

This announcement contains inside information

15 September 2022

THG PLC

Interim results for the half-year ending 30 June 2022

Substantial progress as we continue to build a strong, sustainable global platform supporting THG brands and Ingenuity clients

Record revenue performance of £1.1bn in H1, underpinned by stable customer behaviour metrics driving market share gains in large Beauty and Nutrition markets

Adjusted EBITDA of £32.3m, with operating loss of £89.2m reflecting consumer price protection investment strategy. Medium term guidance reiterated with cost efficiencies and commodity price improvements supporting margin recovery in H2 and 2023

Robust cash on hand of £266m plus undrawn £170m RCF. £156m credit approved banking facility and agreed disposal of £44m non-core freehold asset will further strengthen the Group's balance sheet

Governance progress with appointment of experienced independent non-executives

THG PLC ("THG" or the "Group"), the proprietary technology platform specialising in taking brands direct to consumers ("D2C") globally, announces its interim results for the half-year ending 30 June 2022 ("H1 2022").

H1 2022 Group Trading Performance

£m	H1 2022	H1 2021	YoY ¹ Growth	YoY Growth CCY ²	2 Year Growth	2 Year Growth CCY
THG Beauty	552.8	460.8	+20.0%	+17.7%	+87.0%	+90.4%
THG Nutrition	332.1	328.4	+1.1%	+3.3%	+28.7%	+34.8%
THG Ingenuity	104.2	85.8	+21.4%	+20.2%	+69.5%	+72.4%
THG OnDemand	51.0	51.6	-1.0%	-1.9%	+44.2%	+47.1%
Other	36.7	32.2	+13.4%	+12.4%	+45.2%	+46.5%
Group Revenue	1,076.8	958.8	+12.3%	+11.9%	+59.4%	+64.0%
Gross Margin % ³	42.1%	46.5%				
Adj EBITDA⁴	32.3	81.2	-60.2%			
Adj EBITDA%	3.0%	8.5%				
Adj EBITDA pre SaaS costs⁵	36.1	81.2	-55.5%			
Adj EBITDA% pre SaaS costs	3.4%	8.5%				
Adjusted items	22.9	28.6	-5.7			
Operating loss⁶	-89.2	-17.4	-71.8			
Net Debt / Cash⁷	-225.6	384.6				
Ingenuity Commerce Revenue	22.9	18.3	+25.1%	+25.1%	+232.3%	+232.3%

Half-year 2022 financial highlights

- Group revenue of £1.1bn, +12.3% YoY and +64.0% two-year growth (CCY). Lower growth rate vs prior period reflects lockdown comparatives and market uncertainty across consumers and corporates linked to macro-economic events. Beauty the key driver at +20.0% reflecting, in part, the impact of the Cult Beauty and Bentley Labs acquisitions.
- A strong customer acquisition and retention engine has powered growth in Beauty and Nutrition active customers by >110% vs H1 2019, supporting high customer repeat rates which account for around 80% of D2C revenue across Beauty and Nutrition.
- Over 10 million app downloads⁸, with app customers representing 11.4% of Group D2C H1 2022 revenue (H1 2021: 5.1%). Greater app participation has partially mitigated rising marketing costs, with customers acquired at lower costs through this channel typically ordering more frequently, with higher average order values 'AOV's' due to regular engagement.
- The UK is a major territory within Beauty and Nutrition markets globally. THG's UK revenue grew in excess of the Group rate in H1 2022. US participation at 20% reflects the successful integration of Dermstore and double-digit growth in Nutrition.
- Reduced gross profit margin at 42.1% (H1 2021: 46.5%) primarily reflects the strategy to partially shield consumers from adverse macro-economic conditions and a period of unusually high raw material costs (principally whey). This investment is driving customer retention and underpinning future growth.
- Automation, strong cost control and efficiencies across the Group's global warehouse and fulfillment network delivered a 100bps distribution cost reduction⁹ YoY and improved customer delivery, notwithstanding significant cost inflation across global logistics.
- Increased administrative costs reflect temporary investment in headcount primarily following the acquisitions made in the prior year, plc governance costs, and industry wide marketing cost per click inflation.
- Adjusted EBITDA of £36.1m (H1 2021: £81.2m) before £3.8m charge from adoption in H1 2022 of the IFRIC covering SaaS costs, leaving reported adjusted EBITDA of £32.3m. This earning reduction is mainly driven by the stated strategy to limit the consumer pass through of commodity cost increases to prioritise retention and growth in the global customer base.
- The Group incurred an operating loss of £89.2m impacted by certain non-recurring costs, which continue to reduce (20.0% YoY):
 - o £11.3m of incremental international delivery costs, predominantly in Asia, due to the absence of traditional delivery routes and elevated costs
 - o £2.1m of Distribution costs relating to the commissioning of purpose-built new fulfillment facilities
 - o £9.5m of Administrative costs (principally related to the divisional reorganisation and acquisition integration costs).

¹ YoY defined as year-on-year statutory sales growth

² CCY defined as constant currency basis

³ Gross Margin % is presented before the impact of depreciation and amortisation

⁴ Adjusted EBITDA is defined as operating profit before depreciation, amortisation, share-based payments and adjusted items

⁵ To remove Software-as-a-Service costs "SaaS" which have been recognised within administrative expenses in H1 2022 following the IFRIC agenda decision. Presentational change with no incremental change to cashflow

⁶ See CFO report page 10 for a reconciliation to adjusted EBITDA

⁷ Net (Debt) / Cash is cash and cash equivalents less debt before lease liabilities, on a hedged basis (see note 7)

⁸ Number of mobile apps downloaded since launch in 2020

⁹ 100bps reflects the reduction in distribution costs as a percentage of revenue

Balance sheet and cash

- Cash on hand of £266m and an undrawn £170m RCF at the period end. A net working capital outflow in H1 is typical, with an additional c.£75m one-off cash investment principally for inventory in the new warehouse

facilities and accelerated supplier payments in H1 2022. With seasonal peak trading ahead, H2 2022 is expected to be cash generative as in previous years, with inventory lower at the year-end vs prior year.

- Year-end cash of c.£500m expected, including completion of credit approved three-year term £156m banking facility and non-core freehold asset disposal (£44m)¹⁰.
- Following significant investment in its global infrastructure network and through ongoing project delivery efficiencies, the Group anticipates capex in FY 2023 of c.5.0% of revenue.
- The Group therefore remains on track to becoming broadly free cash flow neutral in FY 2023 and significantly free cash flow positive in FY 2024.

<i>Illustrative cash items</i>	FY 2022	FY 2023
Working Capital	Neutral	Modest inflow
Adjusting Items	c.£60m	c.£15m - £20m
Capex (net of disposals)	c.£150 - £160m	c.5.0% of revenue
Financing and Tax	c.100m	In line with 2022
Free Cash Flow	Negative	Broadly neutral

¹⁰ See CFO report page 13

Matthew Moulding, CEO of THG, commented:

"I'm proud to report the Group achieved record H1 revenues of £1.1bn, delivering +12.3% growth against a challenging global backdrop, alongside a strong prior year performance during lockdown. The Group continues to deliver significant infrastructure development, which in turn has supported market share growth through improved localised service as well as substantial operational savings. The first half of this year saw continued strong customer metrics, with active Beauty and Nutrition customers now 113% higher on a three-year basis.

"Our highly engaged, global customer base, with high repeat rates, is a key asset of the business. Recently achieving 10 million app downloads from launch in early 2020, further strengthens the Group's relationship with consumers and our first party data advantage.

"Against the tough macro-economic backdrop, we have prioritised our loyal customer base, over maximising near term gross margins focusing on retention and growth of consumers. The strength, resilience and agility of our vertically-integrated business model, coupled with automation, has enabled us to significantly invest in price protection for consumers currently facing unprecedented cost-of-living challenges.

"Supporting our consumers through 2022 has been offset through reducing 2023 capex, with the Board viewing this investment as yielding a better return for shareholders and consumers alike in the near term.

"With a strong balance sheet and category leading positions within substantial end markets that continue to benefit from long-term structural growth, we have confidence in our ability to deliver long-term value for shareholders and remain on track to be cashflow positive in 2024."

Continued substantial strides towards building strong global consumer brands

- As pandemic restrictions have lifted across most of the world, consumers are welcoming the return to normality, creating increased usage occasions, despite inflationary pressures.
- Continued demand from highly engaged customers with over one billion visitors to the Group's websites during the last 12 months and a 16 million strong social media community supporting AOV's (THG Beauty +7% YoY, THG Nutrition +9% YoY).
- THG Beauty has doubled in size since the IPO, including a 50% increase in brand partners and successfully integrating US based Dermstore and Cult Beauty in the UK. The addition of Bentley Labs in the US in June 2021 enhanced the Group's new product development and production capabilities within North America, providing a faster product development platform to THG's own beauty brand portfolio.
- The Nutrition division continues to expand into adjacent markets through localisation and category expansion, with innovative new product ranges supporting growth in active customers by 69% vs H1 2019.

