

18 April 2023

**THG PLC**  
**Preliminary FY 2022 results and first quarter trading statement**

***FY 2022 adjusted EBITDA in line with guidance, with enhanced reporting to include divisional profitability***

***Positive start to FY 2023 with revenue momentum improving significantly through the quarter and profitability and cash generation much improved YoY***

***FY 2023 revenue and adjusted EBITDA expected to be in line with Company consensus***

***Reiterate Group's expectation of being free cash flow neutral in FY 2023***

***Rights attaching to Special Share to cease in September 2023, supporting a move to the Premium segment of the Main Market; timing subject to completion of FCA listing regime review***

THG PLC ("THG" or the "Group"), announces its preliminary results for the financial year ended 31 December 2022 ("FY 2022"), together with its trading update for the three months ended 31 March 2023 ("Q1 2023").

**FY 2022 Group Trading Performance**

<b>£m</b>	<b>FY 2022</b>	<b>FY 2021</b>	<b>YoY<sup>[1]</sup> Growth</b>	<b>2 Year Growth</b>
THG Beauty <sup>[2]</sup>	1,235.0	1,181.5	+4.5%	+54.1%
THG Nutrition	675.1	659.5	+2.4%	+20.1%
THG Ingenuity <sup>[3]</sup>	159.6	146.3	+9.1%	+78.9%
<b>Core Divisional Revenue</b>	<b>2,069.7</b>	<b>1,987.3</b>	<b>+4.1%</b>	<b>+42.5%</b>
Other (continuing)	50.9	46.1	+10.5%	+58.6%
Other (discontinued)	118.7	146.5	(19.0)%	(7.8)%
<b>Group Revenue</b>	<b>2,239.2</b>	<b>2,179.9</b>	<b>+2.7%</b>	<b>+38.8%</b>
Gross Margin % <sup>[4]</sup>	41.3%	44.7%		
<b>Adj EBITDA pre SaaS costs<sup>[5]</sup></b>	<b>74.3</b>	<b>161.3</b>		
Adj EBITDA pre SaaS costs %	3.3%	7.4%		
<b>Adj EBITDA</b>	<b>64.1</b>	-		
Adj EBITDA %	2.9%	-		
Adjusted items - impairment	275.4	56.0		
Adjusted items - other	70.4	73.2		
Operating loss <sup>[6]</sup>	495.6	137.5		
<b>Net Cash / (Debt)<sup>[7]</sup></b>	<b>(180.6)</b>	<b>44.4</b>		

**Matthew Moulding, CEO of THG, commented:**

"We continue to make good progress on executing our strategy of building a leading digital-first consumer brands group, powered by our own technology and global fulfilment operations. I am hugely proud of the THG team who have delivered another record revenue performance.

"While FY 2022 adjusted EBITDA was not where we planned at the start of the year, this was largely the result of our strategy to minimise the impact of inflation upon our customer base. This investment in their retention, and longer term growth, was the principle driver behind the reduction in gross margin.

"The challenging macro and inflationary environment required decisive action across the business with around £100 million of efficiency savings delivered. A much-improved outlook on many key cost inputs gives us confidence in an improved financial performance as the year progresses.

"In THG Ingenuity, we appointed a highly experienced CEO to focus on long-term, higher value enterprise accounts. The repositioning of the division is on track with the strategy now paying dividends, evidenced by recent announcements and a strong 2023 pipeline.

"We are nearing completion of a three-year major infrastructure investment programme. While this has inevitably involved significant investment and transition costs, the less than 2-year return on investment is pleasing. The global capability it now provides gives us increased confidence in our ability to continue to capture market share whilst accelerating both profitability and free cash flow generation.

"We have the technology infrastructure and the global fulfilment capability which, coupled with our continuous engagement with our millions of customers worldwide who love the high-quality products we present to them leaves us well positioned to capitalise on this path of growth."

