue

Total Group revenue during the year grew by 3.6% to £451.5m (FY19: £436.0m), driven by growth in the Card Factory store network:

	FY20 £'m	FY19 £'m	Increase/ (Decrease)
Card Factory stores	429.0	415.5	3.3%
Online	19.4	20.4	(4.9%)
Retail partnerships	3.1	0.1	
Group	**451.5**	**436.0**	**3.6%**

To reflect the change of emphasis in our business, we have adjusted our divisional reporting to report in respect of the above three divisions (Card Factory stores; Online and Retail Partnerships). The Group's established new store roll out programme continued to be an important driver of sales growth for the business. In the year under review, 53 new stores were opened, giving a net addition of 50 new stores. This brought the total UK estate to 1,022 stores at the year-end, including 13 stores in the Republic of Ireland.

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

	FY20	FY19
Card Factory stores	(0.7%)	(0.5%)
Card Factory online	14.8%	56.3%
Card Factory LFL	**(0.5%)**	**(0.1%)**
Getting Personal	(9.8%)	(8.1%)

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 FY20 was 52.2% single cards (FY19: 53.1%), 45.8% non-card (FY19: 44.6%) and 2.0% boxed cards (FY19: 2.3%). We expect some continuation in this trend as we further improve our non-card offering and drive incremental sales and average basket value.

Revenue from the Card Factory transactional website grew by 14.8% (FY19: 56.3%).

Performance at Getting Personal was disappointing, with rising cost of customer acquisition in an increasingly competitive, discounting-led market continuing to present a challenge to the business model. We are currently reviewing the structure of the business and its strategy for targeting customers and as a result the Board has since concluded that an impairment to the remaining goodwill balance related to this business should be made. Further details are provided below.

Underlying operating costs

Underlying cost of sales and operating expenses can be analysed as follows:

FY20 Underlying	**FY20 Adjusted £'m**	**FY20 IFRS16 £'m**	**FY20 £'m**	**FY20 % of revenue**	**% (Increase) / Decrease**	**£ (Increase) / Decrease**
Cost of goods sold	152.7	-	**152.7**	33.8%	(1.2 ppts)	(7.5%)
Store wages	87.7	-	**87.7**	19.4%	(0.9 ppts)	(8.5%)
Store property costs	70.3	(43.8)	**26.5**	5.9%	0.1 ppts	(1.1%)
Other direct expenses	22.9	-	**22.9**	5.1%	(0.2 ppts)	(7.5%)
Underlying cost of sales	**333.6**	**(43.8)**	**289.8**	**64.2%**	**(2.2 ppts)**	**(7.2%)**
					-	
Operating expenses*	36.7	(0.9)	**35.8**	7.9%	(0.3 ppts)	(8.8%)
Depreciation & amortisation	11.0	39.3	**50.3**	11.1%	(0.1 ppts)	(4.6%)
Total operating expenses	**47.7**	**38.4**	**86.1**	**19.0%**	**(0.4 ppts)**	**(6.3%)**

FY19 Underlying	FY19 Adjusted £'m	FY19 IFRS16 £'m	FY19 £'m	FY19 % of revenue
Cost of goods sold	142.1	-	**142.1**	32.6%
Store wages	80.8	-	**80.8**	18.5%
Store property costs	68.3	(42.1)	**26.2**	6.0%
Other direct expenses	21.3	-	**21.3**	4.9%
Underlying cost of sales	**312.5**	**(42.1)**	**270.4**	**62.0%**
Operating expenses*	34.1	(1.2)	**32.9**	7.6%
Depreciation & amortisation	10.9	37.2	**48.1**	11.0%
Total operating expenses	**45.0**	**36.0**	**81.0**	**18.6%**

*excluding depreciation and amortisation

The overall ratio of cost of sales to revenue increased to 64.2% on an underlying basis (FY19: 62.0%). This increase was driven by the following movements in sub-categories and by the decline in LFL performance:

- **Underlying cost of goods sold ("COGS"):** principally comprises cost of raw materials, production costs, finished goods purchased from third party suppliers, import duty, freight costs, carriage costs and warehouse wages. Product sourcing and manufacturing improvements (both annualised from FY19 and new in FY20) helped improve both card and non-card constant currency product COGS by 0.3ppts. However, the shift in product mix from card to non-card, an increase in the core retail stock provision and, to a lesser extent, the effect of our lower product margin retail partnerships, resulted in an increase in overall constant currency product COGS by 1.2 ppts. The effective sterling-US dollar exchange rate for FY20 was c.$1.35 which is comparable both with FY19 and the anticipated effective P&L rate for FY21; however, the latter remains subject to any significant shift in the value of sterling and the impact of Covid-19 on hedged cash flows.
- **Store wages:** includes wages and salaries (including bonuses) for store-based staff, together with national insurance contributions, apprenticeship levy, pension contributions, and overtime, holiday and sick pay. As reported in the interim results, this cost increased as expected as new stores were opened in the UK and Republic of Ireland, pension costs grew and pay increases were awarded, including those influenced by National Living Wage. However, this headwind was mitigated in part by improved management of store hours and the successful delivery of planned in-store task reduction initiatives in H2.
- **Store property costs**: Under IFRS 16 *Leases*, store rents are no longer included within cost of sales, leaving only business rates and service charges. The pre-IFRS 16 Leases total increased in absolute terms as new stores were opened, but the ratio to revenue was maintained at FY19 levels. We continue to target improvements in our overall rent roll as we reach break points or expiries on existing leases but, given Covid-19, we are not able to guide on the likely change in FY21. However, we can confirm that Card Factory will benefit from the UK government's decision to provide business rates relief to retailers for the 2020-21 tax year.
- **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 slightly by 0.2 ppts – as it had at the half year – largely due to the additional one-off cost of holding increased stock levels (for Brexit contingency planning, investment in new lines and the acceleration of seasonal buying) for a prolonged period, with smaller increases linked to increasing debit/credit card payment mix and increased merchant fees thereon, and online marketing costs in Getting Personal. The overall increase in costs described above was mitigated in part by c.£1.3m of business efficiencies covering a range of cost categories, including waste disposal, cash collection and a reduction in new store opening costs.
- **Underlying operating expenses:** includes items such as support centre remuneration, the cost of store estate Regional and Area Managers, design studio costs and business insurance together with other central overheads and administration costs. The Group invested further in its IT infrastructure in FY20 and in training and the other enabling costs associated with delivering the business efficiency savings outlined above. In addition, infrastructure costs, necessary to support growth, were added to both the Online and Retail Partnerships divisions. Total operating expenses (excluding depreciation and amortisation) increased by 8.8% (FY19: 9.6%) to £35.8m, representing an increase from 7.6% to 7.9% as a percentage of revenue.

Depreciation and amortisation, which now includes depreciation and impairment of right-of-use property lease assets under IFRS 16 *Leases*, grew by 4.6% - broadly in line with net new store openings – to £50.3m (FY19: £48.1m).

Underlying EBITDA

	FY20 Adjusted £'m	FY20 IFRS16 £'m	FY20 £'m	FY19 Adjusted £'m	FY19 IFRS16 £'m	FY19 £'m	Increase/ (Decrease)
Underlying EBITDA	81.2	44.7	125.9	89.4	43.3	132.7	(5.1%)
Underlying EBITDA margin	18.0%		27.9%	20.5%		30.4%	(2.5 ppts)

The reduction in Underlying EBITDA reflects, in particular, Card Factory store like-for-like sales performance, the impact of one-off costs of £4.4m, from higher storage costs and stock provision increases due to increased stock holding in preparation for Brexit. Stockholdings returned to normal levels by the end of the period. Other ongoing increased costs relate to National Living Wage cost increases, investment in IT support (of EPOS in the main), increasing debit/credit card usage costs, investment in strengthening our competitive position in the online channel, growing our retail partnerships channel and maintaining our low price points. As described above, the business was able to mitigate in part a significant proportion of these cost increases through the removal of unnecessary, non-customer facing store wage costs and the delivery of various other operating cost savings.