- The recent US launch of the 'Whey Forward', an animal-free whey protein alternative emphasises the advantages of a vertically-integrated model in delivering sustainable solutions whilst mitigating exposure to commodity costs.
- Collaborating with major brands and influencers continually raises brand awareness, with Myprotein recently agreeing to enter the frozen category through a major licensing partnership with Iceland Foods initially through >1,000 stores in the UK, international franchises and online.
- The divisional reorganisation gives each division maximum strategic optionality moving forward.

THG Ingenuity update

- Despite capital hesitancy across enterprise and SMB clients against an inflationary macro-economic backdrop, the long-term outlook for e-commerce penetration remains very positive.
- Ingenuity is now firmly endorsed as the partner to deliver digital growth ambitions for enterprise clients with 44% of 2020 clients adding more services, and over 70% of live sites operating in major territories, supported by a >30% expansion of the global logistics network.
- 7 out of the top 20 food and beverage brands are now partnering with Ingenuity, demonstrating its multi-category reach (including General Mills, Mondelez International, Kraft Heinz, Nestle and Coca-Cola European Partners).
- Average recurring revenue per website and Annual Revenue Run-Rate in Q2 2022 broadly in line with prior quarter (£0.16m), with seasonal uplift in Gross Merchandise Value processed over the peak trading period elevating the Q4 2021 position.

	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021
Number of live client websites ¹¹	212	202	187	163	133
Average recurring revenue per website ¹² (£m)	0.16	0.16	0.24	0.17	0.17
Recurring Revenue % ¹³	76%	76%	72%	59%	55%
Annual Revenue Run-Rate ¹⁴ (£m)	49	51	61	44	37

- Growth strategy remains; i) New customer growth within FMCG, food and beverage, and retail categories, ii) Expanded share of commerce spend from existing clients, and iii) Deployment of productised solutions across fulfilment, fraud detection and digital media & content.
- New CEO of THG Ingenuity, Vivek Ganotra, who joined the Group in Q2 2022, brings significant experience in technology, operations and digital commerce from previous roles at Salesforce (Chief Customer Officer, UK) and British American Tobacco over the last 20 years.

¹¹ Number of websites defined as website with a specific domain name/URL live at the end of the period

¹² Average recurring revenue per website is presented on an annual basis

¹³ Based on total Ingenuity Commerce revenue

¹⁴ Annual Revenue Run-rate is based on annualised recurring revenue in the quarter and trailing 12 months non-recurring revenue

Corporate Governance

The Group's intention to step-up to the Premium segment of the Main Market of the London Stock Exchange remains, with timing subject to the outcome of an FCA review for reform of the listing regime expected in 2023.

In a separate announcement today, the Board has also made changes to its composition.

FY 2022 outlook and guidance

- Earlier this year, the Board set out growth plans for the Group to deliver FY 2022 revenue growth of +19.0% to +24.0% (c.1.0% impact from Russia and Ukraine market exits), with adjusted EBITDA broadly in-line with prior year (FY 2021 £161m).
- Whilst H1 revenue growth of +12.3% and stable consumer metrics gives us confidence for H2 sales growth, the cost of rising interest rates and energy are expected to place pressure on consumers.
- Despite this outlook, the Group anticipates a strong H2, with another period of double-digit growth. This performance is expected to be supported by increasing growth rates in both Nutrition and Ingenuity,

- comparatives easing, stable AOV's, new customer acquisition and repeat rates.
- Pricing power across THG's own brands allows inflation to be partially mitigated through increased prices, albeit the Group remains committed to raise slower and lower than inflation to protect consumers and drive market share gains.
 - Whilst inflation is easing in core areas such as commodities, the majority of margin benefits will be realised in the fourth quarter due to forward buying plans. Therefore the Group now expects FY 2022 adjusted EBITDA between a range of £100m to £130m pre SaaS cost reclassification reflecting:
 - o Revenue growth of +10.0% to +15.0%;
 - o Stated strategy of raising prices at a lower rate to underlying input costs to drive retention and market share gains;
 - o Incremental energy cost inflation, weighted to the second half due to phasing of market price increases;
 - o c.£8m of SaaS costs (see footnote 5).
 - Cash adjusting items continue to reduce, reflecting final phases of warehouse commissionings and acquisition integrations, underpinning an expected c.50% reduction in H2 vs prior year.

FY 2023 and medium term outlook

- Global economic forecasts predict the outlook for consumers will remain challenging. Online penetration of beauty, health and wellness markets is c.25% globally, and we expect continued long-term channel shift as lockdown comparatives fall away. This is supported by data insights as to the behaviour of recently acquired customer cohorts across the business.
- Medium term constant currency revenue growth guidance of between +20.0% to +25.0% is reiterated, confidence underpinned by track record of outperformance and market share growth.
- The Board remain confident of a return to 9.0%+ adjusted EBITDA margins in the medium term, and strong progression into FY 2023 through:
 - o Operating leverage;
 - o Gross margin recovery as the consumer price protection strategy in H1 2022 normalises over the next 24 months, largely driven by lower average whey input prices;
 - o Over £30m annualised impact of infrastructure, procurement and payroll efficiencies, largely identified and delivered through the Group's divisional reorganisation; and
 - o A strong Ingenuity pipeline and continued endorsement of the proposition through; i) an expanded enterprise client base, ii) new vertical penetration, and iii) further share of digital spend from existing clients.

Analyst and investor conference call

THG will today host a conference call and webcast for analysts and institutional investors at 9.00am (UK time) via the following links:

To register for the webcast, please use the below link:

<https://stream.brrmedia.co.uk/broadcast/62fa5b12b629a70556525263>

To ask questions, you must dial in via conference line using the below details:

- Confirmation code: 3361798
- UK dial in: +44 (0)800 279 6877
- US dial in: +1 800 289 0720

A playback of the presentation will be available on THG's investor website at www.thg.com/investor-relations later today.

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Notes to editors

THG is a vertically integrated, digital-first consumer brands group, retailing its own brands in beauty and nutrition, plus third-party brands, via its proprietary, end-to-end, e-commerce technology, infrastructure and brand-building platform (THG Ingenuity) to an online and global customer base. THG's business is operated through the following businesses:

THG Beauty: The globally pre-eminent digital-first brand owner, retailer and manufacturer in the prestige beauty market, combining its prestige portfolio of eight owned brands across skincare, haircare and cosmetics, the provision of a global route to market for over 1,300 third-party beauty brands through its portfolio of websites, including Lookfantastic, Dermstore, Cult Beauty and Mankind and the beauty subscription box brand GLOSSYBOX.

THG Nutrition: A group of digital-first Nutrition brands, which includes the world's largest online sports nutrition brand Myprotein, and its family brands (Myvegan, Myvitamins, MP Clothing and Myprotein Pro), with a vertically-integrated business model, supported by six THG production facilities.

THG Ingenuity: Ingenuity Commerce provides an end-to-end direct to consumer e-commerce solution for consumer brand owners under 'Software as a Service' (SaaS) licences. The wider Ingenuity division provides stand-alone digital services, including hosting, studio content, translation services and beauty product development and manufacturing.

THG OnDemand: Personalisation and customisation is a key offering within THG OnDemand, enabling brands to offer unique products to a vast range of consumers across THG's global territories through websites including Zavvi, IWOOT and Pop in a Box.

Other: Luxury D2C websites including Coggles, AllSole and MyBag, in addition to THG Experience. The latter comprises prestige events locations at Hale Country Club & Spa, King Street Townhouse Hotel and Great John Street Hotel, providing deeply experiential brand building environments, most notably in support of THG Society, the Group's proprietary influencer marketing platform.

Cautionary Statement

Certain statements included within this announcement may constitute "forward-looking statements" in respect of the group's operations, performance, prospects and/or financial condition. Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words and words of similar meaning as "anticipates", "aims", "due", "could", "may", "will", "should", "expects", "believes", "intends", "plans", "potential", "targets", "goal" or "estimates". By their nature, forward-looking statements involve a number of risks, uncertainties and assumptions and actual results or events may differ materially from those expressed or implied by those statements. Accordingly, no assurance can be given that any particular expectation will be met and reliance should not be placed on any forward-looking statement. Additionally, forward-looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. No responsibility or obligation is accepted to update or revise any forward-looking statement resulting from new information, future events or otherwise. Nothing in this announcement should be construed as a profit forecast. This announcement does not constitute or form part of any offer or invitation to sell, or any solicitation of any offer to purchase any shares or other securities in the Company, nor shall it or any part of it or the fact of its distribution form the basis of, or be relied on in connection with, any contract or commitment or investment decisions relating thereto, nor does it constitute a recommendation regarding the shares or other securities of the Company. Past performance cannot be relied upon as a guide to future performance and persons needing advice should consult an independent financial adviser. Statements in this announcement reflect the knowledge and information available at the time of its preparation.

