Electra Private Equity PLC

2020 Results – Supplementary Information

9 December 2020

ELECTRA

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Chairman’s quote

“In the most challenging circumstances, our management teams and their employees have worked tirelessly to protect their businesses and put them in a strong position for future growth. Whatever the course of the pandemic over the coming months, I am confident that we have strong and effective management teams in place, improved product offerings and above all the determination to deliver value to shareholders consistent with our declared strategy.

“The emergence of the pandemic and the resultant impact on equity market values has had the effect of reducing the combined valuation of our three larger investments, TGI Fridays (“Fridays”), Hotter Shoes (“Hotter”) and Sentinel Performance Solutions (“Sentinel”), by £58.4 million (31%) from their valuations last September. Both Fridays and Hotter utilised the first period of lockdown to successfully restructure and have emerged as stronger and more agile businesses. With significant improvements now implemented, a return to 2019 levels of market activity should provide an opportunity for combined value realisation in excess of pre Covid-19 valuation levels.”

Composition of Net Asset Value

Group Highlights

- net asset value ("NAV") as at 30 September 2020 of £135.3 million (353.4p per share);
- valuation of the three largest investments reduced by £58.4 million from September 2019 by impact of pandemic on market multiples. Each business is now well positioned for recovery, with TGI Fridays ("Fridays") and Hotter Shoes ("Hotter") both having implemented significant business improvements;
- the Company continues to target realisation of its remaining investments by end 2021. Advisors are in place engaged on early preparation for realisation of each of its investments when optimal post Covid-19 disruption;
- no ordinary dividend is proposed. It is the Board's intention to distribute proceeds from asset realisations in 2021, the timing and quantum of which will be dependent on realisation processes. To date, £2 billion has been returned to shareholders since October 2016.

	30 September 2020		30 September 2019	
	£m	p/share	£m	p/share
TGI	106.6	278.5	141.4	369.2
Sentinel	10.9	28.5	3.2	8.3
Hotter	5.8	15.2	33.0	86.2
SPC	1.0	2.6	9.0	23.6
Other	4.3	11.2	5.8	15.2
Cash & cash equivalents	6.9	18.0	17.9	46.6
Other net liabilities	(0.2)	(0.5)	(0.4)	(0.7)
Total NAV	135.3	353.4	209.9	548.4

TGI Fridays ("Fridays")

In December 2019 Robert Cook was appointed as CEO of TGI Fridays with a remit to return Fridays to a leadership position amongst UK casual dining brands. A new management team with broad business development experience and in-depth experience of leading successful multi-site leisure and hospitality businesses is in place. Their objectives cover:

Dine in:

- to reinvigorate the core Fridays dine in experience through the "Famous at Fridays" experience with increased food and drink quality and relevance and the return of Fridays as a whole evening adult venue through renewed focus on Fridays cocktail bars and heritage;
- the launch of our new "63rd+1st" brand of smaller format cocktail and shared plate let sites; and
- the continued sustainable roll out of additional Fridays sites in carefully selected venues.

Digital:

- to digitise all relevant part of the business optimally including:
  - marketing outreach;
  - e-commerce capability; and
  - operating efficiencies.

Delivery:

- utilising digitally enabled channels extend the geographic reach of Fridays through:
  - delivery of ready prepared and cooked meals from Fridays restaurants and dark kitchens;
  - delivery of fully prepared but uncooked Fridays meals nationwide; and
  - delivery of Fridays "cocktails at home" nationwide for enjoyment at home.

Drive in:

- initial development of "click and collect" channel through Fridays restaurant locations; and
- possible future development of custom designed drive in focused venues.