The business is likely to continue to face increasing National Living Wage costs amongst other cost pressures. In addition, the full impact of Covid-19 on the short to medium term performance of the business is unclear. However, the business is operating close controls over its cost base and liquidity in order that it emerges from this crisis on a strong footing.

Underlying net financing expense

Excluding interest charges pertaining to IFRS 16 *Leases*, net financing expense, excluding non-underlying items, increased to £4.4m (FY19: £3.9m), due to the average effective interest rate being 0.23 ppts higher than in FY19. Including IFRS 16 *Leases* interest charges, the underlying net financing expense remained at £8.4m (FY19: £8.4m).

All Underlying	FY20 Adjusted £'m	FY20 IFRS16 £'m	FY20 £'m	FY19 Adjusted £'m	FY19 IFRS16 £'m	FY19 £'m	(Increase) /Decrease
Finance expense							
Interest on loans	4.0	-	4.0	3.5	-	3.5	(14.3%)
Loan issue cost amortisation	0.3	-	0.3	0.2	-	0.2	(50.0%)
Loss on interest rate derivatives	0.1	-	0.1	0.2	-	0.2	50.0%
IFRS 16 *Leases* interest	-	4.0	4.0	-	4.5	4.5	11.1%
Total finance expense	**4.4**	**4.0**	**8.4**	**3.9**	**4.5**	**8.4**	**-**

Profit before tax and non-underlying items

Underlying profit before tax for the financial year amounted to £67.2m (FY19: £76.2m), a decrease of 11.8%. Whilst, overall profit before tax for the financial year amounted to £65.2m (FY19: £68.2m).

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

	FY20 Adjusted £'m	FY20 IFRS16 £'m	FY20 £'m	FY19 Adjusted £'m	FY19 IFRS16 £'m	FY19 £'m	Increase / (Decrease)
Underlying profit before tax	**65.8**	**1.4**	**67.2**	**74.6**	**1.6**	**76.2**	**(11.8%)**
Non-underlying items:							
Cost of sales							
Gain on foreign currency derivative financial instruments not designated as a hedge	0.5	-	0.5	4.2	-	4.2	(88.1%)
Operating expenses							
Impairment of goodwill (note 11)	(2.5)	-	(2.5)	(11.9)	-	(11.9)	(79.0%)
Net finance expense							
Refinanced debt issue cost amortisation	-	-	-	(0.3)	-	(0.3)	(100.0%)
Profit before tax	**63.8**	**1.4**	**65.2**	**66.6**	**1.6**	**68.2**	**(4.4%)**

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

Tax

The tax charge for the year fell to 20.8% of profit before tax (FY19: 22.8%). The underlying tax charge fell slightly to 19.2% of profit before tax (FY19: 19.4%).

Earnings per share

Basic and diluted underlying earnings per share for the year were 15.7p (FY19: 18.0p), a decrease of 12.8%. After the non-underlying items described above, basic and diluted earnings per share for the year were 15.1p (FY19: 15.4p), a decrease of 1.9%.

	FY20 Adjusted	FY20 IFRS16	FY20	FY19 Adjusted	FY19 IFRS16	FY19	(Increase) /Decrease
Underlying Basic EPS	15.4p	0.3p	15.7p	17.6p	0.4p	18.0p	(12.8%)
Basic EPS	14.8p	0.3p	15.1p	15.0p	0.4p	15.4p	(1.9%)

Capital expenditure

Capital expenditure excluding IFRS 16 Leases right of use assets, amounted to £14.5m (FY19: £12.1m), comprising strategic investments of £7.7m, principally in relation to the new cardfactory.co.uk platform and the business's vertically integrated supply chain, including manufacturing capability and warehouse voice picking technology. Total capital expenditure, including right of use assets, amounted to £50.9m (FY19: £54.3m).

The Board anticipates capital expenditure in FY21 to be significantly lower than recent years as it places stringent controls upon cash out flows in response to Covid-19 and postpones a large proportion of its FY21 new store roll out and relocation programme. However, the business still plans to invest in certain key strategic projects, including: further investment in voice picking in the new consolidated warehouse facility, completion of the cardfactory.co.uk platform roll out, and various process improvement investments that benefit from relatively short pay back periods.

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 risk management, even if cash flow hedge accounting may not be permitted in some instances.

As at the year end, we had cover in place for approximately two years' full trading. The anticipated effective P&L rates for both FY21 and FY22 are c$1.35 (FY20: c$1.35), although this remains subject to any significant shift in the value of sterling, which could impact the structured trades that form part of the hedging portfolio, and the impact of Covid-19 on hedged cash flows. Structured trades represent approximately 40% of hedges that are yet to mature.

In response to the Covid-19 pandemic the Group has greatly reduced inventory purchases and will swap forward, or consider other amendments to trades, in order to defer currency contract maturities.

Cash generation

In the year, the Group remained highly cash generative, driven by its strong operating margins, limited working capital absorption and relatively low ongoing capital expenditure requirements.

Cash conversion, calculated as Underlying adjusted EBITDA less capex and underlying working capital movements divided by Underlying EBITDA, fell to 80.0% (FY19: 96.5%). This decline reflects a short-term favourable working capital timing difference as at 31 January 2019 that reversed in the reporting period.

Net Debt & Covenants

As at 31 January 2020, net debt (including debt issue costs of £1.0m) amounted to £289.0m, analysed as follows:

	FY20 Net Debt £'m	FY20 Leverage Multiple	FY19 Net Debt £'m	FY19 Leverage Multiple
Borrowings				
Current liabilities	3.6		0.1	
Non-current liabilities	144.0		143.7	
Total borrowings	147.6		143.8	
Lease liabilities	145.9		151.2	
Capitalised debt costs	1.0		1.3	
Gross debt	294.5		296.3	
Less cash	(5.5)		(3.8)	
Net Debt	**289.0**		**292.5**	
Leverage		**2.30x**		**2.20x**
Remove lease liabilities	(145.9)		(151.2)	
Adjusted Net Debt	**143.1**		**141.3**	
Adjusted Leverage		**1.76x**		**1.58x**

Net debt at the year-end represented 2.30 times Underlying EBITDA (FY19: 2.20 times), with Adjusted Net Debt representing 1.76x Underlying EBITDA (FY19: 1.58x).

The Group has entered into revised covenant terms with its banking partners. This will enable it to utilise not only the full Revolving Credit Facility of £200m but also the secured funding from the Bank of England Covid Corporate Financing Facility, to the extent that the combined draw down on facilities net of cash does not exceed a monthly cap £275m at their peak. Under the revised covenant terms, the Group's existing covenant requirements have lapsed immediately and have been replaced by three new covenant tests relating to net debt; cash burn; and last twelve months EBITDA. These tests will be applied monthly until June 2021, after which it is envisaged that the business will have a phased return back to existing six-monthly covenant tests of net debt to EBITDA and interest cover.

Until the business returns to existing covenant tests - which is currently envisaged as commencing July 2021 - Adjusted Leverage is less than 2.0x (i.e. pre-IFRS 16) and it has no outstanding commercial papers issued under the CCFF, there will be a prohibition of any payment to shareholders by way of dividend or share buy-back, with the same tests applying to acquisitions. Furthermore, the Group must use best efforts to raise equity if leverage is above 3.0x before the later of January 2021 or 3 months before the redemption of the final commercial paper issuance.