THG PLC

Interim results for the half-year ending 30 June 2022

Chief Financial Officer Review

The Group made substantial progress in the first half of 2022 against a challenging backdrop with half year revenue exceeding £1bn for the first time. The Group delivered an increase in revenue of 12.3% (11.9% on a constant currency basis), an encouraging performance given prior year lockdown comparatives and market uncertainty for consumers given the macro-economic environment.

	Six months ended 30 June 2022			Six months ended 30 June 2021		
	Before Adjusted Items	Adjusted Items	Total	Before Adjusted Items	Adjusted Items	Total
	£'000	£'000	£'000	£'000	£'000	£'000
CONSOLIDATED INCOME STATEMENT						
Revenue	1,076,762	-	1,076,762	958,830	-	958,830
Cost of sales	(634,221)	-	(634,221)	(521,418)	-	(521,418)
Gross profit	442,541	-	442,541	437,412	-	437,412
Distribution costs	(186,495)	(13,418)	(199,913)	(171,912)	(15,566)	(187,478)
Administrative costs	(322,351)	(9,473)	(331,824)	(254,284)	(13,043)	(267,327)
Operating (loss)/profit	(66,305)	(22,891)	(89,196)	11,216	(28,609)	(17,393)
FINANCIAL SUMMARY: Adjusted profit measures						
Gross profit (before depreciation and amortisation)	452,881	-	452,881	446,271	-	446,271
Distribution costs (before depreciation and amortisation)	(174,187)	(13,418)	(187,605)	(164,683)	(15,566)	(180,249)
Administrative costs (before depreciation, amortisation and share-based payments)	(246,375)	(9,473)	(255,848)	(200,373)	(13,043)	(213,416)
EBITDA	32,319	(22,891)	9,428	81,215	(28,609)	52,606
Depreciation	(45,732)	-	(45,732)	(28,554)	-	(28,554)
Amortisation	(52,319)	-	(52,319)	(41,445)	-	(41,445)
Share-based payments	(573)	-	(573)	-	-	-
Operating (loss)/profit	(66,305)	(22,891)	(89,196)	11,216	(28,609)	(17,393)

Note The table above shows financial results for gross profit, distribution costs and administrative costs before the impact of depreciation, amortisation and share-based payments, which are shown as separate lines below EBITDA. For statutory presentation, cost of sales includes charges of £10.3m (2021: £8.9m), while distribution and administrative costs include £12.3m (2021: £7.2m) and £76.0m (2021: £53.9m) of depreciation, amortisation and share-based payment charges respectively.

Revenue

Group revenues increased 12.3% to £1,077m (H1 2021: £959m) and 11.9% on a constant currency basis, culminating in 2-year total sales growth of 64.0% (constant currency). THG Beauty delivered the strongest growth at 20% year-on-year to £553m. THG Beauty sales represented 51% of Group sales (H1 2021: 48%).

Growth in the first half of 2022 included the contribution of several 2021 acquisitions including Cult Beauty and Bentley Labs.

3-year organic sales growth^[15] (which normalises the impact of the pandemic) was over 60% in both THG Beauty, THG Nutrition and as a Group for H1, in line with medium term guidance provided at IPO.

THG Nutrition sales grew 1.1% year on year to £332m, with challenging commodity prices and FX providing headwinds, as well as a particularly strong comparative period due to online retail benefitting, in H1 2021, from the closure of physical retail stores. THG Ingenuity revenues grew 21.4% year-on year to £104m in the first half, with the Ingenuity Commerce division growing 25.1%.

International sales accounted for 57% (H1 2021: 59%) of total Group revenue. US businesses Dermstore and Bentley were acquired in February 2021 and June 2021 respectively and have now annualised and, along with the double digit international sales growth in THG Nutrition, contributed to the 20% US sales participation for the Group in H1 2022. The UK delivered sales growth in excess of the Group growth rate reinforcing our strong position and continued consumer demand in one of our core markets.

Ingenuity Commerce revenue of £22.9m (H1 2021: £18.3m) includes recurring revenue of 76% (H1 2021: 55%). Recurring revenue includes Software-as-a-Service (SaaS) licence fees, monthly brand building fees, infrastructure service fees, revenue share and a number of additional services such as translation and creative services. The strong recurring revenue participation growth illustrates the strength of the underlying model, with non-recurring revenue impacted by clients' capital hesitancy given the macro-economic backdrop. Non-recurring revenue includes one-time technology fees covering the costs of the design and development of the website along with integration fees for bringing partners onto the Ingenuity platform. Whilst these are non-recurring on a site-by-site basis, we consider that such fees will be received in future periods as our clients expand their offering and as our technology offering continues to evolve.

¹⁵

3-year organic sales growth defined as the increase in revenue excluding all acquisitions made post June 2019

Gross profit

Gross profit increased to £443m from £437m with a margin of 41.1% (H1 2021: 45.6%) on a statutory basis. Gross profit (before depreciation and amortisation) was £453m equating to a gross profit margin of 42.1%, which was 440bps lower

period on period.

In the first half of 2022, gross margin has been impacted by the many well-documented macro-economic factors impacting the markets in which the Group operates. The environment in H1 2022 has been unusual with elevated commodity pricing (both commodity whey pricing, and other indirect raw ingredients), foreign exchange headwinds (principally Japanese Yen) and wider inflation following on from Covid-19 impact and subsequently the war in Ukraine. As management considers the majority of these headwinds to be transitional in nature, the Group has invested in margin, primarily in consumer price protection to protect the customer as much as possible, which is evident in the reduction in margin delivered.

Operating expenses

Distribution costs (before adjusted items, depreciation and amortisation) reduced as a percentage of sales by 100bps compared to H1 2021, culminating in a cost of £174m (H1 2021: £165m), which is 16.2% of revenue. This strong performance has been driven by the Group's investments in automation that have driven cost efficiencies across the global fulfilment network, including THG's first automated robotic (AutoStore) facility in Manchester. This reduction in distribution costs is against a market backdrop with many peers suffering the impact of inflationary pressures in fulfilment.

Administrative costs (before adjusted items, depreciation, amortisation and share-based payments) as a percentage of revenue, increased by 198bps period-on-period driven by several factors including one-time investment in governance and infrastructure investment that provides the foundations for future growth. The Group has also invested in payroll to support acquisition integration and to expand the Ingenuity Commerce offering, which will provide operational leverage over time. Marketing paid media costs have experienced well-documented inflationary pressures partially offset by technology focused marketing and the Group's influencer focused model.

Administrative expenses in H1 2022 also include £3.8m of costs relating to services rendered under SaaS arrangements following the IFRIC agenda decision. These costs were capitalised in the prior period, so provide a complete headwind period-on-period.

Adjusted EBITDA

Adjusted EBITDA fell to £32m (£36m pre SaaS costs) from £81m. This represents a margin of 3.0% (H1 2021: 8.5%) reflective of the challenging environment that we have seen in H1 2022 and the Group's strategy to, as far as possible, protect consumers from these inflationary pressures, FX, together with administrative cost inflation across payroll and marketing.

Adjusted EBITDA is an alternative performance measure, the below table reconciles back to the nearest appropriate GAAP measure, operating loss:

£'000	Six months ended 30 June 2022	Six months ended 30 June 2021
Operating loss	(89,196)	(17,393)
Adjustments for:		
Adjusted items	22,891	28,609
Depreciation	45,732	28,554
Amortisation	52,319	41,445
Share-based payments	573	-
Adjusted EBITDA	32,319	81,215

Depreciation and amortisation

Total depreciation and amortisation costs were £46m and £52m respectively (H1 2021: £29m and £41m) an increase of 40.1% on the prior period, as THG invested £39m in intangible assets, primarily its proprietary technology platform during the period and £44m in its operations and state of the art warehousing facilities included commissioning of the Autostore. Depreciation charges increased period-on-period reflecting the full period impact of the right of use assets acquired from business combinations in 2021. Amortisation charges increased again reflecting the full period impact of the additional intangible assets that arose from the acquisitions in 2021.

Adjusted items

In order to understand the underlying performance of the Group, certain costs included within distribution, administrative and finance costs have been classified as adjusted items. These items principally relate to acquisition-related restructuring and integration costs, transportation, delivery and fulfilment cost increases in relation to Covid-19. All material classes of adjusted items reduced period-on-period.

