

Hornby Plc Preliminary results 2017 Investor presentation



Results in line with expectations

Results Highlights

£'m	Year ended 31 March 2017	Year ended 31 March 2016
Revenue	47.4	55.8
Underlying loss before taxation ¹	(6.3)	(5.7)
Loss before taxation	(9.5)	(13.5)
Exceptional items	(3.3)	(7.9)
Net cash/(debt)	1.5	(7.2)
Net operating cash inflow/(outflow) pre exceptionals	2.6	(11.4)

- First stage of Turnaround Plan completed
- Focus on delivery of profit and cash generation in next stage of Turnaround Plan
- Clear medium-term strategic priorities

¹ Underlying figures are before amortisation of intangibles (brand names and customer lists), and net unrealised foreign exchange movements on intercompany loans and exceptional items.

First stage of Turnaround Plan completed

First stage of Turnaround Plan completed

- Reduction of business scale and costs
- Key UK brands maintained
- Streamlined European operating model and brands
- Focused product ranges and reduction in capital expenditure
- Refined sales channels strategy and substantially exited concessions
- Careful management of stock down to an appropriate level
- Freehold properties in Spain and Margate sold for a total of £3.3m
- £8m equity placing (£7.5m net proceeds) to support delivery of the Group's strategic objectives and renegotiation of banking facilities



Next stage of Turnaround Plan

Focus for next stage of Turnaround Plan

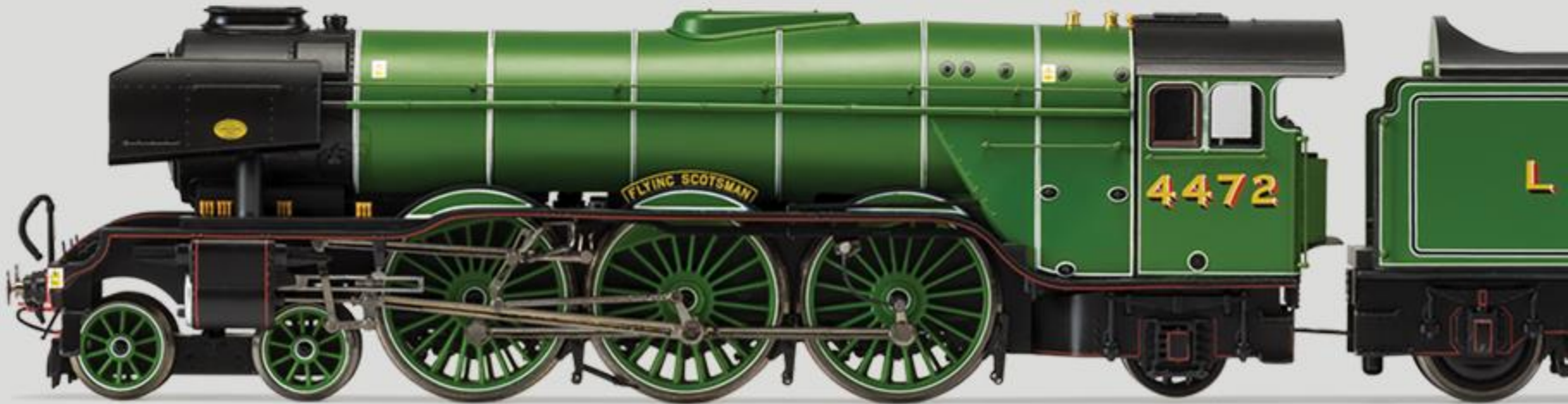
- Build on the strong profitability of the Hornby, Airfix and Humbrol brands
- Improve Scalextric performance
- Grow our European and US businesses
- Further improve our customer service
- Deliver further efficiencies from ongoing cost reduction
- Maximise the return from our brands through selective licensing agreements

First stage of Turnaround Plan completed



“From my young life,
to middle age, Hornby
model railways will
always be my passion!”

- Andy Byrne, Modeller



Turnaround Plan: Reduction of business scale and costs

What we said:

- The Group intends to focus on the most profitable and cash generative areas of the business and to make significant cost savings. As a result, it expects to reduce revenue by approximately a quarter.