Dividends and capital structure

Dividends

Historically, 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. Following the outbreak of the Covid-19 pandemic, the Board decided not to declare a final ordinary dividend for the year ended 31 January 2020. Our dividend policy remains unchanged over the medium term, and we will regularly review the most appropriate actions to take in the shorter term; however, currently we do not expect to pay any dividends in relation to FY21.

Total dividends for FY19 and FY20 can be summarised as follows:

	FY20	FY19 *Restated*
Interim dividend paid	2.9p	2.9p
Final dividend (recommended FY20)	-	6.4p
Total ordinary dividend	**2.9p**	**9.3p**
Ordinary dividend cover	*5.11x*	*1.89x*
Special dividend paid	5.0p	5.0p
Total dividend	**7.9p**	**14.3p**

Capital structure

The Board is focused on maintaining a capital structure that is conservative yet efficient in terms of providing long-term returns to shareholders. Over the medium term, the Board expects to maintain leverage broadly in the range of 1.0 to 2.0 times Adjusted Net Debt to Adjusted Underlying EBITDA, excluding the impact of IFRS 16. However, due to the impact of Covid-19, the Board expects that leverage will peak above this range in FY21, which will impact the distribution of cash to shareholders, as reflected above. 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 May 2020, Card Factory received confirmation that it can access funding under the CCFF. HM Treasury and the Bank of England have confirmed that the CCFF will be operated “for at least 12 months and for as long as steps are needed to relieve cash flow pressures on firms that make a material contribution to the UK economy.” The Board will consider various options to ensure the key stakeholders of the business are protected as much as possible in these uncertain times and will look to provide a further update as the longer term impact of Covid-19 becomes clearer.

Kris Lee
Chief Financial Officer
2 June 2020

Consolidated income statement

For the year ended 31 January 2020

		2020			2019 restated (note 18)		
		Underlying	**Non-underlying (note 1)**	**Total**	Underlying	Non-underlying (note 1)	Total
	Note	**£'m**	**£'m**	**£'m**	£'m	£'m	£'m
Revenue		**451.5**	**-**	**451.5**	436.0	-	436.0
Cost of sales		**(289.8)**	**0.5**	**(289.3)**	(270.4)	4.2	(266.2)
Gross profit		**161.7**	**0.5**	**162.2**	165.6	4.2	169.8
Operating expenses		**(86.1)**	**(2.5)**	**(88.6)**	(81.0)	(11.9)	(92.9)
Operating profit/(loss)	*1,3*	**75.6**	**(2.0)**	**73.6**	84.6	(7.7)	76.9
Finance expense	6	**(8.4)**	**-**	**(8.4)**	(8.4)	(0.3)	(8.7)
Profit/(loss) before tax		**67.2**	**(2.0)**	**65.2**	76.2	(8.0)	68.2
Taxation	7	**(13.5)**	**(0.1)**	**(13.6)**	(14.8)	(0.7)	(15.5)
Profit/(loss) for the year		**53.7**	**(2.1)**	**51.6**	61.4	(8.7)	52.7

Earnings per share		**pence**		**pence**	pence		pence
- Basic and diluted	9	**15.7**		**15.1**	18.0		15.4

All activities relate to continuing operations.

Consolidated statement of comprehensive income

For the year ended 31 January 2020

	2020	2019 restated (note 18)
	£'m	£'m
Profit for the year	**51.6**	52.7
Items that are or *may be recycled subsequently into profit or loss:*		
Cash flow hedges - changes in fair value	**0.6**	6.5
Cost of hedging reserve - changes in fair value	**1.7**	-
Cost of hedging reserve - reclassified to profit or loss	**(0.1)**	-
Tax relating to components of other comprehensive income (note 7)	**(0.4)**	(1.4)
Other comprehensive expense for the period, net of income tax	**1.8**	5.1
Total comprehensive income for the period attributable to equity shareholders of the parent	**53.4**	57.8

Consolidated statement of financial position

As at 31 January 2020

	Note	**2020**	2019 restated (note 18)	2018 restated (note 18)
		£'m	£'m	£'m
Non-current assets				
Intangible assets	*11*	**319.8**	320.2	331.6
Property, plant and equipment	*12*	**41.6**	40.4	40.0
Right of use assets	*13*	**132.4**	135.9	132.7
Deferred tax assets		**2.7**	2.4	3.7
Derivative financial instruments		**0.5**	0.1	0.2
		497.0	499.0	508.2
Current assets				
Inventories		**54.4**	68.6	52.1
Trade and other receivables		**10.8**	8.6	8.3
Derivative financial instruments		**1.1**	2.3	0.3
Cash and cash equivalents	*14*	**5.5**	3.8	3.6
		71.8	83.3	64.3
Total assets		**568.8**	582.3	572.5
Current liabilities				
Borrowings	*15*	**(3.6)**	(0.1)	(14.9)
Lease liabilities	*13*	**(40.7)**	(38.9)	(37.1)
Trade and other payables		**(45.0)**	(58.2)	(32.6)
Tax payable		**(6.5)**	(7.7)	(5.5)
Derivative financial instruments		**(1.0)**	(0.2)	(7.0)
		(96.8)	(105.1)	(97.1)
Non-current liabilities				
Borrowings	*15*	**(144.0)**	(143.7)	(149.6)
Lease liabilities	*13*	**(105.2)**	(112.3)	(112.5)
Derivative financial instruments		**(1.3)**	(1.1)	(3.4)
		(250.5)	(257.1)	(265.5)
Total liabilities		**(347.3)**	(362.2)	(362.6)
Net assets		**221.5**	220.1	209.9
Equity				
Share capital		**3.4**	3.4	3.4
Share premium		**202.2**	202.2	202.2
Hedging reserve		**(1.6)**	0.9	(4.4)
Cost of hedging reserve		**1.1**	0.4	(0.1)
Reverse acquisition reserve		**(0.5)**	(0.5)	(0.5)
Merger reserve		**2.7**	2.7	2.7
Retained earnings		**14.2**	11.0	6.6
Equity attributable to equity holders of the parent		**221.5**	220.1	209.9

Consolidated statement of changes in equity

For the year ended 31 January 2020

	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
At 31 January 2018 (as previously reported - note 17)	3.4	202.2	(4.4)	(0.1)	(0.5)	2.7	15.6	218.9
Adjustment (note 18)	-	-	-	-	-	-	(9.0)	(9.0)
At 1 February 2018 (restated)	3.4	202.2	(4.4)	(0.1)	(0.5)	2.7	6.6	209.9
Total comprehensive income for the period								
Profit or loss	-	-	-	-	-	-	52.7	52.7
Other comprehensive income	-	-	5.3	1.0	-	-	-	6.3
	-	-	5.3	1.0	-	-	52.7	59.0
Hedging gains/(losses) and costs of hedging transferred to the cost of inventory	-	-	-	(0.5)	-	-	-	(0.5)
Transactions with owners, recorded directly in equity								
Share-based payment charges	-	-	-	-	-	-	0.6	0.6
Dividends (note 8)	-	-	-	-	-	-	(48.9)	(48.9)
Total contributions by and distributions to owners	-	-	-	-	-	-	(48.3)	(48.3)
At 31 January 2019 (restated - note 18)	3.4	202.2	0.9	0.4	(0.5)	2.7	11.0	220.1
Total comprehensive income for the period								
Profit or loss	-	-	-	-	-	-	51.6	51.6
Other comprehensive income	-	-	0.5	1.3	-	-	-	1.8
	-	-	0.5	1.3	-	-	51.6	53.4
Hedging gains/(losses) and costs of hedging transferred to the cost of inventory	-	-	(3.6)	(0.8)	-	-	-	(4.4)
Deferred tax on transfers to inventory	-	-	0.6	0.2	-	-	-	0.8
Transactions with owners, recorded directly in equity								
Share-based payment charges	-	-	-	-	-	-	0.5	0.5
Dividends (note 8)	-	-	-	-	-	-	(48.9)	(48.9)
Total contributions by and distributions to owners	-	-	-	-	-	-	(48.4)	(48.4)
At 31 January 2020	3.4	202.2	(1.6)	1.1	(0.5)	2.7	14.2	221.5