The largest cost included within adjusted items is transportation, delivery and fulfilment costs in relation to Covid-19. The excess cost continuing across accounting periods is driven by the continued lockdowns experienced in Asia which still affect air traffic and key shipping lanes. As the effects of the pandemic lessen and the lockdowns in Asia ease, the service providers will no longer need to charge such excess costs. In addition, integration costs of £6m were also incurred in relation to the 2021 acquisitions. Cult Beauty was acquired in August 2021 and the integration was a key focus of H1 2022. Restructuring costs relate to the separation of the divisional structure, with costs expected to decrease in H2 2022.

Six months ended 30 June 2022	Six months ended 30 June 2021
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	£'000	£'000
Within Distribution costs		
Transportation, delivery and fulfilment costs in relation to Covid-19	11,332	12,687
Commissioning - new facilities	2,086	2,879
	13,418	15,566
Within Administrative costs		
Acquisitions - legal and professional costs	-	7,578
Acquisitions - restructuring and integration	6,169	2,824
Restructuring costs	2,943	1,551
Donations	361	1,090
	9,473	13,043
Within Finance costs		
Softbank option - non-cash	(601)	38,120
Total adjusted items before tax	22,290	66,729
Tax impact	(3,797)	(2,958)
Total adjusted items	18,493	63,771

For full details on each category of adjusted item see note 3 to the financial statements.

Operating loss

The Group incurred an operating loss in the period of £89m (H1 2021: £17m). The loss was as a result of the challenging macro-economic environment, underlying cost price inflation, commodity and foreign exchange headwinds.

Additionally, administration costs (before adjusted items, depreciation, amortisation and share-based payments) increased from 20.9% of revenue in H1 2021 to 22.9% of revenue in H1 2022 as explained earlier.

Operating loss before adjusted items totals £66m (H1 2021: profit of £11m). This decrease is due to the impact of the increase in costs and the stated strategy to limit the consumer pass through of inflationary pressures as set out above. This is consistent across the industries we operate in and management considers many of these costs transitional in nature.

Finance costs

Adjusted finance costs have decreased to £20m (H1 2021: £26m) driven by a lower effective interest rate on the Group's principal debt, the €600m Term Loan B.

Statutory finance costs have decreased to £20m (H1 2021: £64m) which is driven by the former and the non-cash adjusted item relating to the valuation of the SBM option that has decreased from a charge £38.1m in H1 2021 to a credit of £0.6m at the end of the half year. The change in valuation is due to the option being revalued to £nil at 30 June 2022.

Loss before tax and tax rate

Reported loss before tax was £108m (H1 2021: £81m). The effective tax rate is 1.7% (H1 2021: -0.6%) generating a total tax credit of £1.8m (H1 2021: charge £0.7m). The effective tax rate differs from the average statutory rate of 19%. This is primarily due to a movement in deferred tax not recognised (-21.8%), the impact of the substantively enacted UK tax rate change from 19% to 25% on deferred tax (6.6%), and expenses not deductible (-1.2%). The non-deductible expenses principally comprise of the share-based payments charge and costs included within adjusted items associated with the group restructure exercise.

At 30 June 2022, the total deferred tax liability is £71m mainly driven by the deferred tax in respect of previous business combinations of £142m. As a result, a portion of the deferred tax assets arising in the period of £78m can be recognised while £32m remains unrecognised at the balance sheet date. This deferred tax asset recognition has a material impact on the income statement tax credit and is the primary reason for the effective tax rate falling below the statutory rate. The income statement tax credit is a non-cash item.

Earnings per share

Loss per share was (£0.09) per share (H1 2021: £(0.08) per share).

Balance sheet

Cash and cash equivalents and net cash before lease liabilities

	30 June 2022	30 June 2021	31 December 2021
	£'000	£'000	£'000
Loans and other borrowings	(502,099)	(504,019)	(489,865)
Lease liabilities	(363,805)	(318,352)	(349,173)
Cash and cash equivalents	265,661	878,549	536,827
Sub-total	(600,243)	56,178	(302,211)
Adjustments:			
Retranslate debt balance at swap rate where hedged by foreign exchange derivatives	10,871	10,046	(2,548)
Net (debt) / cash	(589,372)	66,224	(304,759)
Net (debt) / cash before lease liabilities	(225,567)	384,576	44,414

The Group's balance sheet remains robust closing the period with cash balances of £266m (H1 2021: £879m, 31 December 2021: £537m). All debt facilities are long-dated, with the €600m Term Loan B maturing in 2026.

Net debt before lease liabilities and adjusted for the impact of hedging was £226m (H1 2021 net cash: £385m, 31 December 2021: net cash £44m). The reduction period on period is driven by the investment in property plant and equipment, leases and intangible assets in the period totalling £107m and working capital outflows totalling £156m which are expected in H1 with the seasonality of the business.

The Group revolving credit facility of £170m remains undrawn.

The total cash outflow for the period was £271m (H1 2021: inflow £105m). This outflow is driven largely by working capital movements which generated a net cash outflow of £157m (H1 2021: outflow of £66m). A seasonal working capital outflow in H1 is typical for THG as the group settles peak stock purchases made in Q4 of the previous year. The Group then typically generates a working capital inflow in H2 with peak trading in the second half of the year. The cash outflow in H1 2022, was higher than that of the prior periods by c.£75m. This was principally driven by the one-off cash investment in stock build in Q4 2021 to stock new warehouses, whilst the Group has also accelerated supplier payments both by normalising payments on acquisitions and from internal process improvement, which has reduced creditor days. The Group plans to exit 2022 with less stock than it held at the end of 2021.

As part of investing and growing the infrastructure of the Group and the distribution network, there has also been investment in property plant and equipment and intangible assets (primarily the Ingenuity platform) totalling a cash outflow of £87m (H1 2021: £90m). The expanded global distribution infrastructure and automation is delivering operating efficiencies during a substantial cost inflationary period, and further working capital improvements over the near-term.

In H1 2021, there was a cash outflow of £498m for acquisition of subsidiaries and £730m cash inflow from share issuance. Neither of these items recurred in H1 2022.

In September 2022, the Group entered exclusivity upon agreed terms for the sale of a non-core freehold asset¹⁶ for net cash proceeds of £44m. The Group is also credit approved to enter a new three-year term £156m banking facility provided by existing banking partners. This new facility is in addition to the Group's existing banking facilities.

Property plant and equipment and intangible assets

Property plant and equipment totalled £359m (H1 2021: £290m, 31 December 2021: £336m) with intangible assets including goodwill increasing to £1,558m (H1 2021: £1,213m 31 December 2021: £1,506m). The increase was driven primarily by additional investment in the THG Ingenuity platform and continued investment in the group warehouse expansion programme which is now nearing completion. These were offset by the depreciation and amortisation charges incurred.

Going concern

The Group remains in a strong cash position with cash and cash equivalents totalling £266m (H1 2021: £879m). Net debt before lease liabilities at this date totalled £226m (H1 2021: net cash before lease liabilities £385m). At 30 June 2022, the Group had a total of £170m in undrawn facilities.

In making their assessment of going concern, the Directors reviewed financial projections until 30 September 2023. Stress test scenarios were modelled to take into account severe but plausible impacts of a combination of the principal risks occurring simultaneously, as well as a reverse stress test.

Given the ongoing uncertainty in the macro-economic market, inflation, ongoing war in Ukraine and the global Covid-19 recovery, Management modelled stress tests across multiple scenarios. These included adjusting for decrease in revenue (both direct to consumer and business to business markets), increase in cost base across key inputs being commodity prices, utilities and payroll and the impact of a decline in working capital efficiency. The results of stress testing demonstrated that the combination of mitigating actions available including existing cash resources, level of discretionary spend, working capital optimisation and ability to utilise the RCF were sufficient for the Group to withstand such impacts.

A reverse stress test was modelled to identify the point at which liquidity is exhausted. The model would have to see a significant decline in revenue and margins compared with the stress test set out above. Such a scenario, and the sequence of events which could lead to it, is considered to be extremely remote.

For these reasons, the Directors continue to adopt the going concern basis in preparing these condensed interim financial statements.