Update

- Revenue reduced by 15%; better than expected stock liquidation
- Overheads reduced by £3.3m, with full year benefit to come in 2017/18
- UK and European structural changes delivered
- Headcount at targeted levels

Overheads (£'000)	Mar-16	Mar-17	YOY
Distribution costs	8,441	8,419	-22
Selling and marketing costs	12,472	10,294	-2,178
Administrative expenses	6,814	5,680	-1,134
Total overheads	27,727	24,393	-3,334

Heads (No of FTEs)	Mar-16	Mar-17
UK		
Headcount	154	121
European capability		10
Europe headcount	51	11
US headcount	12	13
HK headcount	29	28
Total headcount	246	183

Turnaround Plan: Maintain key UK brands

What we said:

- All key UK brands will be retained. The Group owns a number of highly recognisable and profitable brands (Hornby, Scalextric, Airfix, Humbrol and Corgi), which are core to the Group's future strategy. The Group sells products into both the Hobby Market and Toy Market. The new business plan will be strongly focused on improving service to core Hobby customers, especially through the Independent sales channel.

Update

- £2.0 million of capital investment in FY17 (FY16: £4.6 million)
- Improving customer service
 - Improvement to Sales & Marketing teams
 - Net investment in these teams against back drop of overall cost savings
 - Independent sales channel
 - Customer visits
 - New terms & conditions
 - Improving customer relationships
 - Reduced level of direct promotional activity direct to consumers
 - Support and advice to optimise range
 - Investment in Business-to-Business portal

Capex		
(£'m)	Mar-16	Mar-17
Product tooling	2.8	1.7
Computer software	1.4	0.2
Other	0.4	0.1
Total capex	4.6	2.0

Revenue by brand	
(£'m)	Mar-17
Hornby	14.4
Scalextric	11.6
Humbrol	2.4
Airfix	6.4
Corgi	4.3
International Rail	7.1
Other Brands	1.2
Total revenue	47.4

Turnaround Plan: Streamline European operating models and brands

What we said:

- The Group intends to refocus its European business on its most profitable European model rail brands. This will allow the business to maintain a strong market position in international model rail. In addition, operations and product development will be centralised in the UK, resulting in a significant reduction in the cost base of the European business. The Group intends to retain its US business given its historic profitability and future growth potential.

Update

- Revenue from European brands reduced by around a quarter as planned
- Operations and product development now centralised in the UK
- Small amount of capex on European models carried over from last year's commitments
- European business now centred on Arnold, Jouef, Rivarossi and Electrotren brands

Europe revenue		
(£'m)	Mar-16	Mar-17
Full year	10.1	7.8

Heads		
(No of FTEs)	Mar-16	Mar-17
Europe		
Headcount	51	11

Europe capex		
(£'m)	Mar-16	Mar-17
Product tooling	1.1	0.4

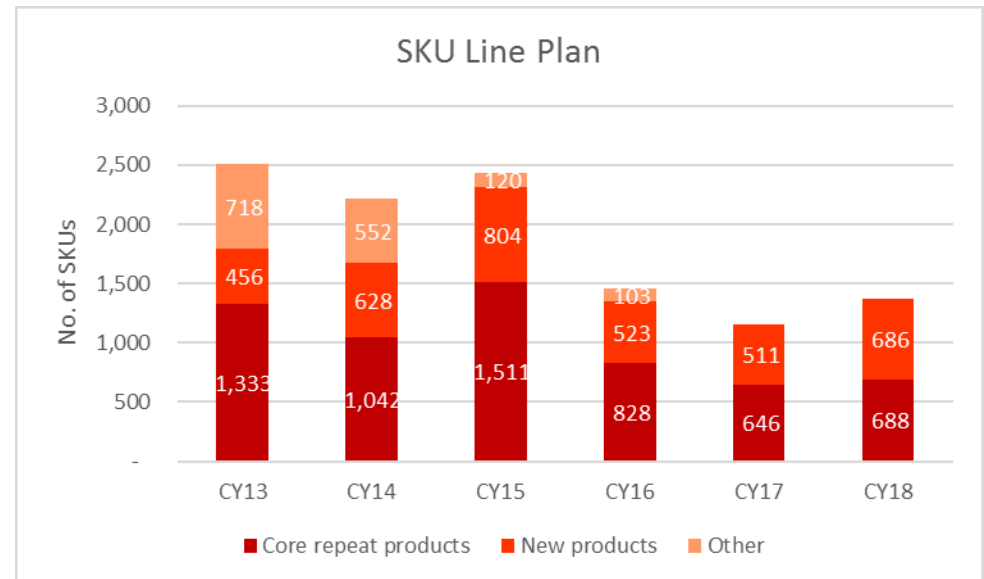
Turnaround Plan: Focused product range

What we said:

- The business now intends to reduce the number of individual product lines by approximately 40 per cent. during the 2016 calendar year, focusing on products which generate higher gross margins. This will reduce business complexity and activity levels which will then allow the cost base to be reduced. In the financial year ended 31 March 2016, approximately 50 per cent of the business' product lines contributed approximately 90 per cent. of the gross margin. Even after the planned reduction, the Group will be actively managing approximately 1,400 product lines in the 2017/18 financial year. The product range will be streamlined further in 2017, while continuing to release innovative new products to the market.

