The Hut Group Limited

Company only financial statements for the period ended 30 June 2020

Contents

Report of the independent auditor to The Hut Group Limited for the purpose of sections 92(1)(b) and (c) of the Companies Act 2006

We have audited the balance sheet and related notes 1 to 5 of The Hut Group Limited as at 30 June 2020 set out on pages 5 to 11 which have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The company's directors are responsible for the preparation of the balance sheet and related notes.

It is our responsibility to:

(a) report on whether the balance sheet has been properly prepared in accordance with the provisions of the Companies Act 2006 that would have applied if it had been prepared for a financial year of the company with such modifications as are necessary by reason of that fact; and

(b) form an independent opinion concerning the relationship between the company's net assets and its called-up share capital and undistributable reserves at the balance sheet date.

Opinion concerning preparation of balance sheet

In our opinion the balance sheet and related notes as at 30 June 2020 have been properly prepared in accordance with the provisions of the Companies Act 2006, which would have applied had the balance sheet been prepared for a financial year of the company.

Statement on net assets

In our opinion, at 30 June 2020 the amount of the company's net assets (within the meaning given to that expression by section 831(2) of the Companies Act 2006) was not less than the aggregate of its called-up share capital and undistributable reserves.

Use of our report

This statement is made solely to the company's members, as a body, in accordance with Sections 92 (1) (b) and (c) of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this statement, or for the opinions we have formed.

Ernst & Young LLP

Jamie Dixon (Senior statutory auditor)

for and on behalf of Ernst & Young LLP,
Statutory Auditor
2 St. Peter's Square
Manchester
M2 3EY
24 August 2020

Company balance sheet as at 30 June 2020

	Note	June 2020 £'000	December 2019 £'000
Fixed assets			
Investments	2	**88,407**	88,044
		88,407	**88,044**
Current assets			
Debtors	3	**315,336**	295,790
Cash		**15,617**	23,930
		330,953	**319,720**
Creditors: amounts falling due within one year	4	**(2,444)**	**(1,612)**
Net current assets		**328,509**	**318,108**
Total assets less current liabilities		**416,916**	**406,152**
Net assets		**416,916**	**406,152**
Capital and reserves			
Called up share capital		**4,448**	4,381
Share premium	5	**245,351**	230,718
Merger reserve		**615**	615
Capital redemption reserve		**523**	523
Retained earnings		**165,979**	169,915
Total shareholders' funds		**416,916**	**406,152**

The financial statements on pages 5 to 11 were approved by the Board of Directors on 24 August 2020 and were signed on its behalf by:

J A Gallemore
Director
Registered number: 06539496

Company statement of changes in equity for the period ended 30 June 2020

	Note	Ordinary shares £'000	Share premium £'000	Merger reserve £'000	Capital Redemption Reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2020		**4,381**	**230,718**	**615**	**523**	**169,915**	**406,152**
Loss for the period		-	-	-	-	(2,915)	**(2,915)**
Issue of ordinary share capital	5	67	14,633	-	-	-	**14,700**
Share buy-backs	5	-	-	-	-	(1,384)	**(1,384)**
Capital contribution		-	-	-	-	363	**363**
Balance at 30 June 2020		**4,448**	**245,351**	**615**	**523**	**165,979**	**416,916**

Notes to the company financial statements

a. Accounting Policies

The principal accounting policies have been applied in accordance with 'Financial Reporting Standard 101 Reduced Disclosure Framework' (FRS 101) and are detailed below. The policies have been applied consistently throughout both the current and preceding year.

b. Basis of preparation

As permitted by Section 408 of the Companies Act 2006, an entity profit and loss account is not included as part of the published consolidated financial statements of The Hut Group Limited. The loss for the financial period in the financial statements of the Company is £2.9m (2019: £48.4m).

In accordance with FRS101, the Company has taken advantage of the disclosure exemptions relating to the preparation of a cash flow statement and disclosure of related party transactions. The consolidated financial statements of The Hut Group Limited have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

c. Going Concern and Covid-19 Impact

In forming their assessment that it is appropriate to prepare the balance sheet of the Company on a going concern basis, the Directors have considered the consolidated position of the Company and its subsidiaries (the "Group"). The Group has prepared the cash flow forecasts for a period of 12 months from the date of the approval of the financial statements. The Group forecasts cash projections taking account of reasonably possible changes in trading performance demonstrating that the Group can operate within the level of its current facilities. Based on the cash flow projections and projected headroom against the available facilities, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Covid-19 has introduced uncertainty into the market. The Directors have assessed the impact to date and remain confident that the Group is able to deliver a strong level of revenue growth in 2020. Considerations as part of this assessment were as follows:

- Consideration around the Groups estimates of the potential upside in sales resulting from increased shift of consumers to digital platforms, along with increased costs to ship and other one-off COVID related costs such as PPE spend;
- Stress test scenarios involving: sales decline (up to 30%); rise in absenteeism; warehouse closures; increase in fulfilment costs; change in consumer behaviours; and fluctuations in other market factors;
- Any mitigating actions available to protect working capital and strengthen balance sheet, including deferring non-essential capital expenditure and increased cost control;

The refinancing that occurred in December 2019 has given the Group substantial cash reserves (of £173.8m as at 21 August 2020) available to draw upon, and management consider the Group to be in a strong position to weather any further uncertainty. The majority of the workforce have moved to a remote working model, supported by the Group's investment in technology and development. The Group's strong cash flow model and continued working capital improvements will provide further liquidity to continue to re-invest in the business's infrastructure, most notably the proprietary platform Trading to date in 2020 has been in line with or in excess of management's forecasts.