The emergence of Covid-19 early in 2020 severely disrupted the normal activities of Fridays, but each of the strategic initiatives planned for implementation in 2020 was launched on plan or accelerated. These include:

- "Famous at Fridays" food, cocktails and menu launched across 20% of restaurants and based on positive consumer response being rolled out across remaining estate;
- strong pipeline of new sites identified and acquired at advantageous rates with costs of conversion from existing restaurant sites to Fridays approximately one third of normal new site fit-out;
- "63rd + 1st" brand being launched with first opening planned in January 2021 in Cobham, with more to follow;
- digital marketing activity significantly developed during pandemic to engage with existing, new and lapsed customers;
- "Click and collect" initially launched across 27 stores from phased from trading resumption in May 2020 with all stores now equipped;
- delivery of prepared food significantly extended to cover all population centres covered by exiting store footprint;
- Cocktails at home, butchers' boxes and now uncooked, fully prepared meals launched to extend the Fridays brand and home experience nationwide; and
- first "dark kitchen" site now under negotiation.

Fridays: Recent Trading

- The table below covers the period from the July 2020 dine-in reopening to November 2020 on a weekly basis and indicates the percentage of casual dining restaurants open during that week that had been open pre Covid-19, Fridays LFL sales per week and the wider market LFL sales. Over this period, Fridays' LFL sales outperformed the market by 9.5% (source: Industry CGA Peach Tracker) on an average weekly basis.

Week no.	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44
% of pre Covid-19 sites open*	17	24	29	38	44	52	61	65	68	70	71	71	72	72	71	70	70
Fridays LFL sales	-15	-3	-5	-6	10	19	33	28	18	-2	-5	-13	-11	-10	-19	-22	-3
Market LFL sales*	-40	-27	-22	-20	8	4	19	24	8	-7	-10	-14	-15	-18	-22	-24	-11

*Source: Industry CGA Peach Tracker

- Cash generation has varied significantly during the period illustrated above. After adjusting for Covid-19 related payment deferrals the net debt of Fridays has increased from £30 million in March 2020 to £39 million in September 2020. We anticipate that Fridays will close its financial year to December with revenues down around 40% on the prior year and a small positive EBITDA.

- In the normal course of events Fridays would be seeking to refinance its banking facilities, which expire in August 2022, in 2021. The Covid-19 pandemic has increased refinancing risk generally, and particularly in the hospitality industry, and we will seek to ensure an optimal outcome.

Note: portfolio company data other than at period ends is unaudited and based on management information subjected to internal verification

Fridays: Current position

- The improvements and developments made to the Fridays offering already and the further developments to come give us great confidence in the future.
- We expect consumer demand to return to 2019 levels at some point in 2021.
- When this happens, as a result of structural changes made to Fridays in the intervening period (stores opened, stores closed, costs removed etc) we would expect Fridays performance on a pro-forma basis on recovery to 2019 market and market share levels to be as indicated below.
- This pro-forma profitability includes an estimate of £4 million cost increases in the event of a “no deal” Brexit. Should this occur it would be expected to recover this impact through supply chain adjustment over a period of time

	2019 Actual £m	Pro-forma** £m
Revenue	214.8	223.8
EBITDA*	25.6	30.4
EBITA*	15.0	19.6

* Includes the impact of an estimated £4 million cost increase in the event of a “no-deal” Brexit.
** Pro-forma assumptions
• market demand and Fridays market share at 2019 levels;
•full year effect of 5 stores opened during 2019, less impact of two stores closed;
•approximately £4 million cost increase in the event of “no-deal” Brexit; and
•firm cost savings including labour efficiencies, agreed rental reductions and other delivered efficiencies.

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Fridays: Market opportunity

- Market conditions in 2019 were already challenging due largely to a significant over-supply in the market with a great many new restaurants having opened from 2015 to 2018.
- The Covid-19 pandemic has instigated a needed correction in the market with estimates of the number of casual dining restaurants that will not reopen being around 20 - 30%.
- The combination of the improvements and developments being made by Fridays and the significant market supply correction gives TGI an exceptional opportunity to gain market share.
- On a pro-forma basis the table below indicates the potential performance of Fridays should it achieve the illustrated percentage growth in a market at 2019 levels.