Update

- Delivered streamlined product range
- 2018 SKU line plan at 1,374 (CY17: 1,157) in line with our plans



Turnaround Plan: Refine channel strategy and exit concessions

What we said:

- In the UK the Group intends to exit a majority of its concession arrangements as it looks to focus on profitable channels to market and improve its customer service. The Board has been pleased with the growing profitability of its independent and internet distribution channels and in particular intends to support and build on the success of the independent channel.

Update

- Concessions
 - Hamleys retained (5 stores) and will be flagship concession going forwards on new terms
 - Around half of concessions closed by October with remainder trading through the Christmas period and then majority closed in January
 - Stock returned to Hersden and £0.3m remains to be re-sold
- Independent Retailers
 - strong focus on rebuilding relationships and improving service
- Internet
 - selling at full value to avoid direct competition with Independent sales channel

	Mar-16	Mar-17
No. of concessions	96	13

	Mar-16	Mar-17
Internet revenue	5.1	2.7

Turnaround Plan: Careful management of stock

What we said:

- The failure to meet sales expectations in the 2015/16 financial year combined with the forthcoming rationalisation of the product range, exit of the concessions channel and contraction of the European business has resulted in a higher than necessary level of stock. The plan is to reduce this in a staged and managed way during the coming year, which will result in cash generation and stock returning to more normal levels.

Update

- Significant reduction in stock levels
- Care taken not to disrupt underlying sales and devalue the brands
- Significant progress also made with debtors
- Potential for further stock reduction of £1.0m
 - To be carefully managed

Working capital (£'m)	Mar-16	Mar-17	YOY
Stock	13.6	9.7	(3.9)
Trade and other receivables	13.2	9.2	(4.0)
Trade and other payables	(7.4)	(6.7)	0.7
Total working capital	19.4	12.2	(7.2)

Turnaround Plan: Significant cashflow improvement

Net operating cash inflow (before exceptionals) +£2.6m (2016: -£11.4m)

- Gross profit £18.2m (2016: £21.8m)
 - Gross margin improved to 40.0% in H2 FY17 (H1 FY17: 36.2%, H2 FY16: 37.6%)
 - At constant H1 FY17 exchange rate, restated H2 FY17 margin 42.5% (£0.7m higher)
- Operating costs (before depreciation and amortisation) £20.5m (2016: £23.4m)
 - Full year benefit in FY18
- Total capital expenditure £2.0m (2016: £4.6m)
 - Tooling capital expenditure £1.7m (2016: £2.8m)
 - Other capital expenditure £0.3m (2016: £1.8m); 2016 expenditure on ERP system
- Cash impact of stock reduction £4.3m (2016: increase £0.7m); some further improvement over the next two years
- Other working capital reduction £2.1m (2016: increase £5.4m)
- Other net cash costs £0.6m (2016: £0.8m)

Net exceptional cash inflow +£5.9m (2016: +£11.6m)

- Disposal proceeds £3.3m (2016: £0.3m)
- Exceptional costs £4.8m (2016: £2.9m)
- Proceeds of equity raise £7.5m (2016: £14.2m)

Net cash at year end +£1.5m (2016: net debt £7.2m)