Consolidated cash flow statement

For the year ended 31 January 2020

	Note	2020 £'m	2019 restated (note 18) £'m
Cash inflow from operating activities	*10*	**124.8**	142.1
Corporation tax paid		**(14.6)**	(13.4)
Net cash inflow from operating activities		**110.2**	128.7
Cash flows from investing activities			
Purchase of property, plant and equipment	*12*	**(11.0)**	(10.4)
Purchase of intangible assets	*11*	**(3.5)**	(1.7)
Proceeds from disposal of fixed assets		**0.4**	0.2
Net cash outflow from investing activities		**(14.1)**	(11.9)
Cash flows from financing activities			
Interest paid		**(8.0)**	(7.9)
Repayment of bank borrowings		**-**	(6.4)
Payment of lease liabilities		**(41.0)**	(38.5)
Dividends paid	*8*	**(48.9)**	(48.9)
Net cash outflow from financing activities		**(97.9)**	(101.7)
Net (decrease)/increase in cash and cash equivalents		**(1.8)**	15.1
Cash and cash equivalents at the beginning of the year		**3.8**	(11.3)
Closing cash and cash equivalents	*14*	**2.0**	3.8

Notes to the financial statement

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 2020 or 31 January 2019 but is derived from these accounts. Statutory accounts for the year ended 31 January 2019 have been delivered to the registrar of companies, and those for the year ended 31 January 2020 will be delivered to the registrar in due course. The auditor has reported on those accounts; the audit reports were (i) unqualified, in both years; (ii) contains, in respect of FY20 only, an emphasis of matter regarding a material uncertainty in respect of going concern to which the auditor drew attention by way of emphasis without modifying their report; and (iii) in both years, did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Going concern

In assessing the appropriateness of the going concern assumption, the Board has considered the availability of funding alongside the possible cash requirements of the Group and Company, taking into account the unprecedented anticipated circumstances caused by Covid-19.

Availability of funding

The Group has entered into revised covenant terms with its banking partners. This will enable it to utilise not only the full Revolving Credit Facility ("RCF") of £200m but also the secured funding from the Bank of England Covid Corporate Financing Facility, to the extent that the combined draw down on facilities net of cash do not exceed a monthly cap, which varies from month-to-month as agreed with the banking partners, of up to £275m at their peak. Under the revised covenant terms, the Group's existing covenant requirements have lapsed immediately and have been replaced by three new covenant tests relating to net debt; cash burn; and last twelve months EBITDA. These tests will be applied monthly until June 2021, after which it is envisaged that the business will have a phased return back to existing six-monthly covenant tests of net debt to EBITDA and interest cover.

Cash flow forecasts
The Board has prepared cash flow forecasts for a period of 18 months from the date of approval of these financial statements. This base case scenario includes the benefits of actions already taken by management to mitigate the trading downsides brought by Covid-19, e.g. cancellation of dividends, significant reduction in capital investment, cancellation and rescheduling of stock orders, renegotiating property rents, participating in the government's job retention scheme, and taking advantage of other government support measures amongst other actions within their control. This base case assumes that the majority of stores are reopened for trading during June 2020, and gradually build back towards pre-Covid-19 levels of trade (88 % of the value of budgeted sales) by December 2020. Under this base case scenario, the Group is expected to continue to have very significant headroom relative to the funding available to it and to comply with its revised banking covenants.

The Board has also considered various other severe but plausible downside scenarios, including the possibility that the recovery of trade is much more sluggish than assumed in the base case. It has determined that even if sales were to remain significantly below budget for a longer period (79 % of budgeted sales in December 2020), the Group would still expect to have sufficient headroom in its financing facilities. The Board does not regard a slower pace of recovery to be reasonably possible but, in the event that it is, notes that further mitigations are within their control. However, in the event of another government imposed store closure in the later part of 2020 or early 2021 due to a second peak of Covid-19 infection, there is a risk of breaching the Group's new financial covenants. In such circumstances the Group would seek to agree a waiver or further variation of terms with the banks, who have been consistently supportive of the business but, the Board cannot predicts with certainty how the banks would respond.

Based on the above indications the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, this material uncertainty, may cast significant doubt on the Group and Company's ability to continue as a going concern and therefore to realise its assets and discharge its liabilities in the normal course of business. The Board emphasises that this arises solely due to the global public health pandemic which is entirely outside the Group's influence or control. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Accounting policies
The preliminary announcement has been prepared using the accounting policies published in the Group's accounts for the year ended 31 January 2019 (available on the Company's website) except to the extent impacted by the adoption of IFRS 16 *Leases.* See note 18 for details of the transition to IFRS 16.

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. The reported non-underlying adjustments are as follows:

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
In both the current and prior period goodwill attributable to the Getting Personal cash generating unit ('CGU') has been impaired (see note 11). 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 both years.

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

1 Non-underlying items

	2020 **£'m**	2019 £'m
Cost of sales		
Profit on foreign currency derivative financial instruments not designated as a hedge	**0.5**	4.2
Operating expenses		
Impairment of goodwill (note 11)	**(2.5)**	(11.9)
Net finance expense		
Refinanced debt issue cost amortisation (note 6)	**-**	(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, with a small number of stores in the Republic of Ireland. 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 retail partners and non-retail customers and revenue from outside the UK are circa 1% of Group Revenue.

3 Operating profit

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

	2020 **£'m**	2019 restated (note 18) £'m
Staff costs (note 5)	**121.8**	114.4
Depreciation expense		
- owned fixed assets (note 12)	**9.6**	9.7
- right of use assets (note 13)	**38.9**	37.0
Amortisation expense (note 11)	**1.4**	1.2
Impairment of right of use assets (note 13)	**0.4**	0.2
Profit on disposal of fixed assets	**(0.3)**	(0.4)
Foreign exchange gain	**(1.5)**	(5.7)
Impairment of goodwill (note 11)	**2.5**	11.9

4 Adjusted EBITDA

Adjusted earnings before interest, tax, depreciation and amortisation ("Adjusted EBITDA") represents profit for the period before net finance expense, taxation, depreciation and amortisation ("EBITDA"), adjusted to remove the impact of adopting IFRS16 Leases.

		2020			2019		
	Note	**Underlying** **£'m**	**Non-underlying (note 1)** **£'m**	**Total** **£'m**	Underlying £'m	Non-underlying (note 1) £'m	Total £'m
Operating profit		75.6	(2.0)	73.6	84.6	(7.7)	76.9
Depreciation, amortisation and impairment	4	50.3	2.5	52.8	48.1	11.9	60.0
EBITDA		125.9	0.5	126.4	132.7	4.2	136.9
IAS 17 income statement charges not recognised under IFRS 16		(44.6)	-	(44.6)	(42.9)	-	(42.9)
Profit on lease disposal recognised under IFRS 16		(0.1)	-	(0.1)	(0.4)	-	(0.4)
Adjusted EBITDA		**81.2**	**0.5**	**81.7**	**89.4**	**4.2**	**93.6**

5 Employee numbers and costs

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

	2020 Number	2019 Number
Management and administration	**429**	416
Operations	**9,213**	9,568
	9,642	9,984

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

	2020 £'m	2019 £'m
Employee wages and salaries	**109.1**	103.1
Equity-settled share-based payment expense	**0.5**	0.6
Social security costs	**6.7**	6.3
Defined contribution pension costs	**1.4**	0.8
Total employee costs	**117.7**	110.8
Agency labour costs	**4.1**	3.6
Total staff costs	**121.8**	114.4

6 Finance expense

	2020 £'m	2019 restated (note 18) £'m
Finance expense		
Interest on bank loans and overdrafts	**4.0**	3.5
Amortisation of loan issue costs	**0.3**	0.5
Lease interest	**4.0**	4.5
Loss on interest rate derivative contracts	**0.1**	0.2
	8.4	8.7

Amortisation of loan issue costs include £nil (2019: £0.3 million) in relation to previous loan facilities, expensed to the income statement on completion of an extended facility and presented as non-underlying, see note 1.