¹⁶ The asset will be subject to a sale and leaseback with a back to back sub-lease of part of the demise

Responsibility statement of the directors in respect of the condensed interim financial statements

We confirm that to the best of our knowledge:

- the condensed set of financial statements for the half year ended 30 June 2022 has been prepared in accordance with UK adopted IAS 34 Interim Financial Reporting;
- the interim management report includes a fair review of the information required by:
 - o DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the 2022 financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - a. DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Matthew Moulding
Chief Executive Officer
14 September 2022

John Gallemore
Chief Financial Officer
14 September 2022

Interim condensed consolidated statement of comprehensive income for the six months ended 30 June 2022

		30 June 2022	30 June 2021
	Note	£'000	£'000
Revenue	2	1,076,762	958,830
Cost of sales		(634,221)	(521,418)
Gross profit		442,541	437,412
Distribution costs		(199,913)	(187,478)
Administrative costs		(331,824)	(267,327)

Operating loss		(89,196)	(17,393)
Finance income		792	112
Finance costs		(19,782)	(64,058)
Loss before taxation		(108,186)	(81,339)
Income tax credit/(charge)	4	1,835	(713)
Loss for the financial period		(106,351)	(82,052)
Other comprehensive expense:			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translating foreign operations, net of tax		76,201	(18,637)
Net gain on cash flow hedges		10,399	7,328
Total comprehensive expense for the financial period		(19,751)	(93,361)
Loss per share (£'s)			
Basic		(0.09)	(0.08)
Diluted		(0.09)	(0.08)

Earnings before interest, taxation, depreciation, amortisation, impairment, adjusted items and share-based payment charges (Adjusted EBITDA)

		30 June 2022	30 June 2021
	Notes	£'000	£'000
Operating loss		(89,196)	(17,393)
Adjustments for:			
Amortisation	6	52,319	41,445
Depreciation	6	45,732	28,554
Adjusted items	3	22,891	28,609
Share-based payments	5	573	-
Adjusted EBITDA*		32,319	81,215

(*) Adjusted EBITDA is defined as operating loss before depreciation, amortisation, adjusted items and share-based payments. The results for the period are derived from continuing activities. The comprehensive expense is 100% attributable to the owners of the Parent Company.

Interim condensed consolidated statement of financial position as at 30 June 2022

		30 June 2022	30 June 2021	31 December 2021
	Note	£'000	£'000	Audited £'000
Non-current assets				
Intangible assets	6	1,557,266	1,212,671	1,506,292
Property, plant and equipment	6	359,257	290,055	335,620
Right-of-use assets	6	319,799	274,990	310,282
Investments		1,400	-	1,400
		2,237,722	1,777,716	2,153,594
Current assets				
Inventories		456,443	358,400	466,781
Trade and other receivables		267,508	263,622	263,929
Other financial assets		14,451	4,338	2,700
Cash and cash equivalents	7	265,661	878,549	536,827
		1,004,063	1,504,909	1,270,237
Total assets		3,241,785	3,282,625	3,423,831
Equity				
Ordinary shares		6,808	6,684	6,684
Share premium		2,023,081	2,022,842	2,022,311
Merger reserve		615	615	615
Capital redemption reserve		523	523	523
Hedging reserve		(5,715)	(13,825)	(12,964)
Cost of hedging reserve		16,844	10,492	13,694
FX Reserve		75,107	(19,459)	(1,094)
Retained earnings		(379,782)	(217,993)	(274,015)
		1,737,481	1,789,879	1,755,754
Non-current liabilities				
Borrowings		500,753	500,598	489,113
Derivative financial liabilities		-	39,914	-
Lease liabilities		316,681	281,395	305,831
Provisions	9	16,772	-	15,623

Deferred tax	70,695	70,218	73,766
	904,901	892,125	884,333
Current liabilities			
Contract liability	39,314	41,227	36,143
Trade and other payables	493,338	507,262	676,563
Borrowings	1,346	3,421	752
Current tax liability	5,573	1,092	4,118
Lease liabilities	47,124	36,957	43,342
Other financial liabilities	10,008	10,039	21,943
Provisions	9	2,700	623
	599,403	600,621	783,744
Total liabilities	1,504,304	1,492,746	1,668,077
Total equity and liabilities	3,241,785	3,282,625	3,423,831

Interim condensed consolidated statement of changes in equity for the six months ended 30 June 2022

	Ordinary shares	Share premium	Merger reserve	Capital Redemption reserve	FX reserve	Hedging reserve	Cost of Hedging reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2022	6,684	2,022,311	615	523	(1,094)	(12,964)	13,694	(274,015)	1,755,754
Loss for the period	-	-	-	-	-	-	-	(106,351)	(106,351)
Other comprehensive expense:									
Impact of foreign exchange	-	-	-	-	76,201	-	-	-	76,201
Movement on hedging instruments	-	-	-	-	-	7,249	3,150	-	10,399
Total comprehensive expense for the period	-	-	-	-	76,201	7,249	3,150	(106,351)	(19,751)
Issue of ordinary share capital	124	770	-	-	-	-	-	-	894
Share-based payments	-	-	-	-	-	-	-	573	573
Deferred tax effect in equity	-	-	-	-	-	-	-	11	11
Balance at 30 June 2022	6,808	2,023,081	615	523	75,107	(5,715)	16,844	(379,782)	1,737,481
Balance at 1 January 2021	6,061	1,287,171	615	523	(822)	(18,003)	7,342	(138,361)	1,144,526
Loss for the period	-	-	-	-	-	-	-	(82,052)	(82,052)
Other comprehensive expense:									
Impact of foreign exchange	-	-	-	-	(18,637)	-	-	-	(18,637)
Movement on hedging instruments	-	-	-	-	-	4,178	3,150	-	7,328
Total comprehensive expense for the period	-	-	-	-	(18,637)	4,178	3,150	(82,052)	(93,361)
Issue of ordinary share capital	623	735,671	-	-	-	-	-	-	736,294
Deferred tax effect in equity	-	-	-	-	-	-	-	2,420	2,420
Balance at 30 June 2021	6,684	2,022,842	615	523	(19,459)	(13,825)	10,492	(217,993)	1,789,879

Interim condensed consolidated statement of cash flows for the six months ended 30 June 2022

		30 June 2022	30 June 2021
	Note	£'000	£'000
Cash flows from operating activities before adjusted cash flows			
Cash (used in)/generated from operations	8	(124,622)	15,267
Income tax paid		(1,510)	(641)
Net cash (used in)/generated from operating activities before adjusted cash flows		(126,132)	14,626
Cash flows relating to adjusted items		(27,293)	(25,144)
Net cash used in operating activities		(153,425)	(10,518)

Cash flows from investing activities		
Acquisition of subsidiaries net of cash acquired	309	(497,614)
Purchase of property, plant and equipment	(46,646)	(48,443)
Purchase of intangible assets	(39,706)	(41,183)
Interest received	792	112
Net cash used in investing activities	(85,251)	(587,128)
Cash flows from financing activities		
Proceeds from issuance of ordinary shares net of fees	(18)	730,261
Interest paid	(9,183)	(12,701)
Repayment of lease liabilities	(23,289)	(14,946)
Net cash flow (used in)/generated from financing activities	(32,490)	702,614
Net (decrease)/ increase in cash and cash equivalents	(271,166)	104,968
Cash and cash equivalents at the beginning of the period	536,827	773,581
Cash and cash equivalents at the end of the period	265,661	878,549

Notes to the interim condensed consolidated financial statements

1. Basis of preparation

a. General information

THG PLC (company number 06539496) is a public company limited by shares and incorporated in England and Wales. It has a standard listing on the London Stock Exchange and is the holding company of the Group. The address of its registered office is 5th Floor, Voyager House, Chicago Avenue, Manchester Airport, Manchester, England, M90 3DQ. The Company is the parent and the ultimate parent of the Group, the financial statements comprises the results of the Company and its subsidiaries ("the Group").

The interim condensed consolidated financial statements of the Group for the six months ending 30 June 2022 were authorised for issue in accordance with a resolution of the directors on 14 September 2022.

The annual financial statements for the year ended 31 December 2022 of the Group will be prepared in accordance with UK adopted IFRSs.

b. Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2022 have been prepared in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority. The financial statements have been prepared on the historical cost basis, except for derivatives which are held at fair value. The Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements of the Group.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2021. As disclosed in note 1a, the annual financial statements of the Group will be prepared in accordance with UK adopted IFRSs.

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021, except for the adoption of new standards effective as of 1 January 2022. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments apply for the first time in 2022, but do not have an impact on the interim condensed consolidated financial statements of the Group.

Going concern

The Group remains in a strong cash position with cash and cash equivalents totalling £265.7m (H1 2021: £878.5m). Net debt before lease liabilities at this date totalled £225.6m (H1 2021: net cash before lease liabilities £384.6m). At 30 June 2022, the Group had a total of £170m in undrawn facilities.

In making their assessment of going concern, the Directors reviewed financial projections until 30 September 2023. Stress test scenarios were modelled to take into account severe but plausible impacts of a combination of the principal risks occurring, as well as a reverse stress test. The results of stress testing demonstrated that the combination of mitigating actions available including existing cash resources, level of discretionary spend and ability to utilise the RCF were sufficient for the Group to withstand such impacts. For these reasons, the Directors continue to adopt the going concern basis in preparing these condensed interim financial statements.

c. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, management is required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. In preparing these interim financial statements, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those applied to the Group's annual consolidated financial statements for the year ended 31 December 2021. The judgement in respect of accounting for the Softbank Management ("SBM") option valuation is not applicable in the current period given that the option value at 30 June 2022 is £nil.