Turnaround Plan: YOY cashflow analysis

Cashflow £m	FY16		FY17		Variance - Fav/(Unfav)		
	H1	H2	H1	H2	H1 v H1	H2 v H2	FY v FY
Gross profit at constant H1 FY17 exchange rate	9.2	12.6	7.9	10.9			
GP margin % sales	41.1%	37.6%	36.3%	42.8%			
Actual gross profit	9.2	12.6	7.9	10.2	(1.2)	(2.4)	(3.6)
GP margin % sales	41.1%	37.6%	36.3%	40.0%			
Operating costs (excl dep'n & amort'n)	(10.8)	(12.6)	(9.7)	(10.8)	1.1	1.8	2.9
Capital expenditure	(2.9)	(1.6)	(1.0)	(1.0)	1.9	0.7	2.6
Decrease/(increase) in stock	(4.4)	3.7	(1.1)	5.4	3.3	1.7	5.0
Decrease/(increase) in debtors & creditors	(2.9)	(2.5)	1.7	0.4	4.5	2.9	7.4
Other cash items	0.1	0.7	0.6	(0.0)	0.5	(0.8)	(0.3)
Net operating cashflow	(11.7)	0.3	(1.6)	4.2	10.1	3.9	14.0
Property disposal proceeds	0.0	0.3	1.0	2.2			
Exceptional costs	(0.8)	(2.1)	(2.0)	(2.8)			
Refinancing proceeds	14.2	0.0	7.5	0.0			
Net cashflow	1.7	(1.5)	4.9	3.6			
(Net Debt)/cash - closing	(5.5)	(7.0)	(2.1)	1.5			

Strategy



“Bought my daughter
an Airfix Spitfire as
they’re awesome kits
to get kids started.”

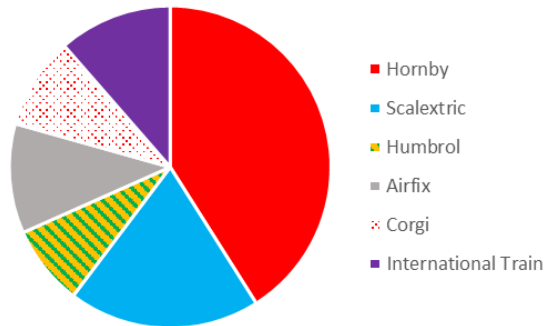
- Johnny Burton, Father



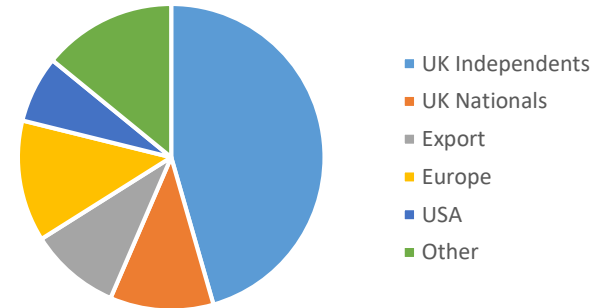
- The strategic objective is to maximise the long term value of our brands by delivering sustainable levels of profitable growth from the FY18 base
- Strategic principles
 - The Group is a collection of brands and requires a brand focused strategy
 - The Group's purpose is to profitably deliver relevant products for an optimum number of customer segments for each brand
 - Our balance sheet demands a continued risk averse mindset
 - Within this constraint there is strategic ambition to both win new customers and better serve existing customers
 - Open and flexible view on insourcing versus outsourcing for all activities
 - Continuous improvement culture – further cost reduction
 - Organisation structure will be aligned to support the strategy

Ambition to both better serve existing customers and win new customers across our brands

Group Contribution



Group Contribution



- The current strength of the group is concentrated particularly in the Hornby brand and Independent Retail Channel
- The first strategic focus is to consolidate and improve the position in Hornby and Independent Retailers given historic problems of poor service and delivery to these customers
- The second focus is to profitably win new customers across all brands and channels but especially in Scalextric and International train and in the USA

Strategic Priorities

- Build on the strong profitability of Hornby, Airfix and Humbrol
 - Focus on core strength of delivering high detail, high quality models to existing hobby customers
 - Recover lost market share
 - Continue to improve execution and improve margin
 - Increase appeal to new customers
- Improve Scalextric performance
 - Grow volumes and margins through improved innovation and marketing support
 - New USA strategy
- Grow European and US businesses
 - Carefully invest capital expenditure to deliver profitable growth in the newly restructured European business
 - Target significant profitable growth in the USA market especially for Scalextric, Airfix and Humbrol

Strategic Priorities

- Continue to improve our customer service
 - Independent retailers
 - National multiple retailers
 - Increased contact with hobby consumers through consumer shows
 - New B2B portal for Independent retailers and use of websites to support the brands
- Further efficiencies from ongoing cost reduction
 - Reduction in product costs to offset adverse exchange rate movement and increase margins
 - Continuous improvement to drive further reduction in operating costs
- Maximise return from iconic brands
 - Build brand profile through use of selective licensing agreements

Summary

- FY17 results in line with expectations and first stage of Turnaround Plan complete
- Significant improvement in cashflow
- Financial position strengthened considerably
- Short term focus of delivering profit and net operating cash generation in FY18
 - Confident in delivering against expectations for FY18
 - FY18 plan includes a hedged USD/GBP rate of \$1.25. Every 10c movement in exchange rate equates to £1.8m of profit
- Clear medium term strategic priorities
 - Routes to profitable growth
 - Ongoing cost reduction
- Confidence in growing shareholder value into the long term

Financials



“Best James Bond car of all time.
Corgi always make the best models!”