	2019 market and share £m	5% growth £m	7.5% growth £m	10% growth £m
Revenue	223.8	235.0	240.6	246.2
EBITDA	30.4	34.5	37.0	39.5
EBITA	19.6	23.7	26.2	28.7

Given the recent development of Fridays' consumer offering and market conditions on a return to 2019 demand levels we would target growth at least in the range illustrated.

- Fridays' medium-term development plan is for net new site development of approximately 5 stores per year, which is self-funded from cash generation.
- This 6% p.a. increase in current site numbers will deliver further growth on top of the growth opportunity from the existing estate considered above.
- Current market conditions give attractive opportunities for highly cost effective new site acquisition. In light of our plans for development. In light of our plans for development of both the Fridays and "63rd+1st" brands, when it is considered prudent the medium-term site development plans may be accelerated slightly in the shorter term.

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Hotter: Strategy and restructuring

In early 2019 Ian Watson was recruited as CEO to implement a turnaround strategy. The strategy is founded on the digitisation of the business and comprises four key elements:

Align brand and product

- differentiated product focussing on uncompromising comfort and fit within a structured range that meets our customers' needs; and
- unique technology solutions reinforcing our excellence in comfort and fit.

Optimal route to the consumer

- focus on own direct to consumer channels supported by technology and strategic fitting centres to ensure optimised customer experience; and
- partnership with third parties where appropriate.

Drive to best cost

- optimised and resilient supply chain; and
- build / buy flexibility to ensure product range is unconstrained.

People, process and systems

- customer facing and key internal processes optimised; and
- investment in key skills delivering customer and commercial benefit.

- The emergence of the Covid-19 pandemic in March resulted in the closure of the retail estate of 82 locations and the reliance on the direct to consumer channels to generate the cash necessary for survival.

- The pandemic resulted in the necessity of Hotter entering into a Company Voluntary Arrangement ("CVA") which concluded in August 2020 with the permanent closure of 59 shops (72% of the estate) and significant head office simplification resulting in material cost savings.

- Hotter now has its targeted operating model in place.
- The simplification of the Hotter operating model implemented in 2020 gives the business an efficient and profitable base on which to build. The table below illustrates the impact of the operating model changes in pro-forma performance for the year to January 2020.

	Actual: year to Jan 20	Actual: year to Jan 20	Actual: year to Jan 20	Pro-forma year to Jan 20
	as reported	terminated activities	central cost removed	continuing business
Sales (£million)	85.5	(25.0)	-	60.5
EBITDA (£million)	4.3	0.4	0.7	5.4

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Hotter: Recent trading

- In October, delayed by Covid-19 related supply chain issues, primarily in India, Hotter launched its first new product range comprising its “freesole”, “cushion +” and “stability +” ranges.

- These ranges, which will be further developed in the significantly enhanced spring / summer range to be launched in Q1 2021, helped the continued growth of the direct to consumer business, particularly in the UK.

	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
% of sales through direct channels	64	97	95	91	74	78	67	85	95
UK direct YOY sales growth %	13	12	13	12	1	6	8	20	56*

* impacted by timing of Black Friday weekend. Estimated to be +30% YOY growth adjusting for greater impact of Black Friday period sales in November reporting period than last year

- Hotter’s direct channels have generated cash throughout the period from March 2020. Hotter’s net debt has increased from £15 million in March 2020 to £18 million in September 2020 reflecting cash utilisation prior to the closure of retail sites and CVA related costs (net of Electra’s £2 million investment). Hotter’s new operating model is significantly less working capital intensive than previously.

- The direct channels that will drive future growth, have performed strongly throughout this year and, combined with significantly improved product and focused marketing give confidence in the future prospects of Hotter.

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Hotter: Market opportunity

- The direct channel growth achieved in 2020 indicates an opportunity for Hotter to grow profitability above the pro-forma levels for the year to January 2020. The EBITDA growth ranges illustrated below are based on growth in direct channels of the illustrated percentages with retail (retained stores only) and wholesale unchanged.