### FY 2023 and medium-term outlook and guidance

- The Board anticipates FY 2023 Group revenue growth across continuing divisions of low to mid-single digit. Adjusted EBITDA is expected to be in line with the company consensus, with a significant weighting to the second half of the year.
- The profitability and cashflow improvements during the first quarter support the expectation for significant margin recovery through the year. The decision to discontinue non-core categories, coupled with ongoing deflation in whey commodity prices and business model efficiencies driving improved operating leverage, underpins the margin confidence for FY 2023.
- These factors provide operational leverage for the Group to rebuild towards historical adjusted EBITDA margins of around 9.0% over the medium-term. This is supported by the expected return to historical margins within THG Beauty and THG Nutrition. THG Ingenuity adjusted EBITDA margin will scale over time as the revenue mix evolves and all service lines are sold either individually or as a complete solution, with management targeting an aspirational 5-year margin of c.7.5%.
- Our focus over the last few years has been on investment as we scaled our infrastructure to meet the step change in demand during the pandemic. Whilst we continue to selectively scale the business, it is clear that we can begin to enjoy the benefits of past investment from a cash and profitability perspective. Capital expenditure for the Group is therefore expected to be up to £135m in FY 2023 (FY 2022: £176m), and in the range of £130m to £140m in FY 2024, remaining between 5.5% to 6.5% of revenue over the medium-term.
- Margin accretion, reduced capital expenditure and cash adjusting items (c.£15m in FY 2023, a 65% reduction on FY 2022) and working capital rationalisation all support a clear path to being free cash flow neutral in FY 2023, turning positive in FY 2024.

### FY 2022 Segmental Summary

£m	THG Beauty	THG Nutrition	THG Ingenuity	Other	Central	Inter-group elimination	Continuing Total	Discontinued categories	FY 2022 Total
Revenue	1,235.0	675.1	159.6	50.9	-	-	2,120.6	118.7	2,239.2
Inter-segment revenue	-	-	597.4	-	-	(597.4)	-	-	-
<b>Total revenue</b>	<b>1,235.0</b>	<b>675.1</b>	<b>757.0</b>	<b>50.9</b>	<b>-</b>	<b>(597.4)</b>	<b>2,120.6</b>	<b>118.7</b>	<b>2,239.2</b>
adj EBITDA pre SaaS costs	32.9	51.8	29.3	(1.9)	(23.2)	-	<b>88.9[8]</b>	(14.6)	<b>74.3</b>
<b>adj EBITDA</b>	<b>32.9</b>	<b>51.8</b>	<b>19.1</b>	<b>(1.9)</b>	<b>(23.2)</b>	<b>-</b>	<b>78.7</b>	<b>(14.6)</b>	<b>64.1</b>
adj EBITDA %	2.7%	7.7%	2.5%	-3.7%	-	-	3.7%	-12.3%	2.9%

### FY 2021 Segmental Summary

£m	THG Beauty	THG Nutrition	THG Ingenuity	Other	Central	Inter-group elimination	Continuing Total	Discontinued categories	FY 2021 Total
Revenue	1,181.5	659.5	146.3	46.1	-	-	2,033.4	146.5	2,179.9
Inter-segment revenue	-	-	602.5	-	-	(602.5)	-	-	-
<b>Total</b>	<b>1,181.5</b>	<b>659.5</b>	<b>748.8</b>	<b>46.1</b>	<b>-</b>	<b>(602.5)</b>	<b>2,033.4</b>	<b>146.5</b>	<b>2,179.9</b>

revenue									
adj EBITDA	70.2	76.6	40.4	(2.1)	(15.5)	-	169.6	(8.3)	161.3
adj EBITDA %	5.9%	11.6%	5.4%	-4.6%	-	-	8.3%	-5.7%	7.4%