2. Segmental reporting and revenue

The Directors have assessed the criteria and considerations under IFRS 8 'Operating Segments', in order to identify operating segments within the Group. In line with previous periods, the Directors concluded that the Group had one segment as the THG Ingenuity platform underpins the Groups operations and intra-Group charges for the platform, fulfilment and distribution services are not yet recharged. Given the changes in H2 2021 and H1 2022 to strengthen the governance across the Group, the Chief Operating Decision Maker (CODM) has been concluded to be the Board (Executive Directors). Previously, this was the Chief Executive and Chairman. The CODM receives regular financial information at the consolidated Group level and uses this information to allocate resources, make operating decisions and monitor the performance of the Group as a whole.

On 26 July 2022, the Group announced that the legal structure to facilitate the divisional separation had been completed to simplify the corporate divisional structure. The directors have reviewed the impact of this on the operating segments of the Group at 30 June 2022. The directors have concluded that for H1 2022, there remains one operating segment. This will continue to be reviewed. As the reporting to the CODM is revised in line with the internal divisional separation, we consider that it is likely that there will be a future change in the number of operating segments and cash generating units across the Group.

While the Group only has one operating segment, to increase transparency, the Group has included additional disclosure analysing revenue split by division.

	Six months ended	Six months ended
	30 June 2022	30 June 2021
	£'000	£'000
THG Beauty	552,766	460,783
THG Nutrition	332,117	328,354
THG Ingenuity	104,157	85,802
THG OnDemand	51,045	51,550
Other	36,677	32,341

Total revenue	1,076,762	958,830
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THG Beauty relates to website and business to business sales of owned and third-party beauty brands alongside sales of subscription boxes and business to business sales of manufactured beauty products. THG Nutrition relates to sales of products from wholly owned nutrition brands and business to business sales of manufactured nutrition products to third parties. THG Ingenuity revenue relates to the provision of services relating to web-platform, alongside revenue generated from product development, marketing and warehouse costs for third-party clients, and revenue from webhosting. Additionally, THG Eco is included within Ingenuity providing sustainability solutions and consulting services for THG's own operations, THG's suppliers, partners and customers. THG Eco revenue totalled £9.4m for H1 2022 (H1 2021: £2.5m). THG OnDemand relates to e-commerce sites which offer a selection of entertainment products and subscription services. Other relates to revenue generated from THG Experience and THG Luxury.

Below is an analysis of revenue by region (by destination):

	Six months ended	Six months ended
	30 June 2022	30 June 2021
	£'000	£'000
UK	457,931	392,915
USA	219,062	177,245
Europe	216,432	211,534
Rest of the world	183,337	177,136
	1,076,762	958,830

Rendering of services represents 6% of total revenue (H1 2021: 6%). Revenue that is not within the scope of IFRS 15 'Revenue from Contracts with Customers' represents 1% of total revenue (H1 2021: 1%) and represents revenue from leases under the scope of IFRS 16.

As the Group operates as one segment, no measure of segmental assets or liabilities is disclosed in this note.

3. Adjusted items

	Six months ended	Six months ended
	30 June 2022	30 June 2021
	£'000	£'000
Within Distribution costs		
Transportation, delivery and fulfilment costs in relation to Covid-19	11,332	12,687
Commissioning - new facilities	2,086	2,879
	13,418	15,566
Within Administrative costs		
Acquisitions - legal and professional costs	-	7,578
Acquisitions - restructuring and integration	6,169	2,824
Restructuring	2,943	1,551
Donations	361	1,090
	9,473	13,043
Total adjusted items before finance costs	22,891	28,609
Within Finance costs		
Non-cash - revaluation of SBM option	(601)	38,120
	(601)	38,120
Total adjusted items before tax	22,290	66,729
Tax impact	(3,797)	(2,958)
Total adjusted items	18,493	63,771

Transportation, delivery and fulfilment costs in relation to Covid-19

In 2022, we continue to be impacted by Covid-19 surcharges from suppliers, although at a lesser rate during H1 2022 compared to prior periods. Covid-19 has had a direct and measurable impact on the Group's cost to fulfil delivery of goods to customers across its global network, through reduced commercial flights and closures of key shipping lanes. The main driving factor of the excess cost continuing across accounting periods is the continued lockdowns experienced in Asia which continue to affect air traffic. The additional cost to complete these deliveries has been recognised as an adjusted item, and while there is uncertainty around the length of disruption the pandemic will have on global supply chains, the Group doesn't consider this to be a recurring part of the Group's cost base. We expect that as the effects of the pandemic lessen and the lockdowns in Asia ease, these costs will normalise.

The costs incurred were as a result of the following:

- In order to maintain the Group's pre Covid-19 levels of customer experience, the Group had to address the challenges caused by commercial flights being reduced during the pandemic to minimal levels. The Group secured THG exclusive chartered flights in order to be able to uphold its service levels, generating an identifiable increase in costs versus non-exclusive passenger flights, which were used pre Covid-19.
- Our delivery partners passed on to the Group additional surcharges specifically identified on invoices as a response to operating during the pandemic. This continues for routes relating to Asia where the impact of the pandemic is continuing.

- Due to the impact of Covid-19, a number of key supply routes were disrupted or closed. This necessitated identifying and sourcing alternative viable routes to fulfil the obligations on the Group to serve its customers, which created identifiable external costs relating to alternative routes that had to be taken due to the impact of Covid-19 on the Group's courier and logistics providers ability to operate in the pandemic.

Commissioning - new facilities

The Group has embarked on a strategic project to transform the Group's global infrastructure footprint and capability, moving away from the smaller sized facilities which were fit for purpose in the past, into larger purpose-built distribution facilities to support the strategic objectives of the Group.

Under this project, the Group has commissioned a number of these purpose-built facilities over the years, including a campus (inclusive of 3 warehouses) at Manchester Airport, UK ("Icon") and New Jersey, US. Works at New Jersey, US and the Icon facility began in August 2021 and August 2020 respectively. Both warehouses are in operation, although further automation continues to be implemented into both sites providing further efficiency gains including Autostore automation in New Jersey and automated sortation in Icon in H2 2022.

Due to the scale and complexity of these sites, commissioning of these facilities and integration into the Group's existing distribution network can span more than one accounting period, taking up to 18 months in total for a specific site: a relatively short period compared to the useful economic life of the asset. During the commissioning and integration period, costs relating to the set-up, integration and testing of the new facilities are included within adjusted items as these costs are not expected to be recurring for each specific site and do not reflect the underlying cost base of the Group. Such costs include:

- Additional costs are incurred relating to the period of testing and commissioning that is required, to ensure a facility is operating as expected. Such costs are non-underlying and therefore included within adjusted items;
- Costs relating to the migration of production operations and processes to the new sites as part of this expansion of the fulfilment network include testing of new production processes and resolution of any commissioning protocols required before production is fully operational;
- Costs relating to bulk internal warehouse transfers from existing THG facilities are often required during the set up/commissioning period for a new facility. These costs are non-underlying in nature; and
- Additional shipping costs are incurred when the products within a single customer order is fulfilled by shipping from two different warehouses, due to stock being split across two sites during the commissioning period for a new facility. This results in duplicated postage costs on a single order.

The costs above are identified through internal processes and controls which isolate the impact of commissioning new facilities. For some of these costs, the amounts included within adjusted items are calculated by taking the excess costs per unit versus the normalised rate, which is set based on historical information or third-party data.

Further material charges are anticipated as the respective projects are completed, the quantum of which is subject to change throughout the project as unforeseen events arise through to completion.

Acquisitions - legal and professional costs

The Group periodically considers and analyses potential acquisition targets and recognises there is inherent complexity and risk associated with acquisitions. The Group manages this by employing external professional advisors to perform legal, financial, commercial and tax due diligence on targets. These costs relate to opportunities the Group identifies and pursues, of which a portion result in successful acquisitions by the Group. Such legal and professional costs are classified as adjusting items as they relate to significant strategic transactions and, except for the transactions in question, the business would not have incurred these costs and as a result these costs are deemed to be non-recurring costs that do not relate to the underlying trading operations of the business.

There have been no such costs incurred in H1 2022.

Acquisitions - restructuring and integration

Where the Group completes acquisitions, it derives value by achieving synergies in the post-acquisition period by restructuring the acquired businesses and integrating them into the Group. During this restructuring and integration phase there are a number of costs that are not related to the underlying trading operations of the Group which are classified as adjusted items. The costs in H1 2022 relate to the planned integrations of the acquisitions made in 2021. Cult Beauty was acquired in August 2021 and the integration was a key focus of H1 2022.