7 Taxation

Recognised in the income statement

	2020 £'m	2019 restated (note 18) £'m
Current tax expense		
Current year	**13.5**	15.7
Adjustments in respect of prior periods	**-**	(0.1)
	13.5	15.6
Deferred tax (credit)/charge		
Origination and reversal of temporary differences	**-**	(0.1)
Effect of change in tax rate	**0.1**	-
	0.1	(0.1)
Total income tax expense	**13.6**	15.5

The effective tax rate of 20.8% (2019: 22.8%) is higher than the standard rate of corporation tax in the UK principally in respect of non-deductible impairments in both years. The tax charge is reconciled to the standard rate of UK corporation tax as follows:

	2020 £'m	2019 restated (note 18) £'m
Profit before tax	**65.2**	68.2
Tax at the standard UK corporation tax rate of 19.0% (2019: 19.0%)	**12.4**	13
Tax effects of:		
Expenses not deductible for tax purposes	**1.1**	2.6
Adjustments in respect of prior periods	**-**	(0.1)
Effect of change in tax rate	**0.1**	-
Total income tax expense	**13.6**	15.5

Total taxation recognised through the income statement, other comprehensive income and through equity are as follows:

	2020			2019 restated (note 18)		
	Current £'m	**Deferred £'m**	**Total £'m**	Current £'m	Deferred £'m	Total £'m
Income statement	**13.5**	**0.1**	**13.6**	15.6	(0.1)	15.5
Other comprehensive income	**-**	**0.4**	**0.4**	-	1.4	1.4
Equity	**-**	**(0.8)**	**(0.8)**	-	-	-
Total tax	**13.5**	**(0.3)**	**13.2**	15.6	1.3	16.9

8 Dividends

The Board is not recommending a final dividend in respect of the financial year ended 31 January 2020 (2019: 6.4 pence per share resulting in a total final dividend of £21.9 million).

Dividends paid in the year:	Pence per share	**2020 £'m**	2019 £'m
Special dividend for the year ended 31 January 2020	5.0p	**17.1**	-
Interim dividend for the year ended 31 January 2020	2.9p	**9.9**	-
Final dividend for the year ended 31 January 2019	6.4p	**21.9**	-
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
Total dividends paid to shareholders in the year		**48.9**	48.9
Dividend equivalents paid under long term incentive schemes		**-**	-
Total dividends per the cash flow statement		**48.9**	48.9

Dividend equivalents totalling £nil (2019: £0.1 million) 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.

	2020	2019 restated (note 18)
	(Number)	(Number)
Weighted average number of shares in issue	**341,575,284**	341,527,355
Weighted average number of dilutive share options	**-**	-
Weighted average number of shares for diluted earnings per share	**341,575,284**	341,527,355

	£'m	£'m
Profit for the financial period	**51.6**	52.7
Non-underlying items	**2.1**	8.7
Total underlying profit for underlying earnings per share	**53.7**	61.4

	pence	pence
Basic earnings per share	**15.1**	15.4
Diluted earnings per share	**15.1**	15.4
Underlying basic earnings per share	**15.7**	18.0
Underlying diluted earnings per share	**15.7**	18.0

10 Notes to the cash flow statement

Reconciliation of operating profit to cash generated from operations

	2020	2019 restated (note 18)
	£'m	£'m
Profit before tax	**65.2**	68.2
Net finance expense	**8.4**	8.7
Operating profit	**73.6**	76.9
Adjusted for:		
Depreciation and amortisation	**49.9**	47.9
Impairment of right of use assets	**0.4**	0.2
Goodwill impairment	**2.5**	11.9
Loss on disposal of fixed assets	**(0.3)**	(0.3)
Cash flow hedging foreign currency movements	**0.2**	-
Share-based payments charge	**0.5**	0.6
Operating cash flows before changes in working capital	**126.8**	137.2
Increase in receivables	**(2.9)**	0.1
Decrease/(increase) in inventories	**14.2**	(16.5)
(Decrease)/increase in payables	**(13.3)**	21.3
Cash inflow from operating activities	**124.8**	142.1

11 Intangible assets

	Goodwill £'m	Software £'m	Total £'m
Cost			
At 1 February 2019	328.2	10.6	338.8
Additions	-	3.5	3.5
At 31 January 2020	328.2	14.1	342.3
Amortisation/impairment			
At 1 February 2019	11.9	6.7	18.6
Amortisation in the period	-	1.4	1.4
Impairment in the period	2.5	-	2.5
At 31 January 2020	14.4	8.1	22.5
Net book value			
At 31 January 2020	**313.8**	**6.0**	**319.8**
At 31 January 2019	316.3	3.9	320.2

	Goodwill £'m	Software £'m	Total £'m
Cost			
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
Amortisation/impairment			
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
Net book value			
At 31 January 2019	316.3	3.9	320.2
At 31 January 2018	328.2	3.4	331.6

Impairment testing

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

	2020 £'m	2019 £'m
Card Factory	**313.8**	313.8
Getting Personal	**-**	2.5

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% (2019: 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 operational costs. 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 12.0% (2019: 10.5%) for Card Factory.

Card Factory

No impairment loss was identified in respect of the Card Factory CGU (2019: £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. The Board

view the Covid-19 pandemic as a non-adjusting post balance sheet event (see note 18). Whilst the impact of Covid-19 remains uncertain, the Board do not anticipate that Covid-19 would have resulted in an impairment of the Card factory CGU.

Getting Personal
Following continued deterioration in performance, a reduction in management expectations of future performance for the Getting Personal CGU gave rise to an £2.5 million impairment (2019: £11.9 million), representing a full impairment of the CGU. Despite the improvement in trading of the Getting Personal online business during the current lock-down, a strategic review has resulted in the decision to integrate the business as a separate brand on the new Card Factory platform. Operating the business in this way allows both brands to be leveraged against a single online cost base.