### FY 2022 financial highlights

- Group revenues increased 2.7% to £2,239.2m (FY 2021: £2,179.9m), culminating in 2-year total sales growth of 38.8%. Certain loss-making categories and territories, primarily within THG OnDemand, were placed under strategic review and the decision of the Board is to exit the majority of these categories during 2023. Accordingly, they are classified as discontinued.
- International sales accounted for 57% (FY 2021: 58%) of total Group revenue with the US continuing to be an evident growth opportunity (+9.9%), following on from the successful integrations of US Beauty acquisitions in 2021, alongside the continued focus of the Nutrition business.
- 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.
- Returning beauty and nutrition customers generated over 82% of D2C Group revenues (FY 2020: 78%), reinforcing the repeat nature of our digital brands, Ingenuity's frictionless retailing environment and the enduring nature of consumer channel shift to online.
- Reduced gross profit margin at 41.3% (FY 2021: 44.7%) primarily reflects the strategy to partially shield consumers from adverse macroeconomic conditions and a period of unusually high raw material costs (principally whey). This investment drove customer retention (over 16 million active Beauty and Nutrition customers), underpinning future growth.
- Automation, strong cost control and efficiencies across the Group's global warehouse and fulfillment network delivered a 110bps distribution cost reduction YoY and improved customer delivery. These benefits delivered a payback on capital investment of less than two years, despite 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. Group headcount subsequently re-sized by c.2,000, with the cost benefit realised into FY 2023.
- Adjusted EBITDA of £64.1m reflects the stated strategy to limit consumer exposure to commodity cost increases to prioritise retention and growth in the global customer base.
- The Group incurred an operating loss of £495.6m, impacted by the non-cash impairment of £275.4m, in addition to certain non-recurring costs which continue to reduce:
  - £32.4m of costs relating to the strategic review, stock provision and other associated costs;
  - £18.5m of incremental international delivery costs, predominantly in Asia, due to the absence of traditional delivery routes and elevated costs associated with Covid-19 (normalising in FY 2023);
  - £14.8m of administrative costs (principally related to the divisional reorganisation and acquisition integration costs);
  - £3.6m of distribution costs relating to the commissioning of purpose-built new fulfillment facilities.
- Strong liquidity position with cash and facilities of over £640.0m at year end. Net debt of £180.6m was better than earlier guidance of c.£200m, with the Group's senior bank facilities long-dated.

### FY 2022 strategic and operational highlights

- Divisional reorganisation and strategic review undertaken supporting business simplification.
- Significant global infrastructure investment completed, underpinning sustainable long-term competitive advantage and operational efficiencies through automation.
- 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.
- Over 13 million app downloads currently, with app customers representing 13.1% of Group D2C FY 2022 revenue (FY 2021: 6.9%).
- Extension of the Group's vertical integration strategy through in-housing production of additional own-brand beauty and nutrition ranges.
- Continued expansion into adjacent markets through localisation and category expansion in THG Nutrition. Collaborating with major retailers and influencers continually raises brand awareness, with Myprotein recently agreeing to enter the frozen category through a major licensing partnership with Iceland Foods through UK stores, international franchises and online.

### Q1 2023 Group Trading Performance

£m	Q1 2023	Q1 2022	YoY Growth
THG Beauty <sup>[9]</sup>	253.9	284.4	-10.7%
THG Nutrition	167.9	160.6	+4.5%
THG Ingenuity <sup>[10]</sup>	35.6	39.6	-10.1%
<b>Group Revenue (continuing)</b>	<b>457.4</b>	<b>484.6</b>	<b>-5.6%</b>
Other (discontinued)	12.0	29.2	-58.8%

<b>Group Revenue</b>	<b>469.4</b>	<b>513.8</b>	<b>-8.6%</b>
<i>Inter-segment Revenue</i>	<i>158.4</i>	<i>184.3</i>	<i>-14.0%</i>