These costs include, but are not limited to:

- Duplicated costs whilst the integration plan is executed. These often relate to termination of pre-acquisition agreements that were in place and exit costs associated (such as closure of old facilities or head offices);
- As part of the integration plan itself, additional non-recurring costs may be incurred which do not relate to the underlying trading operations of the Group, including, but are not limited to, system integration testing and validation, costs of moving equipment to new sites and department relocation or set up costs; and
- Costs of staff exiting the business, including redundancy costs, earnouts or bonus payments relating to the integration plan. Integration plans can often result in moving offices geographically, a change in management structure or redefining the roles and needs of departments or individuals. As a result, some employee redundancy costs are incurred. Payments are also made to employees for successful delivery of integration plans.

Depending on the size and nature of the acquisition and the complexity of the integration plan, acquisition restructuring and integration costs can be incurred for up to 12 months post acquisition.

Restructuring

The Group has undertaken significant financing, restructuring and related activities during H1 2021 and H1 2022.

As previously reported, the Group committed to undertake a review of its corporate structure. On 26 July 2022, the Group announced that it had legally completed the internal separation of its key trading divisions. The directors believe that this provides material optionality and flexibility to enter into future strategic partnerships and to generate value accretion for its shareholders. Therefore, to execute this separation, in H1 2022 the Group incurred costs totalling £2.9m which is a material, non-recurring event.

In H1 2021 the costs related to IPO listing related costs following the Group's listing on the London Stock Exchange in 2020. These were non-recurring expenses.

Donations

In 2022, the Group has donated £0.4m related to aid in the form of nutrition and hygiene products to charities assisting with the war in Ukraine. In H1 2021, as part of its Covid-19 response, the Group made several charitable donations to the local region, totalling £1.1m. This is expected to be non-recurring.

Non-cash - revaluation of SBM option

On 10 May 2021, THG entered into a call option with SB Management Limited ("SBM"), a wholly owned subsidiary of SoftBank Group Corp, to purchase 19.9% of the share capital of THG Ingenuity for \$1.6bn. At 30 June 2022, the option was valued at £nil. On 26 July 2022, the Group announced that in light of global macro-economic conditions the SBM option agreement had been terminated by mutual agreement. The call option granted by THG to SBM will not therefore be, and will cease to be capable of being, exercised.

The option had previously been classified as a derivative instrument, an option that held value for SBM and consequently fell under the provisions of IFRS9 (Financial Instruments). The option was revalued to £nil at 30 June 2022. The impact of this is a non-cash £0.6m gain recognised on the revaluation. The value of the option as at 31 December 2021 was £0.6m (£38.12m as at 30 June 2021) meaning that the movement in H1 2022 was much lower than a year earlier. As this was a material, non-recurring transaction the revaluation effects of this option have been presented as an adjusted item.

4. Income tax

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the interim condensed consolidated statement of comprehensive income are:

	Six months ended 30 June 2022	Six months ended 30 June 2021
	£'000	£'000
Current tax		
Tax charge for the period	4,591	3,457
Deferred tax		
Origination and reversal of temporary differences	(6,426)	(4,882)
Adjustments in respect of prior period	-	830
Change in tax rates	-	1,308
	(6,426)	(2,744)
Total income tax (credit)/charge	(1,835)	713

5. Share-based payments

The Group operates a share-based compensation plan, under which the Group receives services from employees as consideration for equity instruments (options) of the Company. The options were granted on 16 June 2022 in relation to two schemes. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense in the Statement of Comprehensive Income with the corresponding increase to equity. The awards vest in three equal tranches on 31 December 2022, 31 December 2023 and 31 December 2024. The majority of the 24,213,222 shares that were granted will vest based on continuous employment. 1,875,446 of the shares will only vest if targets linked to revenue, EBITDA and ESG (Environmental, Social and Governance) matters are met.

	Six months ended 30 June 2022	Six months ended 30 June 2021
	£'000	£'000
Expense arising from equity-settled share-based payment transactions	573	-

6. Non-current assets

	Intangible assets £'000	Property, plant and equipment £'000	Right-of-use asset £'000
1 January 2022	1,506,292	335,620	310,282
Additions	39,257	44,008	23,671
Business combinations	1,649	-	-
Disposals	-	(3)	-

Depreciation / Amortisation	(52,319)	(24,402)	(21,330)
Currency translation differences	62,387	4,034	7,176
30 June 2022	1,557,266	359,257	319,799

	Intangible assets £'000	Property, plant and equipment £'000	Right-of-use asset £'000
1 January 2021	674,293	240,221	193,887
Additions	34,483	54,907	94,584
Business combinations	551,318	16,068	-
Disposals	-	(1,758)	(374)
Depreciation / Amortisation	(41,445)	(16,571)	(11,983)
Currency translation differences	(5,571)	(2,816)	(1,124)
Transfers	(407)	4	-
30 June 2021	1,212,671	290,055	274,990

The property, plant and equipment additions were driven by major investment in the automation of THG fulfilment centres in the UK, Poland and the USA to increase operational efficiency. The intangible asset additions were driven by capitalisation of platform development costs.

During the period, the Group has concluded on the fair value of the net assets in respect of acquisitions completed in 2021, resulting in a decrease of £1.6m in net assets and a corresponding increase in goodwill. Cash flows from investing activities include a cash inflow of £0.3m relating to acquisitions has been recognised in the statement of cash flows. This amount relates to the finalisation of completion accounts net of the payment of contingent consideration in the period.

IAS 36 states that an entity is required to assess at each reporting date whether there are any indications of impairment, with an impairment test itself being carried out if there are such indications. Goodwill and indefinite life assets are also required to be tested annually for impairment. The Group has taken into account macro-economic factors that have impacted the markets in which the Group operates as an indicator of impairment and has performed an impairment test to assess the carrying value of intangible and tangible assets held by the Group.

On 26 July 2022, the Group announced that the legal structure to facilitate the divisional separation had been completed to simplify the corporate divisional structure. The directors have considered if there is any impact on the cash generating units (CGUs) of the Group at 30 June 2022. The directors have concluded that for H1 2022, there is no change to the number of CGUs previously disclosed in the 31 December 2021 annual report. The Ingenuity platform continues to underpin the Group's operations providing the platform, fulfilment and distribution services. Due to the timing of the separation, the Group is not yet able to prepare future forecasts with appropriate intra group recharges to determine independent cashflows aligned to the new structure. Once forecasts and internal reporting on the divisional cashflows are revised in line with the divisional separation, it is likely that there will be a future change in the number of cash generating units across the Group to be aligned to the divisional structure (THG Beauty, THG Nutrition, THG Ingenuity, THG OnDemand, THG Experience and THG Luxury).

Consistent with the year end, the recoverable amounts of the CGUs have been determined based on value-in-use calculations. The value-in-use calculation uses cash flow projections from financial budgets approved by the Board covering a five-year period. Cash flows beyond the five - year period are extrapolated using a growth rate which is based on the long term growth rate for the relevant CGU.

Significant judgements, assumptions and estimates

The first half of the year has been impacted by the many well-documented macro-economic factors impacting the markets in which the Group operates. The environment has been extremely unusual with elevated commodity pricing (both commodity whey pricing, and other indirect raw ingredients), foreign exchange headwinds (principally Japanese yen) ongoing supply chain challenges and wider inflation (including energy) following on from Covid-19 impact and subsequently the war in Ukraine. The whey commodity market appears to have now peaked with

prices reducing from this peak into the second half of 2022. As a result, H1 2022 EBITDA margins and revenue growth have been impacted.

Management considers the majority of these items to be transitional in nature, however there remains uncertainty and volatility around the future impact, both by way of input costs but also the impact on consumer behaviour and continued shift to online market share. The effect of the unusual first half of the year and management's estimate of any future impact, being continued short term impact on growth rates, being factored into the value in use calculation. As would be expected, this has led to lower headroom across the CGUs than at 31 December 2021. We note that cash flows related to any mitigating scenarios and activities are excluded from the forecasts.

The key assumptions within the Group's forecasts are the future revenue growth and EBITDA margin. Management consider that given the significant investment across the Group through acquisition and investment in people, operations and facilities, the Group is well placed to deliver strong long term growth in both margin and revenue. The forecasts for the five-year period assume THG Retailing and Commerce continues to achieve strong double-digit revenue growth and a future return to margins over the medium term that have previously been achieved across the business. The board has reviewed the assumptions and has confidence in growth rates assumed based on the high repeat nature of the beauty and nutrition customer base, the strong growth anticipated in the beauty and sports nutrition markets, particularly in online given relatively low levels of online penetration and further international opportunities aided by the investment made in the Group's global infrastructure.

If there was a shortfall in the forecast revenue growth rates, EBITDA margin, terminal growth rate or an increase in the discount rate this could lead to an impairment given the significant level of investment and acquisitions the Group has recently made increasing the asset base. Based on the current forecasts and assumptions, no impairment charge has been identified.