At this stage it is hard to predict the full extent of the economic impact of worldwide government policies, however under the significant stress test scenarios we have run, the Group could withstand a material and prolonged decline in revenue and continue to operate within the available banking facilities. Accordingly, the Company continues to adopt the going concern basis in preparing its Financial Statements.

Notes to the company financial statements (continued)

d. Taxation and deferred taxation

Current tax including UK Corporation Tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law.

Temporary differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

e. Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

f. Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all its liabilities.

g. Investments in subsidiaries

Investments in subsidiaries are held at cost, less any provision for impairment. Where equity settled share- based payments are granted to the employees of subsidiary companies, the fair value of the award is treated as a capital contribution by the Company and the investments in subsidiaries are adjusted to reflect this capital contribution.

h. Share-based payments

The Company operates a share-based compensation plan, under which the Company and the Group subsidiary entities receive services from employees as consideration for equity instruments of the Company. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense in exceptional items. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted.

Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all the specified vesting conditions are to be satisfied.

At the end of each reporting period, the entity revises its estimates of the number of equity instruments that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the equity instruments are exercised or growth shares in THG are issued to employees, the Company issues new shares. Of the proceeds received on exercise or issue of growth shares, an amount equal to the nominal value of the shares issued is credit to the share capital account and an amount equal to the share premium, net of directly attributable transaction costs, is credit to the share premium account.

Notes to the company financial statements (continued)

g. Share-based payments (continued)

The grant by the Company of equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

The Group has an employee benefit trust (EBT) which facilitates an internal market for participants in employee share schemes to sell their shares in the Company. Shares held are recognised at cost as a deduction from shareholding equity. Subsequent consideration received for the sale of such shares is also recognised in equity.

i. Critical accounting judgements and key sources of estimation uncertainty

Share-based payments

Critical estimates and assumptions are made in particular with regard to the calculation of the fair value of employee equity instruments using appropriate valuation models. In addition, estimation is required in assessing the number of equity instruments expected to vest and the vesting periods of the awards.

Notes to the company financial statements (continued)

2. Fixed asset investments

Fixed asset investments comprise investments in subsidiary undertakings.

	2020	2019
	£'000	£'000
At 1 January	**88,044**	85,778
Additions	-	-
Capital contribution	**363**	2,266
	88,407	**88,044**

3. Debtors

	2020	2019
	£'000	£'000
Amounts owed by group undertakings	**296,409**	278,291
Trade debtors	**103**	-
Unpaid share capital	**12,007**	11,985
Other debtors	**504**	-
Corporation tax asset	**5,850**	5,400
Other taxation and social security	**450**	114
Prepayments and accrued income	**13**	-
	315,336	**295,790**

Amounts owed by group undertakings are unsecured, non-interest bearing and repayable on demand.

4. Creditors: amounts falling due within one year

	2020	2019
	£'000	£'000
Trade creditors	**1,301**	486
Accruals and deferred income	**1,143**	1,126
	2,444	**1,612**

Notes to the company financial statements (continued)

5. Share capital and reserves

The Company has the following authorised, allotted, issued, fully paid and partly-paid ordinary share capital:

	2020	2019
	Number	Number
Class		
A ordinary	**457,095**	457,095
B ordinary	**3,499,271**	3,469,271
C ordinary	**40,414**	7,719
D ordinary	**438,087**	438,087
E ordinary	**277,592**	273,667
Deferred shares	**33,515**	33,515
£1 nominal value ordinary shares*	**4,745,974**	**4,679,354**

*Included with this number is 616,438 partly-paid shares (2019: 612,513).

During the period the Group issued 3,925 partly-paid E ordinary shares pursuant to its 2017-19 Long-Term Incentive Plan.

A ordinary shares and B ordinary shares

The holders of A ordinary shares and B ordinary shares are entitled to receive dividends pro rata according to the number of shares held by them respectively as if they constituted one class of share. The A ordinary shares and B ordinary shares are non-redeemable. The holders of such shares have on a show of hands one vote and on a poll have one vote for each such share held by them. On a return of capital, the holders of such shares have different rights to receive any surplus assets remaining after the payment of liabilities ("Net Proceeds").

C ordinary shares

The holders of C ordinary shares are not entitled to receive dividends. The shares do not carry any voting rights and are non-redeemable. On a return of capital, the holders of such shares are entitled to receive Net Proceeds.

D ordinary shares

The holders of D ordinary shares are not entitled to receive dividends. The shares do not carry any voting rights and are non-redeemable. On a return of capital, the holders of such shares are not entitled to receive Net Proceeds unless a hurdle is achieved.

E ordinary shares

The holders of E ordinary shares are not entitled to receive dividends. The shares do not carry any voting rights and are non-redeemable. On a return of capital, the holders of such shares are not entitled to receive Net Proceeds unless a hurdle is achieved.

Notes to the company financial statements (continued)

5. Share capital and reserves (continued)

Deferred shares

The holders of deferred shares have no right to receive a dividend and no voting rights. The deferred shares are non-redeemable. On a return of capital, the holders of deferred shares are entitled to receive the amount paid up or credited as paid up on such shares once the holders of all the other shares have received the sum of £100,000 per share.

Capital risk management

The Company's objectives when managing capital, which comprises equity, are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. Between 18 and 30 June 2020, 30,000 B ordinary shares were issued at a nominal value of £1 per share for cash consideration of £15,000,000. The Employee Benefit Trust (EBT) facilitates an internal market for participants in employee share schemes to sell their shares in the Company. During the financial period, the EBT purchased a total of 320 shares for aggregate consideration of £0.13m which is deducted from retained earnings.