12 Property, plant and equipment

	Freehold property £'m	Leasehold improvements £'m	Plant, equipment, fixtures & vehicles £'m	Total £'m
Cost				
At 1 February 2019	17.5	38.1	59.2	114.8
Additions	-	2.6	8.4	11.0
Disposals	-	(0.4)	(1.2)	(1.6)
At 31 January 2020	17.5	40.3	66.4	124.2
Depreciation				
At 1 February 2019	3.1	29.3	42.0	74.4
Depreciation in the period	0.4	3.4	5.8	9.6
Depreciation on disposals	-	(0.3)	(1.1)	(1.4)
At 31 January 2020	3.5	32.4	46.7	82.6
Net book value				
At 31 January 2020	**14.0**	**7.9**	**19.7**	**41.6**
At 31 January 2019	14.4	8.8	17.2	40.4

	Freehold property £'m	Leasehold improvements £'m	Plant, equipment, fixtures & vehicles £'m	Total £'m
Cost				
At 1 February 2018	17.4	35.8	52.6	105.8
Additions	0.1	2.9	7.4	10.4
Disposals	-	(0.6)	(0.8)	(1.4)
At 31 January 2019	17.5	38.1	59.2	114.8
Depreciation				
At 1 February 2018	2.7	26.4	36.7	65.8
Provided in the period	0.4	3.4	5.9	9.7
Depreciation on disposals	-	(0.5)	(0.6)	(1.1)
At 31 January 2019	3.1	29.3	42.0	74.4
Net book value				
At 31 January 2019	14.4	8.8	17.2	40.4
At 31 January 2018	14.7	9.4	15.9	40.0

13 Leases

The Group has lease contracts, within the definition of IFRS 16 *leases*, in relation to its entire store lease portfolio, some warehousing locations, two office locations and motor vehicles. Other contracts, including distribution contracts and IT equipment, are deemed not to be a lease within the definition of IFRS 16 or are subject to the election not to apply the requirements of IFRS 16 to short-term or low value leases. Accounting policies for leases and details of the transition to IFRS 16 *leases* are set out in note 18. Assets, liabilities and the income statement expense in relation to leases are detailed below. All amounts in relation to IFRS 16 *leases* were recognised on transition to the new standard, therefore all comparative figures are restated.

Right of use assets

	Buildings	Motor Vehicles	Total
	£'m	£'m	£'m
Cost			
At 1 February 2019 (restated)	311.6	1.0	312.6
Additions	35.9	0.5	36.4
Disposals	(23)	(0.2)	(23.2)
At 31 January 2020	324.5	1.3	325.8
Depreciation and impairment			
At 1 February 2019 (restated)	176.1	0.6	176.7
Depreciation in the period	38.6	0.3	38.9
Impairment in the period	0.4	0.0	0.4
Depreciation on disposals	(22.3)	(0.2)	(22.5)
Impairment on disposals	(0.1)	0.0	(0.1)
At 31 January 2020	192.7	0.7	193.4
Net book value			
At 31 January 2020	**131.8**	**0.6**	**132.4**
At 31 January 2019 (restated)	135.5	0.4	135.9

Restated	Buildings	Motor Vehicles	Total
	£'m	£'m	£'m
Cost			
At 1 February 2018	291.5	0.9	292.4
Additions	41.9	0.3	42.2
Disposals	(21.8)	(0.2)	(22.0)
At 31 January 2019	311.6	1.0	312.6
Depreciation and impairment			
At 1 February 2018	159.2	0.5	159.7
Depreciation in the period	36.7	0.3	37.0
Impairment in the period	0.2	0.0	0.2
Depreciation on disposals	(19.8)	(0.2)	(20.0)
Impairment on disposals	(0.2)	0.0	(0.2)
At 31 January 2019	176.1	0.6	176.7
Net book value			
At 31 January 2019	135.5	0.4	135.9
At 31 January 2018	132.3	0.4	132.7

Disposals and depreciation on disposals include fully depreciated right of use assets in respect of leases that expired but the asset remained in use whilst a lease renewal was negotiated.

Lease liabilities

	2020	2019
	£'m	£'m
Current lease liabilities	**(40.7)**	(38.9)
Non-current lease liabilities	**(105.2)**	(112.3)
Total lease liabilities	**(145.9)**	(151.2)

Lease expense:

Total lease related expenses	**2020**	2019
	£'m	£'m
Depreciation expense on right of use assets	**38.9**	37.0
Impairment of right of use assets (note 13)	**0.4**	0.2
Profit on disposal of fixed assets	**(0.1)**	(0.4)
Lease interest	**4.0**	4.5
Expense relating to short term and low value leases *	**0.5**	0.7
Expense relating to variable lease payments **	**(0.3)**	0.4
Total lease related income statement expense	**43.4**	42.4

* Contracts subject to the election not to apply the requirements of IFRS 16 to short-term or low value leases.

** A small proportion of the store lease portfolio are subject to an element of turnover linked variable rents that are excluded from the definition of a lease under IFRS 16.

14 Cash and cash equivalents

	2020	2019
	£'m	£'m
Cash at bank and in hand	**5.5**	3.8
Unsecured bank overdraft (note 15)	**(3.5)**	-
Net cash and cash equivalents	**2.0**	3.8

The Group's cash and cash equivalents are denominated in the following currencies:

	2020	2019
	£'m	£'m
Sterling	**(9.3)**	2.8
Euro	**0.5**	0.3
US dollar	**10.8**	0.7
	2.0	3.8

15 Borrowings

	2020	2019
	£'m	£'m
Current liabilities		
Unsecured bank loans and accrued interest	**0.1**	0.1
Unsecured bank overdraft	**3.5**	-
	3.6	0.1
Non-current liabilities		
Unsecured bank loans	**144.0**	143.7

Bank loans

Bank borrowings are summarised as follows:

	Liability	Interest rate	Interest margin ratchet range	Repayment terms
	£'m	%	%	
31 January 2020				
Unsecured bank loan	145.0	1.65 + LIBOR	1.00 - 2.50	£200m RCF
Accrued interest	0.1			The facility terminates on 31 October 2023
Debt issue costs	(1.0)			
	144.1			
31 January 2019				
Unsecured bank loan	145.0	1.40 + LIBOR	1.00 - 2.50	£200m RCF
Accrued interest	0.1			The facility terminates on 31 October 2023
Debt issue costs	(1.3)			
	143.8			

The Group borrowing facility at 31 January 2020 consisted of a £200 million revolving credit facility ('RCF') terminating 31 October 2023 with an additional £100 million accordion. Borrowings under the facility attract interest at LIBOR plus a margin in the range 1.0% to 2.5%, subject to a leverage ratchet (LIBOR plus 1.65% at 31 January 2020). The facilities are subject to financial covenants typical to an arrangement of this nature.

Covid-19

The Group has entered into revised covenant terms with its banking partners. This will enable it to utilise not only the full Revolving Credit Facility ("RCF") of £200m but also the secured funding from the Bank of England Covid Corporate Financing Facility, to the extent that the combined draw down on facilities net of cash does not exceed £275m at their peak. Under the revised covenant terms, the Group's existing covenant requirements have lapsed immediately and have been replaced by three new covenant tests relating to net debt; cash burn; and last twelve months EBITDA. These tests will be applied monthly until June 2021, after which it is envisaged that the business will have a phased return back to existing six-monthly covenant tests of net debt to EBITDA and interest cover.

16 Analysis of net debt

	At 1 February 2019	Cash flow	Non-cash changes	**At 31 January 2020**
	£'m	£'m	£'m	**£'m**
Unsecured bank loans and accrued interest (note 15)	(143.8)	-	(0.3)	**(144.1)**
Lease liabilities (note 13)	(151.2)	41.0	(35.7)	**(145.9)**
Total debt	(295.0)	41.0	(36.0)	**(290.0)**
Cash and cash equivalents (note 14)	3.8	(1.8)	-	**2.0**
Net debt	(291.2)	39.2	(36.0)	**(288.0)**
Debt costs capitalised	(1.3)	-	0.3	**(1.0)**
Lease liabilities (note 13)	151.2	(41.0)	35.7	**145.9**
Adjusted net debt	(141.3)	(1.8)	-	**(143.1)**

	At 1 February 2018	Cash flow	Non-cash changes	At 31 January 2019
	£'m	£'m	£'m	£'m
Unsecured bank loans and accrued interest (note 15)	(149.6)	6.4	(0.6)	(143.8)
Lease liabilities (note 13)	(149.6)	38.5	(40.1)	(151.2)
Total debt	(299.2)	44.9	(40.7)	(295.0)
Cash and cash equivalents (note 14)	(11.3)	15.1	-	3.8
Net debt	(310.5)	60.0	(40.7)	(291.2)
Add: debt costs capitalised	(0.4)	(1.4)	0.5	(1.3)
Lease liabilities (note 13)	149.6	(38.5)	40.1	151.2
Adjusted net debt	(161.3)	20.1	(0.1)	(141.3)

17 Transition to IFRS 9 in the prior period

IFRS 9 *Financial Instruments* became effective for periods beginning on or after 1 January 2018 and was previously adopted by the Group in the financial statements for the year ended 31 January 2019 within the 2019 Annual Report.