7. Financial assets and liabilities

	30 June 2022	30 June 2021	31 December 2021
	£'000	£'000	£'000
Assets as per balance sheet - financial assets			
Trade and other receivables excluding non-financial assets	160,717	189,014	157,345
Cash and cash equivalents	265,661	878,549	536,827
Investments	1,400	-	1,400
Assets as per balance sheet - held at fair value through OCI			
Derivative financial instruments designated as hedging instruments	14,151	4,338	2,400
Derivative financial instruments held at fair value through profit and loss	300	-	300
	442,229	1,071,901	698,272
Liabilities as per balance sheet - other financial liabilities at amortised cost			
Bank borrowings	502,099	504,019	489,865
Lease liabilities	363,805	318,352	349,173
Trade and other payables excluding non-financial liabilities	457,824	485,616	645,712
Liabilities as per balance sheet - other financial liabilities at fair value			
Derivative financial instruments designated as hedging instruments	10,008	11,833	21,342
Derivative financial instruments held at fair value through profit and loss	-	38,120	601

	1,333,736	1,357,940	1,506,693
Derivative financial instruments designated as hedging instruments			
FX forwards hedging foreign exchange risk on borrowings	(10,008)	(10,039)	(21,342)
Interest rate swaps	12,001	(1,794)	621
FX forwards hedging foreign exchange risk on highly probable future cash flows	2,150	4,338	1,779
	4,143	(7,495)	(18,942)

- Financial instruments included within current assets and liabilities, excluding borrowings, are generally short-term in nature and accordingly their fair values approximate to their book values. Bank borrowings are initially recorded at fair value net of direct issue costs.
- The derivative financial instruments designated as hedging instruments have been recognised at fair value through Other Comprehensive Income. Hedging instruments are valued based on significant observable inputs and have been classified at Level 2 hierarchy level in line with IFRS 13 Fair Value Measurement.
- Derivative financial instruments held at fair value through profit and loss related solely to the option to invest in THG Ingenuity held by SBM, announced on the 10 May 2021. The derivative was recognised at fair value and valued in June 2021 and December 2021 using on a Black-Scholes model utilising market-corroborated inputs and has been classified as Level 2. This was recognised within finance costs reflecting the nature of the liability. In H1 2022, the option was revalued to £nil.

Net debt consists of loans and lease liabilities, less cash and cash equivalents. For the purposes of the Group's net debt calculation, loans that are denominated in foreign currency are translated at the effective hedged rate where applicable. Net cash is an alternative performance measure and is not defined under IFRS. A reconciliation to the most directly comparable IFRS measure is included below:

	30 June 2022	30 June 2021	31 December 2021
	£'000	£'000	£'000
Loans and other borrowings	(502,099)	(504,019)	(489,865)
Lease liabilities	(363,805)	(318,352)	(349,173)
Cash and cash equivalents	265,661	878,549	536,827
Sub-total	(600,243)	56,178	(302,211)
Adjustments:			
Retranslate debt balance at swap rate where hedged by FX derivatives	10,871	10,046	(2,548)
Net (debt) / cash	(589,372)	66,224	(304,759)
Net (debt) / cash before lease liabilities	(225,567)	384,576	44,414

8. Cash flow generated from operations

		Six months ended 30 June 2022	Six months ended 30 June 2021
	Note	£'000	£'000
Loss before taxation		(108,186)	(81,339)
Adjustments for:			
Depreciation	6	45,732	28,554
Amortisation	6	52,319	41,445
Share-based payment	5	573	-
Adjusted items	3	22,290	66,729

Net finance costs	19,591	25,826
Operating cash flow before adjusted items and before movements in working capital and provisions	32,319	81,215
Decrease / (increase) in inventories	20,808	(12,383)
Decrease / (increase) in trade and other receivables	1,224	(509)
Decrease in trade and other payables	(180,341)	(52,475)
Increase / (decrease) in provisions	131	(242)
Foreign exchange gain / (loss)	1,237	(339)
Cash (used in)/generated from operations before adjusted items	(124,622)	15,267

9. Provisions

	Other £'000	Dilapidations £'000	Total £'000
At 1 January 2022	-	16,506	16,506
Utilisation	-	(3)	(3)
Created	2,454	381	2,835
Released	-	(69)	(69)
Currency translation differences	-	203	203
At 30 June 2022	2,454	17,018	19,472
Current	1,281	1,419	2,700
Non-current	1,173	15,599	16,772

Dilapidations provisions are expected to be used at or by the end of the lease term. The dilapidations provision includes an amount, which is not qualitatively material, of £8.8m related to properties occupied at 30 June 2021. The provision increases the right-of-use asset.

10. Related Party Transactions

Moulding Capital Limited ("Propco") is wholly owned by the Group's CEO. Propco owns property assets occupied and utilised by THG and its operating businesses.

The amounts recognised on the Group's balance sheet and in the income statement in relation to the leases with Propco in the period are as follows:

	30 June 2022 £'000
Right-of-use asset	160,318
Lease liability	182,022
Depreciation arising on right-of-use assets	6,499
Expense recognised in financing costs	4,354

On 27 August 2020, the Group entered into a five-year agreement on commercial terms with Moulding Capital Limited to provide property, facilities and project management services to the entity and its subsidiaries. This agreement is expected to generate annual income of £635,000 for the Group.

Number of properties	Residual lease term	Rent per annum (£'000)	H1 2022 rent (£'000)
9	0-5 years	962	481
1	5-10 years	1,609	1,580
12	10-15 years	3,285	1,643
7	15-25 years	9,923	4,961
29		15,779	8,665

Cash paid in the settlement of obligations under these related party leases was £8.7m. The table below gives further detail around the leases in place.

The following table shows the amounts recognised on the balance sheet at 30 June 2022. These include balances in relation to lease agreements and where the Group has paid suppliers on behalf of the Propco Group, or vice versa. Such situations arise due to Propco suppliers using legacy details to submit invoices or where payments are made on behalf of THG by Propco for property-related costs rechargeable to THG as a tenant per lease:

	Amounts owed to related parties
	£'000
Aghoco 1422 Ltd	103
Allenby Square Ltd	169
THG Omega Propco Limited	1,243
THG A&A PropCo Ltd	241
THG Alpha Propco Ltd	171
THG Gadbrook PropCo Ltd	242
THG GJS PropCo Ltd	195
THG HCC PropCo Ltd	285
THG Icon S.à.r.l	1,101
THG Icon Unit 2 PropCo Ltd	953
THG Icon Unit 3 Propco S.à.r.l	296
THG Icon Unit 4 PropCo Ltd	217
THG KS PropCo Ltd	225
THG Wroclaw sp. Z.o.o	151
THG PV Propco Ltd	45
Moulding Capital Limited	47
	5,684

11. Events after the reporting period

There are no material post balance sheet events.

Principal risks and uncertainties

The Board considers that the principal risks and uncertainties which could impact the Group over the remaining six months of the financial year to 31 December 2022 to be unchanged from those set out in the Annual Report and Accounts for the year to 31 December 2021.

The applicable risks are summarised as follows:

- Cyber security and data privacy;
- Third party reliance;
- Talent;
- Ingenuity e-commerce platform;
- Customer needs;
- Corporate structure;
- Infrastructure;
- Onboarding and integration;
- Innovation;
- Regulatory compliance;
- Environmental, social and governance; and
- Culture.

These are set out in detail on pages 109 to 116 of the Group's Annual Report and Accounts for the year to 31 December 2021, a copy of which is available on the Group's website, www.thg.com.

The impact of the ongoing macro-economic environment is currently considered an emerging risk of the Group. The Board continue to review the impact of the inflationary pressures, elevated commodity pricing, FX headwinds and ongoing supply chain issues regularly as part of their approach to risk management.

INDEPENDENT REVIEW REPORT TO THG PLC

Conclusion

We have been engaged by the Company to review the interim condensed set of financial statements in the half-yearly financial report for the six months ended which comprises the interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of financial position, the interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cashflows along with supporting notes for the six months ended 30 June 2022. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim condensed set of financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2022 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

We conducted our review in accordance with International Standard on Review Engagements 2410 (UK) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE) issued by the Financial Reporting Council. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with UK adopted international accounting standards. The interim condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with UK adopted International Accounting Standard 34, "Interim Financial Reporting".

Conclusions relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis of Conclusion section of this report, nothing has come to our attention to suggest that management have inappropriately adopted the going concern basis of accounting or that management have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with this ISRE, however future events or conditions may cause the entity to cease to continue as a going concern.

Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the half-yearly financial report, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly report, we are responsible for expressing to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

Use of our report

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Ernst & Young LLP
London
14 September 2022

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