### First quarter 2023 highlights

- We have had a positive start to the year, and whilst sales growth was negative during the period this was largely as planned, as a result of prioritising higher margin sales. A significantly improving exit rate supports our expectations of core divisional growth each quarter for the remainder of the year. Ongoing input cost deflation and the annualisation of cost action undertaken results in YoY profitability improvement, providing a strong base for further margin improvement.
- Our focused approach to enhancing profitability has led us to de-emphasise certain geographies where we are unable to benefit from the economies of scale associated with our local distribution hubs. Consequently, our headline rate of growth in THG Beauty should be viewed in the context of improved profit margins.
- In THG Nutrition, we are now feeling the benefits of our strategic decision to protect our consumers from the full impact of raw material price rises. Our market data suggests we continue to win share and we believe our agile, vertically integrated, D2C model means our competitive position will improve further as the year progresses as we continue to drive product innovation.
- Whilst the macroeconomic environment remains uncertain, our stable customer metrics give us confidence.
- Within Ingenuity, Q1 performance reflects the refocus on larger, higher value and higher margin clients with high-quality recurring revenues.
- A selection of new clients and strategic partnerships announced in the quarter include:
  - o *Aditya Birla Fashion & Retail 'ABFRL'*: Scaling and replatforming D2C for Jaypore brand in the US.
  - o *Celio*: 5-year partnership to support major French retailer with D2C replatform in India.
  - o *G.O.A.T Brand Labs*: Strategic partnership to build and execute localised digital capabilities in India, in addition to replatforming a selection of brands in India home market with internationalisation to follow.
  - o *Maximo Group*: 10-year partnership encompassing an end-to-end technology and fulfilment service agreement, expected to add in excess of £150 million GMV to the Ingenuity platform annually.
  - o *BigCommerce*: THG and BigCommerce have entered into preliminary non-binding discussions related to enabling a US and EMEA-focused complete commerce solution which brings together BigCommerce's composable ecommerce storefront with Ingenuity's fully integrated technology stack and operational capabilities.
  - o *PWC*: A joint, fully managed ecommerce proposition whereby Ingenuity brings the ecommerce platform and operational capabilities whilst PWC brings market-leading transformation consulting expertise to design and deliver the customer experience with a focus on retail and consumer.

### Corporate Governance

The Group's intention to move to the Premium segment of the Main Market of the London Stock Exchange remains, with timing subject to the final outcome of the FCA's review for reform of the listing regime, noting the comments from the FCA's Chief Executive on 29 March 2023 with regard to a proposed move to a single listing category. The Group expects the rights attaching to the Special Share to cease in September 2023.

### Analyst and investor conference call

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

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

<https://stream.brmedia.co.uk/broadcast/64185dd837aa9c3b3147f16e>

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

- UK dial in: +44 (0) 330 551 0200
- Password: THG - Preliminary Results

### For further information please contact:

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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 complete digital commerce solution, Ingenuity, to an online and global customer base. THG's business is operated through the following divisions:

**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. It is a global route to market for over 1,300 third-party premium 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 of brands (Myvegan, Myvitamins, MP Activewear and MyPRO), with a vertically-integrated business model, supported by global THG production facilities.

**THG Ingenuity:** Ingenuity provides a complete digital commerce solution for consumer brand owners across its three pillars of technology, digital and operations. Being part of the THG group, a global digital brand owner in Beauty & Nutrition, Ingenuity is uniquely placed to bring relevant, practical, and international expertise in every area of commerce.

### 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.*

### Chief Executive Officer's Statement

2022 was unquestionably the most challenging global environment we've seen since founding THG nearly 20 years ago. An extraordinary backdrop of runaway inflation, rapidly rising interest rates, and major geopolitical events created significant macroeconomic and consumer uncertainty. I'm incredibly proud of how THG and the team responded to these challenges. For me, there is no doubt that 2022 was our best performance to date, even given the reduction in profitability year-on-year.

THG almost doubled in size during the global pandemic, capitalising on an unprecedented movement of consumers to online retail. As consumer behaviour has normalised, the Group not only held onto the growth achieved during the pandemic but went on to grow further during 2022. This growth in market share, delivered in the most trying of circumstances, is testament to the quality and dedication of our people.

From the start of 2022, the Group and divisions alike undertook decisive action to adapt their business models to a very different market landscape, while maintaining revenue growth in the process.

Our Beauty and Nutrition divisions committed to shielding consumers from what we believe to be exceptional, short-term inflationary pressures. These actions temporarily reduced gross

margins and profitability year-on-year, with the long-term benefits to brand integrity underpinning stronger customer loyalty and financial reward.