The opening values as at 31 January 2018 that are presented in the statement of changes in equity and in note 18 are the values previously reported after transition to IFRS 9, including the related opening balance adjustments (see note 18), and not those originally presented in the 2018 Annual Report under IAS 39.

Full details of the transition to IFRS 9 were disclosed in note 29 to the financial statements for the year ended 31 January 2019 within the 2019 Annual Report.

18 Transition to IFRS 16

IFRS 16 *Leases* (effective for annual periods beginning on or after 1 January 2019) replaces 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 for all applicable leases. Previously the Group classified leases as operating or finance leases based on an assessment of whether the lease transferred substantially all of the risk and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for almost all leases previously recognised as an operating lease. In addition, the nature of expenses related to those leases has changed as 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 has adopted IFRS 16 Leases on a fully retrospective basis and has therefore restated the previously reported consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position and consolidated cash flow statement for the year ended 31 January 2019 and the consolidated statement of financial position as at 31 January 2018.

Definition of a lease
Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. Contracts that were not identified as leases under IAS 17 and IFRC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 February 2019.

The Group has assessed that its entire store lease portfolio, some warehousing locations, two office locations and motor vehicles as lease contracts. Other contracts assessed, including distribution contracts and IT equipment, are deemed not to be a lease within the definition of IFRS 16 or are subject to the election not to apply the requirements of IFRS 16 to short-term or low value leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

For property leases containing a non-lease component (for instance a lease inclusive of rates and service charge), the Group has elected to apply the practical expedient not to separate the non-lease component from the lease component and treat the whole contract as a lease. A small proportion of the store lease portfolio are subject to an element of turnover linked variable rents that are excluded from the definition of a lease under IFRS 16. The Group does not have significant lessor contracts.

Accounting as a lessee
The Group recognises a right-of-use asset and a lease liability at the lease commencement date The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. The right-of-use asset is periodically reduced by any impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Typically, the Group uses its incremental borrowing rate, at the date of lease commencement, as the discount rate.

The Group determines its incremental borrowing rate by reference to its own funding arrangements which are subject to leverage margin ratchets, variable 3 month LIBOR interest rates and periodic refinancing, thereby ensuring they remain a reasonable reflection of the Group's current borrowing costs. The Group's leases are predominantly in respect of its store portfolio, which represent the majority of the Group's Revenue and therefore the Group's borrowing costs, as at the date of lease commencement, are deemed to be representative of the incremental borrowing costs for additions to right of use assets. The Group does not believe there are significant differences between the risk margins that would apply across it lease portfolio. The term and payment profile are reflected in the discount rate applied to each individual lease by virtue of the variable interest curve component of the incremental borrowing rate.

The assessment of lease term may include the application of judgement, particularly in respect of options to break often included in the Groups property leases. The Group assesses lease term as the non-cancellable period of the lease plus an assessment of reasonably certain continued tenancy in respect of tenant options to break. Where a lease expires without the completion of a new lease, but the asset remains in use, the Group assumes (other than by exception) a new five year lease at expiring rates until a new lease is completed.

After initial recognition, the lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index, rate or contractual market rent review or if the Group changes its assessment of whether it will exercise a break option. When the lease liability is remeasured in this way, a corresponding

adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The impact on the financial statements of adopting IFRS 16 is shown in the tables below.

(i) The impact on previously reported consolidated statements of financial position is shown below.

	31-Jan-19			31-Jan-18			
	previously reported	*IFRS 16*	restated	previously reported (note 17)	*IFRS 9 opening balance adjustments*	*IFRS 16*	restated
	£'m	£'m	£'m	£'m		£'m	£'m
Non-current assets							
Intangible assets	320.2	-	320.2	331.6	-	-	331.6
Property, plant and equipment	40.4	-	40.4	40.0	-	-	40.0
Right of use assets	-	135.9	135.9	-	-	132.7	132.7
Deferred tax assets	0.8	1.6	2.4	1.9	(0.1)	1.9	3.7
Other receivables	0.7	(0.7)	-	0.8	-	(0.8)	-
Derivative financial instruments	0.1	-	0.1	0.2	-	-	0.2
	362.2	136.8	499.0	374.5	(0.1)	133.8	508.2
Current assets							
Inventories	68.6	-	68.6	51.5	0.6	-	52.1
Trade and other receivables	17.8	(9.2)	8.6	16.6	-	(8.3)	8.3
Derivative financial instruments	2.3	-	2.3	0.3	-	-	0.3
Cash and cash equivalents	3.8	-	3.8	3.6	-	-	3.6
	92.5	(9.2)	83.3	72.0	0.6	(8.3)	64.3
Total assets	454.7	127.6	582.3	446.5	0.5	125.5	572.5
Current liabilities							
Borrowings	(0.1)	-	(0.1)	(14.9)	-	-	(14.9)
Lease liabilities	-	(38.9)	(38.9)	-	-	(37.1)	(37.1)
Trade and other payables	(64.3)	6.1	(58.2)	(37.7)	-	5.1	(32.6)
Tax payable	(7.7)	-	(7.7)	(5.5)	-	-	(5.5)
Derivative financial instruments	(0.2)	-	(0.2)	(7.0)	-	-	(7.0)
	(72.3)	(32.8)	(105.1)	(65.1)	-	(32.0)	(97.1)
Non-current liabilities							
Borrowings	(143.7)	-	(143.7)	(149.6)	-	-	(149.6)
Lease liabilities	-	(112.3)	(112.3)	-	-	(112.5)	(112.5)
Trade and other payables	(9.8)	9.8	-	(10.0)	-	10.0	-
Derivative financial instruments	(1.1)	-	(1.1)	(3.4)	-	-	(3.4)
	(154.6)	(102.5)	(257.1)	(163.0)	-	(102.5)	(265.5)
Total liabilities	(226.9)	(135.3)	(362.2)	(228.1)	-	(134.5)	(362.6)
Net assets	227.8	(7.7)	220.1	218.4	0.5	(9.0)	209.9
Equity							
Share capital	3.4	-	3.4	3.4	-	-	3.4
Share premium	202.2	-	202.2	202.2	-	-	202.2
Hedging reserve	0.9	-	0.9	(5.0)	0.6	-	(4.4)
Cost of hedging reserve	0.4	-	0.4	(0.3)	0.2	-	(0.1)
Reverse acquisition reserve	(0.5)	-	(0.5)	(0.5)	-	-	(0.5)
Merger reserve	2.7	-	2.7	2.7	-	-	2.7
Retained earnings	18.7	(7.7)	11.0	15.9	(0.3)	(9.0)	6.6
Equity attributable to equity holders of the parent	227.8	(7.7)	220.1	218.4	0.5	(9.0)	209.9

(ii) The impact on previously reported and the current period consolidated income statement is shown below.