- Gerard McCuskin, Collector



Financials

Profit and loss – year ended 31 March 2017

£(000)'s	Year to 31 March 2017 (audited)	Year to 31 March 2016 (audited)
REVENUE	47,420	55,757
Cost of Sales	(29,270)	(33,992)
GROSS PROFIT	18,150	21,765
Overheads	(27,338)	(34,889)
OPERATING (LOSS)/PROFIT	(9,188)	(13,124)
Net interest	(321)	(408)
LOSS BEFORE TAXATION	(9,509)	(13,532)
Analysed as:		
Underlying (loss)/profit before taxation	(6,272)	(5,683)
Net foreign exchange impact on intercompany loans	410	389
Amortisation of intangible assets	(344)	(384)
Exceptional items	(3,303)	(7,854)
LOSS BEFORE TAXATION	(9,509)	(13,532)

- Revenue down 15% as planned
- Underlying overheads down by 12%
 - lower R&D costs
 - Sales & marketing reduced due to lower advertising spend and concessions commissions
 - Reduced Admin costs resulting from structural changes and lower overall activity
- Underlying loss of £6.3m in line with Board's expectations

Financials

Exceptional items – year ended 31 March 2017

£(000's)	Year to 31 March 2017 (audited)	Year to 31 March 2016 (audited)
Exceptional items:		
Restructuring costs	3,889	993
Refinancing costs	944	762
Profit on disposal of property	(1,530)	(223)
Implementation of ERP system	-	1,174
Impairment of property, plant and equipment	-	1,158
Impairment of goodwill	-	3,990
TOTAL	3,303	7,854

- Restructuring costs – reorganisation of UK and European businesses and costs of Margate site
- Refinancing costs relate to 2016 equity raise
- Profit on sale of Margate and Spanish properties

Financials

Balance sheet – as at 31 March 2017

£(000's)	31 March 2017 (audited)	31 March 2016 (audited)
Fixed assets	14,451	16,485
Other non current assets	1,974	1,991
Stock	9,680	13,637
Debtors	9,246	13,192
Other current assets	170	2,069
Cash and cash equivalents	1,580	677
Short term borrowings and financial instruments	(272)	(7,895)
Creditors, provisions and other current liabilities	(7,072)	(7,809)
Long term borrowings and liabilities	(94)	(211)
NET ASSETS	29,663	32,136
NET DEBT	1,498	(7,206)

- Stock down £4.0m, 29% YOY driven by careful stock liquidation
- Debtors decrease driven by settlement of large sales orders raised just prior to previous year end
- Decrease in trade and other payables reflecting reduced level of activity
- Working capital reduced by £7.2m, 37% YOY
- Net cash at £1.5m (2016: net debt of £7.2m)

Financials

Cash flow – year ended 31 March 2017

£(000's)	Year to 31 March 2017 (audited)	Year to 31 March 2016 (audited)
Operating loss (<i>loss before exceptionals tax and interest</i>)	(9,188)	(13,124)
Net interest	(321)	(408)
Depreciation, amortisation, impairment	3,853	9,576
Net purchase of fixed assets	1,356	(4,213)
Share based payments	94	18
Gain on disposal of PPE	(1,439)	(193)
Loss/(gain) on financial derivatives	-	135
Movement in stock	4,311	(650)
Movement in debtors	4,335	(2,351)
Movement in creditors/provisions	(1,875)	(3,021)
Movement in FX contracts	-	(22)
Tax received/(paid)	118	204
Loan Repayment	(188)	(35)
FX	(65)	119
Net proceeds from share issue	7,536	14,183
Net cash outflow for the period	8,527	218
Cash, cash equivalents and bank overdrafts at beginning of period	(7,029)	(7,247)
CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS AT END OF PERIOD	1,498	(7,029)

- Operating cash inflow before exceptionals £3.4m (2016: £1.8m out flow)
- £3.3m raised from sale of Margate and Spanish properties
- Capex of £2.0m (2016: £4.6m) reflects capital discipline
- Reduction in net debt
- £8.0m equity raised (£7.5m net of expenses) during the year

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