- After a careful and lengthy search, Vivek Ganotra joined as CEO of THG Ingenuity in June and was tasked with repositioning the division away from smaller, high-volume clients, to focus resources on our growing base of valuable, large scale, enterprise clients.
- The previous 48 months have seen significant expansion of our global fulfilment and manufacturing infrastructure, with each facility requiring a full depth of stock holding to become fully operational - which is now rationalising as evidenced through the working capital inflow in the year. This strategy has driven an improved service for consumers in international territories.
- In July 2022, we announced the completion of the divisional reorganisation, increasing strategic optionality for the future. The divisional reorganisation has also yielded improved visibility of costs, enabling savings to be made from reducing duplication and greater focus. The project was very comprehensive, and we are well on our way towards broadening our financial reporting to better reflect the divisional performance.
- Group headcount reduced by almost 2,000 people during the year, largely achieved through the careful management of attrition as well as maintaining strong cost discipline and the roll-out of logistics automation.
- To strengthen our liquidity, we agreed a new £156 million banking facility, resulting in the Group having over £640 million of cash and facilities at the year-end. Net debt of £181 million was better than guidance of c.£200 million.
- The Group's Board also underwent some changes, with the appointment of Lord Charles Allen as Non-Executive Chairman, and the subsequent appointment of two Independent Non-Executive Directors.

We see the Group being well progressed to deliver positive free cash flow on a rolling 12 month basis through FY 2024, via ongoing project delivery efficiencies including driving working capital improvements, while not compromising our ability to meet growing demand and deliver top-line revenue growth.

### **Market outlook**

Our Beauty and Nutrition divisions operate in large, resilient and expanding total addressable markets, with each holding prominent positions in many territories. There are long-term trends driving category growth in our core markets (premium beauty, health and wellness), where we have the infrastructure and capabilities to serve following investment in our fulfilment and distribution network.

Both our core consumer markets continued to grow through the previous global financial crisis, and over the last decade benefitted from the exceptional growth of online participation. For example, the UK online share of total retail sales has increased by more than 25% over the last three years - now accounting for around 25% of total retail sales.

Our key categories are supported by favourable dynamics, such as high repeat-purchase rates, stable average order values and very low return rates. This presents THG with opportunities to grow within existing markets, and in targeted new markets where we will be able to rapidly scale up our presence.

### **Customer proposition**

One of our greatest assets is our global customer base of over 16 million THG Beauty and THG Nutrition active customers. Our apps have been downloaded over 10 million times from a standing start in January 2020 with our first-party data advantage a core strength in our model, allowing us to hold direct relationships with our consumers.

The insights gained from these customers informs our daily decision making, and we are investing in growing this network of passionate, engaged beauty and wellness enthusiasts - firmly positioning us as the market leader in this space.

We are constantly striving to become more efficient as an organisation, while optimising the customer experience and minimising delivery times. Through our brands, we have reimagined how we think about beauty and nutrition - and how this integrates into our daily lives as we increasingly look to improve our overall health and wellbeing.

### **Divisional highlights**

I'm pleased with the progress achieved within Ingenuity as we pivot towards a longer-term view for sustainable profitability, supporting major UK and international retailers across a wide range of categories, further supported by our expanding network of partners and strategic alliances.

THG Beauty is now firmly established as one of the leading pure-play online retailers globally delivering over £1.2 billion of revenue. We have set a pathway to rebuild margins in our largest division through a focus on profitable territories, efficient marketing channels and improved localised procurement.

THG Nutrition witnessed one of its most challenging periods in recent times and consequently I'm delighted that we delivered revenue and market share growth across many key territories, in addition to expanding our category reach with new and innovative partners. Our customer base has remained stable, notwithstanding a higher-pricing environment and physical stores reopening, supporting the defensive position of our brand.

Following the strategic investments made through acquisitions during 2021, we have continued at pace with our integration plans, prioritised customer retention, revenue growth and cost efficiencies by reducing previously-outsourced operations. The investments made in nutrition innovation and production facilities have allowed us to accelerate our speed to market, as we continue to expand our range across categories and markets.

### **Financial performance**

Group revenue increased by 4.1% during the year across core divisions (THG Beauty, THG Nutrition and THG Ingenuity), including a contribution from acquisitions within THG Beauty. A credible result considering the major events that have impacted the global economy, and compared to the prior year where the pandemic continued to impact access to traditional retail channels resulting in a tough comparable period.