	Year ended 31 January 2020			Year ended 31 January 2019		
	Excluding IFRS 16	IFRS 16	Reported	Previously stated	IFRS 16	Restated
	£'m	*£'m*	£'m	£'m	*£'m*	£'m
Revenue	451.5	-	451.5	436.0	-	436.0
Cost of sales	(333.2)	43.9	(289.3)	(308.3)	42.1	(266.2)
Gross profit	118.3	43.9	162.2	127.7	42.1	169.8
Operating expenses	(50.1)	(38.5)	(88.6)	(56.9)	(36.0)	(92.9)
Operating profit	68.2	5.4	73.6	70.8	6.1	76.9
Finance expense	(4.4)	(4.0)	(8.4)	(4.2)	(4.5)	(8.7)
Profit before tax	63.8	1.4	65.2	66.6	1.6	68.2
Taxation	(13.3)	(0.3)	(13.6)	(15.2)	(0.3)	(15.5)
Profit for the period	50.5	1.1	51.6	51.4	1.3	52.7
Non-underlying profit	(2.1)	-	(2.1)	(8.7)	-	(8.7)
Underlying profit	52.6	1.1	53.7	60.1	1.3	61.4
Profit for the period	50.5	1.1	51.6	51.4	1.3	52.7

Earnings per share	pence	pence	pence	pence	pence	pence
- Basic	14.8	0.3	15.1	15.0	0.4	15.4
- Diluted	14.8	0.3	15.1	15.0	0.4	15.4
Underlying earnings per share						
- Basic	15.4	0.3	15.7	17.6	0.4	18.0
- Diluted	15.4	0.3	15.7	17.6	0.4	18.0

(iii) The adjustments to profit before tax are shown below.

	Year ended 31 January 2020	Year ended 31 January 2019
	£'m	£'m
Profit before tax (reported)	**65.2**	68.2
Add back IFRS 16 adjustments:		
Depreciation of right-of use assets	**38.9**	37.0
Impairment of leased assets	**0.4**	0.2
Profit on disposal of leases	**(0.1)**	(0.4)
Lease interest	**4.0**	4.5
Less amounts no longer charged to the income statement under IFRS 16		
Cost of sales	**(43.9)**	(42.1)
Operating expenses	**(0.7)**	(0.8)
Adjusted profit before tax for the period (excluding IFRS 16)	**63.8**	66.6

(iv) The impact on the previously reported consolidated cash flow statement for the year ended 31 January 2019 is shown below.

	Previously stated	IFRS 16	Restated
	£'m	£'m	£'m
Profit before tax	66.6	1.6	68.2
Net finance expense	4.2	4.5	8.7
Operating profit	70.8	6.1	76.9
Adjusted for:			
Depreciation and amortisation	10.9	37.0	47.9
Impairment of right of use assets	-	0.2	0.2
Goodwill impairment	11.9	-	11.9
Loss on disposal of fixed assets	0.1	(0.4)	(0.3)
Share-based payments charge	0.6	-	0.6
Operating cash flows before changes in working capital	94.3	42.9	137.2
(Increase)/decrease in receivables	(0.8)	0.9	0.1
(Increase)/decrease in inventories	(16.5)	-	(16.5)
Increase in payables	22.1	(0.8)	21.3
Cash inflow from operating activities	99.1	43.0	142.1
Corporation tax paid	(13.4)	-	(13.4)
Net cash inflow from operating activities	85.7	43.0	128.7
Cash flows from investing activities			
Purchase of property, plant and equipment	(10.4)	-	(10.4)
Purchase of intangible assets	(1.7)	-	(1.7)
Proceeds from disposal of fixed assets	0.2	-	0.2
Net cash outflow from investing activities	(11.9)	-	(11.9)
Cash flows from financing activities			
Interest paid	(3.4)	(4.5)	(7.9)
Repayment of bank borrowings	(6.4)	-	(6.4)
Payment of lease liabilities	-	(38.5)	(38.5)
Dividends paid	(48.9)	-	(48.9)
Net cash outflow from financing activities	(58.7)	(43.0)	(101.7)
Net increase in cash and cash equivalents	15.1	-	15.1
Cash and cash equivalents at the beginning of the year	(11.3)	-	(11.3)
Closing cash and cash equivalents	3.8	-	3.8

(v) A reconciliation of the operating lease disclosure in the Annual Report for the year ended 31 January 2019 to the IFRS 16 lease liability is shown below.

	31 January 2019
	£'m
Operating lease commitments	167.5
Prepayments and invoice timing adjustments	(8.6)
Lease term assumptions	3.1
Lease liability future interest charges	(10.8)
Lease liability	151.2

19 Subsequent events

Covid-19
The Board view the Covid-19 pandemic as a non-adjusting post balance sheet event. Based on the conditions that existed at the balance sheet date, only limited impacts on the trading operations of the business were anticipated. These impacts were primarily related to possible disruption of supply from China and there were sufficient options available to mitigate any such disruption.

As previously announced, on 23 March 2020 the Group temporarily closed all its retail stores in line with Government requirements. The Group has implemented a number of measures to ensure the continued welfare of our colleagues and customers, manage our cost base and conserve cash. To protect the short term liquidity of the business the Group has furloughed over 90% of colleagues, deferred future store openings and other non-priority capital expenditure, worked with landlords and key suppliers to agree deferred payment terms and minimised all other discretional expenditure throughout the business. In addition, the Group will benefit from the 12 month business rates holiday announced by the UK Government. In order to help protect our balance sheet at this challenging time, the Board decided that a final dividend will not be paid in respect of the year ended 31 January 2020. Our dividend policy remains unchanged over the medium term, and we will regularly review the most appropriate actions to take in the shorter term; however, currently we do not expect to pay any dividends in relation to FY21.

As announced on 6 May 2020, Card Factory received confirmation that it can access funding, in addition to the existing £200 million RCF, under the Covid Corporate Financing Facility. HM Treasury and the Bank of England have confirmed that the CCFF will be operated "for at least 12 months and for as long as steps are needed to relieve cash flow pressures on firms that make a material contribution to the UK economy." In order to do this, the Group has agreed three main covenant tests around; total net debt, cash burn and last twelve months EBITDA until June 2021, after which it is envisaged that the business will have a phased return back to existing covenant tests of EBITDA to Leverage and EBITDA to interest cover.

Whilst the impact of Covid-19 remains uncertain, the Board do not anticipate that Covid-19 would have resulted in a significant impairment of the assets reported in notes 11, 12 and 13 of these financial statements, if it were an adjusting event. Goodwill impairment tests are sensitised on the basis of the Board's current expectations of the severe, but plausible, downside scenario in respect of Covid-19. Whilst assets relating to some specific stores may become impaired under short-term adverse trading conditions it is not yet possible to reliably estimate the impact.

In response to Covid-19, many lease payment profiles are being re-negotiated. It is not yet possible to assess the impact this might have on amounts reported under IFRS 16 *Leases*, however to the extent total contractual lease payments are not amended, any change in the profile of payments would have minimal impact on the amounts reported in the financial statements. In addition, the International Accounting Standards Board ('IASB') plans to issue amendments to IFRS 16 by the end of May 2020 to allow an optional exemption from assessing whether a Covid-19-related rent concession is a lease modification. There may also be an impact on the assessment of lease term where a lease contains an option to break.

The Group utilises foreign currency derivative contracts and US Dollar denominated cash balances to manage the foreign exchange risk on US Dollar denominated purchases. To the extent forecast foreign currency transactions would no longer be expected to occur, amounts recognised in the hedging reserve and cost of hedging reserve relating to those cashflows would be expensed to the income statement.

The Group does not have a material balance of trade receivables, therefore any re-assessment of credit risk would not have resulted in a significant adjustment to the financial statements.

Only a very small proportion of the Groups Inventories are perishable and inventory specific to a season can be stored until the following year. Therefore, the realisable value of inventories would not have been significantly impacted by the subsequent event.