		Pro-forma			
	Year to Jan 20 as reported	Year to Jan 20 continuing	Direct channel growth		
			10.0%	15.0%	20.0%
Sales (£million)	85.5	60.5	64.6	66.7	68.8
EBITDA (£million)	4.3	5.4	7.3	8.3	9.2

- During continued Covid-19 disruption to Hotter's remaining retail operations we estimate that a 10% reduction in demand from 2019 levels would reduce EBITDA contribution by approximately £0.5 million (Q1: £0.10 million, Q2: £0.15 million, Q3: £0.13 million, Q4: £0.12 million).
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- Hotter has contingency plans in place to mitigate the potential supply chain interruption from a "no-deal" Brexit. There should not be a significant ongoing cost impact for Hotter.

- The above indicates the opportunity for Hotter to develop further as a highly profitable growth business serving its existing, growing, target customer demographic in the UK and US. With infrastructure in place that allows replication of its direct to consumer sales channels in other international markets or targeting other customer segments that require focus on comfort and fit (e.g. occupations requiring significant periods on foot), there are many opportunities for future transformational growth.

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Sentinel Performance Solutions

- Electra initially invested in Sentinel in 2011, but despite being the majority shareholder, did not have management control until July 2019, when we bought out a minority shareholder with retained control rights.
- We identified that the business lacked focus and had become over-complicated and quickly implemented changes.
- David Barrett, a highly experienced industry professional, was appointed CEO and under his leadership, other key changes to simplify the management structure and wider organisation and to develop a culture of accountability and delivery were implemented.
- The business operates in a mature UK market in which focus, agility and cost and operational efficiency are paramount, as well as in a number of international markets with the opportunity for growth, in which organisational structure and methodical planning and delivery are required.
- The changes implemented have addressed both market groups and through a combination of sales growth and cost control the business has been successfully turned around to provide a platform for further growth.
- Growth achieved in its larger international markets of France and Italy over the last year now means that more than 50% of Sentinel’s revenue comes from outside the UK for the first time.

Sentinel: Performance and opportunity

- The table below illustrates the impact of improved performance in the year to March 2020 following the business improvements implemented in the second half of the year. These resulted in a 200% increase in EBITDA from a 6.8% growth in sales.

	Year to 31 March		Six months to 30 September	
Actual	2020	2019	2020	2019
Sales (£million)	20.3	19.0	7.0	8.5
EBITDA (£million)	3.0	1.0	0.9	0.4

- Covid-19 disruption impacted Sentinel through lockdown in each of its key markets during the seasonally quiet spring and summer months. Sales in this period typically service planned maintenance providers whereas sales over the winter period are more likely to be servicing non-discretionary repair or replace activity.
- Sentinel's net debt position has increased from £9 million to £10 million from March 2020 to September 2020. This is consistent with normal seasonality.
- In the event of a "no-deal" Brexit, Sentinel would adjust its supply chain and trading arrangements with relevant European countries to mitigate the impact of an annualised direct cost of approximately £0.6 million p.a.
- Despite sales falling 18% in the six months to September 2020 as a direct result of Covid-19, the profitability of the business has improved by £0.5 million. With sales appearing resilient through the second wave of Covid-19 restrictions in each of the UK, France and Italy we anticipate another improvement in earnings in the year to March 2021 despite the impact of the pandemic.
- Whilst Sentinel's UK market is mature, there remain opportunities for growth through organic market share gains and the ongoing development of new products. The less mature export markets led by France and Italy already provide over 50% of Sentinel's sales and provide opportunity for further growth, complemented by additional developing markets, leveraging Sentinel's experience of successful new market entry.
- New product development opportunities cover the extension of existing product ranges and leveraging Sentinel's strong brand reputation and customer relationships to expand into new sectors. This has been demonstrated already by Sentinel's successful entry into renewables focused products with a range of physical and chemical products that give significant scope for future development.

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