The cost environment in 2022 has been unusual, with high inflation across most cost lines and foreign exchange headwinds applying pressure to margins. Where costs were unusually elevated which has compressed gross margins in THG Nutrition as we have sought to protect customers and invest in retention and growth for the longer term. We have been encouraged by demand in a higher-pricing environment, with strong repeat purchase rates from our loyal customer base of above 80%.

This strategy has driven an improved service for consumers in international territories. As we approach completion of this fulfilment network investment, we are well positioned in major territories to meet the growth demands of our own brands and our Ingenuity clients. We continue to move towards increased automation in our major hubs, driving distribution cost efficiencies for the Group to help offset inflation.

Whilst we have reported a significant non-cash impairment charge relating to Beauty and Ingenuity; this is a one-off item relating to a combination of rising interest rates leading to a higher discount rate, combined with other macroeconomic pressures resulting in an impairment of historic goodwill balances.

Core commodity prices used within our Nutrition division have already seen significant deflation since their record highs in 2022, giving us confidence in our ability to rebuild divisional margins to previous levels. In addition, we have taken measures to further improve profitability by exiting certain loss-making categories which are discussed in more detail in the CFO report.

Our strong liquidity position following the cash inflow in the second half of the year, including the new £156 million banking facility, means we are well positioned for further operational and strategic progress, notwithstanding the continued macroeconomic uncertainty.

### **People and purpose**

As THG evolves, we recognise that we must review our purpose, vision, and values to ensure they align with our strategy and reflect who we are, what we do, and why we exist. Our purpose and vision reflect the diversity in our business model and the impact we can drive through our innovation and digital expertise. Based on our success building THG Beauty and THG Nutrition into category leaders, we remain committed to reinventing how brands connect to consumers globally and supporting them to be best-in-class at building, growing and accelerating brands.

In 2022, we submitted our emissions reduction targets to the Science Based Targets initiative (SBTi) for validation - this is an important step towards our goal to achieve net zero by 2040. We also source 63% of the electricity used in our operations from renewable sources and we are on track to reach 100% by 2025. We have continued to make good progress across the people and communities pillar of our THG x Planet Earth Sustainability strategy and are proud that we have 45% female and 26% ethnic minority representation within our Graduate and Apprenticeship schemes, against a target of achieving 50% and 20% respectively by 2025.

Our people are the heartbeat of THG, and I was exceptionally pleased to reward some of our loyal and talented colleagues with share awards during the year totalling c.£19m across 33.9 million shares, in addition to a number of promotions as we continue to invest in and develop digital talent.

Finally, I'm particularly proud of THG's contribution to the communities in which we operated during 2022, in terms of both taxes and charitable efforts. In the 18th year since founding THG, the Group made a record global tax contribution of £153.4m, up from £123.4m in 2021. The contribution in 2022, from starting THG less than 18 years earlier, shows the importance of start-ups to the UK economy.

### Outlook

With the completion of the divisional reorganisation, and decisive cost reduction action undertaken, the Group enters 2023 with improving momentum to achieve substantial margin expansion. Earnings recovery is supported by continued operating leverage, reducing consumer price protection, and the full-year effect of operating efficiencies and cost savings arising from the divisional reorganisation.

Our vertically integrated model enhances our ability to react to periods of economic uncertainty, and the profit improvement initiatives undertaken as part of the strategic review give us added confidence in driving margin recovery in 2023 and beyond.

We are well capitalised to advance our strategy of building a strong, sustainable global platform supporting THG brands and Ingenuity clients, and we have outlined our core levers for driving margin accretion and positive free cash flow over the near-term.

We remain confident that our business is underpinned by strong investment and strategic growth plans which will drive long-term value for our shareholders.

