

**THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION**

**17 January 2023**

**THG PLC ("THG" or the "Group")**

**Trading statement for the period ended 31 December 2022**

***Record sales in FY 2022 with comprehensive cost action taken to increase profitability  
 H2 2022 cash generation driving strong balance sheet***

THG PLC ("THG" or the "Group"), the proprietary technology platform specialising in taking brands direct to consumers ("D2C") globally, announces its trading update for the period ended 31 December 2022 ("FY 2022").

- Record sales of £2.25 billion in FY 2022, with +9.4% growth in THG Beauty and THG Nutrition primary territories<sup>1</sup>.
- Significant investment in price strategy through 2022 to support long-term customer retention, alongside new customer growth in established and emerging markets.
- Cost base well positioned following completion of divisional reorganisation, with c. £100 million of cost savings and efficiencies identified and implemented in FY 2022. A further £30 million of savings targeted for delivery during FY 2023.
- Free cash generation<sup>2</sup> of c. £50 million in H2 2022, driving strong balance sheet and liquidity with c. £640 million of cash and available facilities at year end.
- THG Ingenuity gaining momentum following the pivot to focus on higher value and higher margin contracts, with further major contracts close to agreement, building upon the recent expansion of the Matalan strategic partnership.
- Simplification of the Group leading to a strategic review of loss-making categories and territories within the THG OnDemand division, underpinning FY 2023 profitability improvements.
- Expected adjusted EBITDA for FY 2022 on a continuing basis in line with current market expectations. Medium-term adjusted EBITDA margin guidance of >9.0% reiterated.

**FY 2022 Group trading performance**

£m	FY 2022	FY 2021	YoY Growth (excl Russia)	YoY Growth	2 Year Growth
THG Beauty	1,185.6	1,117.8		+6.1%	+57.7%
THG Nutrition	672.4	659.5		+2.0%	+19.6%
THG Ingenuity	208.1	194.3		+7.1%	+51.6%
<b>Core Divisional Revenue</b>	<b>2,066.1</b>	<b>1,971.6</b>		<b>+4.8%</b>	<b>+42.4%</b>
THG OnDemand (under review)	106.4	128.1		-16.9%	+5.0%
Other (under review)	80.1	80.2		-0.1%	+31.2%
<b>Group Revenue</b>	<b>2,252.6</b>	<b>2,179.9</b>	<b>+4.1%</b>	<b>+3.3%</b>	<b>+39.6%</b>
<i>Ingenuity Commerce Revenue</i>	46.9	45.4		+3.3%	+142.9%

## **FY 2022 highlights**

- FY 2022 Group revenue growth of +4.1% (+3.3% reported), with +9.4% growth in THG Beauty and THG Nutrition primary territories supported by localised infrastructure.
- The full-year Group outturn reflects:
  - o the proactive decision to discontinue a proportion of loss-making OnDemand sales, primarily across international markets, using the peak trading period to reduce residual inventory impacting revenue and profitability;
  - o lengthier onboarding of higher revenue and margin Ingenuity partnerships; and
  - o disruption in the UK courier network during December impacting online gifting demand in Beauty in particular.
- Key customer indicators including average order values, repeat rates and active customer numbers all remain in growth vs Q4 2020, demonstrating the resilience of beauty, health, and wellness categories, and continued adoption of digital channels post pandemic, particularly in the UK.
- Successful completion of the Group's divisional reorganisation driving continued profit progression through greater divisional cost transparency, the removal of duplicated costs, procurement and payroll efficiencies. Group-wide headcount reduction of c. 2,000 employees following elevated investment over recent years, achieved through managed attrition alongside continued recruitment of digital talent.
- Normalisation of inventory levels as expected through H2 2022, with c. £75 million reduction in Group stock vs December 2021, supporting free cash generation of c. £50 million in H2 2022.
- Cash on hand at year end of c. £470 million, with £170 million undrawn revolving credit facility available. Year-end net debt of c. £200 million, reducing to c. £160 million upon receipt of £40 million of proceeds from non-core freehold asset disposals in H1 2023.

## **THG Ingenuity**

- In Q3 2022, the Group announced a re-positioning of THG Ingenuity to focus on larger, higher revenue and higher margin clients with high-quality recurring revenues. Exiting a number of smaller contracts while pausing additional lower value partnerships has enabled THG Ingenuity to fully capitalise on larger scale, more complex, long-term opportunities.
- This strategy is now delivering tangible results with the Group confirming that it is in advanced discussions to provide long-term software solutions for several significant enterprise clients, in addition to the expansion of its strategic partnership with UK retailer Matalan.
- During 2023, the Group expects to add over £1 billion incremental GMV to the Ingenuity platform.

## **Outlook and guidance**

- Following the Group's divisional reorganisation, the Board has commenced a strategic review of trading activities outside of THG Beauty, THG Nutrition and THG Ingenuity. These core divisions are expected to deliver adjusted EBITDA on a continuing basis of c. £100 million<sup>3</sup> for FY 2022, reflecting the removal of c. £20 million of losses from discontinued revenues.
- While the decision to discontinue certain trading activities has occurred already, the full outcome of the review will complete in H1 2023.
- The combined impact of the lower full-year sales outturn, the dilutive impact of loss-making categories under review, alongside the timing of impending new Ingenuity contracts results in an expected adjusted EBITDA outturn range of £70 million to £80 million<sup>4</sup> for FY 2022.
- Margin recovery confidence in FY 2023 and beyond supported by:
  - o the full year effect of the £100 million cost savings actioned, including exiting loss-making categories;
  - o US warehouse automation live in Q1 2023; and
  - o substantially lower raw material buying costs (principally whey), with reduced buying prices YoY confirmed for Q1 2023.
- A dedicated focus on high-margin categories and relatively low maintenance capital expenditure supports the Group's expectation of being broadly free cash flow neutral in FY 2023, and significantly free cash flow positive in FY 2024.

**Matthew Moulding, CEO commented:**

*"In a year that presented numerous challenges across the world, I'm proud that the THG team has delivered another record revenue performance at £2.25 billion. Amongst many highlights, I'm especially pleased with the progress of Ingenuity, successfully competing with major global technology giants to transform digital operations for global retailers and brands.*

*"With the completion of the divisional reorganisation, and around £100 million of annual efficiency savings already delivered, the Group enters 2023 with strong momentum to achieve substantial margin expansion. Core commodity prices used within our Nutrition division have seen significant deflation since their record highs in 2022, giving us confidence in significant profit progression as we move through the year ahead, against a much reduced Group cost base. We remain highly confident of delivering adjusted EBITDA margins in excess of 9.0% over the medium-term.*

*"Our delivery of c. £50 million free cashflow in H2 2022, coupled with c. £640 million of cash and facilities at year end, mean we are well positioned for further operational and strategic progress, notwithstanding the continued macroeconomic uncertainty."*

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**ENDS**

**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 Activewear and MyPRO), with a vertically-integrated business model, supported by global 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.

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**[1]** Includes the UK, US and key international territories with attractive market sizes and THG localised product, digital content and physical infrastructure (accounting for over 50% of Group FY 2022 revenue)

**[2]** Group free cash generation is calculated after working capital, capital expenditure, adjusting items, tax and financing (prior to debt capital repayments)

**[3]** Prior to SaaS cost reclassification

**[4]** Prior to SaaS cost reclassification now expected to be c. £10 million for FY 2022

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