### Chief Financial Officer Review

Year ended 31 December 2022			Year ended 31 December 2021		
Before Adjusted Items	Adjusted Items	Total	Before Adjusted Items	Adjusted Items	Total
£'000	£'000	£'000	£'000	£'000	£'000

### CONSOLIDATED INCOME STATEMENT

Revenue	2,239,229	-	2,239,229	2,179,910	-	2,179,910
Cost of sales	(1,333,737)	(25,517)	(1,359,254)	(1,225,506)	-	(1,225,506)
Gross profit	905,492	(25,517)	879,975	954,404	-	954,404
Distribution costs	(380,652)	(22,117)	(402,769)	(386,928)	(43,012)	(429,940)
Administrative costs	(674,626)	(298,145)	(972,771)	(575,711)	(86,216)	(661,927)
Operating loss	(149,786)	(345,779)	(495,565)	(8,235)	(129,228)	(137,463)

### ALTERNATIVE PERFORMANCE MEASURES

The following table provides adjusted measures. The Group believes that these alternative performance measures, which are not considered to be a substitute for IFRS measures, provide stakeholders with additional helpful information on the performance of the business. These alternative performance measures are consistent with how the business performance is monitored and reported through internal management reporting to the Board.

The below table summarises the result from operations before depreciation, amortisation, share-based payments and SaaS change in accounting policy costs. These amounts are also reconciled back to the nearest IFRS measure within this table:

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Adjusted gross profit	925,488	974,767
Adjusted distribution costs	(353,412)	(369,120)



Adjusted administrative costs	(507,962)	(444,371)
Adjusted EBITDA	64,114	161,276
SaaS change in accounting policy	10,183	-
Adjusted EBITDA pre SaaS change in accounting policy	74,297	161,276
EBITDA losses from discontinued categories	14,582	8,348
Adjusted EBITDA (continuing)	88,879	169,624

The table above shows financial results for gross profit, distribution costs and administrative costs before the impact of depreciation, amortisation and share-based payments. The impact is as follows:

- For statutory presentation gross profit includes charges of £20.0m (2021: £20.4m) for amortisation and depreciation.
- For statutory presentation distribution costs include charges of £27.2m (2021: £17.8m) for amortisation and depreciation.
- For statutory presentation administrative costs include charges of £155.9m (2021: £131.3m) for amortisation and depreciation and £10.7m (2021: £nil) for share-based payments.

Reconciliation from Adjusted EBITDA to Operating loss	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Adjusted EBITDA	64,114	161,276
Depreciation	(94,191)	(70,478)
Amortisation	(108,975)	(99,033)
Share-based payments	(10,734)	-
Operating loss before adjusted items	(149,786)	(8,235)
Adjusted items - impairment	(275,422)	(55,990)
Adjusted items - other	(70,357)	(73,238)
Operating loss	(495,565)	(137,463)

## Revenue

Group revenues grew by 2.7% to £2,239m (2021: £2,180m). THG Beauty sales grew +4.5% to £1,235m (2021: £1,182m), THG Nutrition grew +2.4% to £675m (2021: £660m) and THG Ingenuity delivered +9.1% growth in external revenue to £160m (2021: £146m). The contribution from acquisitions - predominantly in the Beauty division - was in line with expectations at c.£125m. Organic performance was pleasing relative to peers and against tough comparatives as the world re-opened, with stable customer metrics.

International sales accounted for 57% (2021: 58%) of total Group revenue. The US continues to be a strong growth area for the Group delivering c10% revenue growth in the year with sales of £447m (2021: £406m) representing 20% of the Group, following on from the successful integrations of US acquisitions in recent years including Dermstore, Bentley Laboratories and Perricone MD. THG Nutrition continues to perform well in the US albeit from a moderate base, with the UK delivering sales growth in excess of the Group, reinforcing our strong position and continued ability to increase sales demonstrably in our more mature markets.

Revenue growth was driven by a higher pricing environment, particularly in THG Nutrition, but was offset by challenges in respect of the reopening of physical retail, pressures on the consumer environment driven by the emerging cost of living crisis, along with disruption to the UK courier network in the final quarter of the year, the latter being more acute in THG Beauty.

Note that during 2022, revenue generated from the discontinued categories totalled £119m (2021: £147m). More information on these categories is included later in the report. Excluding these areas, the revenues from the continuing operations delivered growth of +4.3% year on year.

## Gross profit

Adjusted gross profit was £925m (2021: £975m) equating to a gross profit margin of 41.3%, 340bps adverse year on year.

Gross profit on a statutory basis decreased to £880m from £954m with a margin of 39.3% (2021: 43.8%). One key driver of the reduction on a statutory basis is the £26m inventory provision and costs of decommissioning facilities recognised in 2022, both of which are adjusting items given their one-off nature. At the year end, certain loss-making categories and territories primarily within THG OnDemand were placed under strategic review. This review is now complete and these operations will be fully exited by the end of Q3 2023. This has led to this provision relating to the expected discounting and disposal of inventory following the exit of unprofitable websites and warehouses.

The cost environment in 2022 has been unusual, with elevated whey commodity prices and other raw materials experiencing high inflation, notably labour and energy, across most major cost lines which has applied pressure to margins. Measured price increases were implemented to mitigate a proportion of the impact of this temporarily elevated input cost, however the Group also invested in consumer price protection, particularly in Nutrition, which has reduced margins during the year.

These margin headwinds began to abate across the second half of the year, a trend which we have seen continue into early 2023.

## Operating expenses

Distribution costs on a statutory basis reduced as a percentage of sales by 170bps compared to 2021, culminating in a cost of £403m (2021: £430m), which is 18.0% (2021: 19.7%) of revenue. Included within statutory distribution costs are

£22m of costs relating to incremental delivery fees in respect of Covid-19 and commissioning of new facilities. In 2021, these costs totalled £43m. The substantial decrease is due to lower incremental Covid-19 costs this year following the impacts of the pandemic lessening on the supply chain and a reduction in costs for new site commissioning as the Group network expansion programme draws to a conclusion, generating substantial capacity for growth. Adjusted distribution cost of £353m (2021: £369m) were 15.8% (2021: 16.9%) of revenue. This improvement was driven by the Group's continued focus on network optimisation, and the expanded usage of warehouse automation utilised to combat high levels of labour inflation in the market.

Administrative costs on a statutory basis totalled £973m (2021: £662m) with the increase driven by three key factors. The first being a non-cash impairment charge in respect of THG Beauty of £183m (2021: £nil) and THG Ingenuity of £87m (2021: £nil). A result of the divisional reorganisation is that additional cash-generating-units were identified during 2022 which has led to the impairment reviews being completed at a significantly more granular level than in prior periods. This combined with more challenging global markets where the market price of many technology businesses has fallen over the last 18 months, macroeconomic, inflationary and interest rate pressures along with the substantial amount of assets included within THG Beauty from recent acquisitions, and THG Ingenuity following the continued investment in the global infrastructure and platform has led to the impairment of historical goodwill balances. Secondly, a £10m charge (2021: £nil) for software-as-a-service has been recognised within administrative costs in 2022 compared to being capitalised within intangible assets in 2021, following the change in accounting policy during the prior year. Finally, in 2022 a share-based payment charge of £11m was also incurred following the new employee incentive schemes launched in the year which were £nil in the prior year.

Adjusted administrative costs as a percentage of revenue, increased by 230bps year on year, driven by well-documented global inflationary increases, primarily in respect of marketing costs driven by significant paid media and cost per click inflation. This impact was partially offset by the Group's technology-focused marketing approach and influencer model, alongside the execution of an extensive cost-reduction program across the second half of the year. The Group's cost-reduction programme delivered a reduction in headcount of almost 2,000 heads through technology investment, and simplification of operations within its core divisions across THG Beauty, THG Nutrition and THG Ingenuity. The full impact of this will continue to flow through into 2023 as it annualises.

#### **Adjusted EBITDA and Adjusted EBITDA (continuing)**

<b>£'000</b>	<b>2022</b>	<b>2021</b>
<b>Adjusted EBITDA</b>	<b>64,114</b>	161,276
Margin	2.9%	7.4%
SaaS change in accounting policy	10,183	-
<b>Adjusted EBITDA pre SaaS change in accounting policy</b>	<b>74,297</b>	161,276
EBITDA loss from discontinued categories	14,582	8,348
<b>Adjusted EBITDA (continuing)</b>	<b>88,879</b>	169,623
Margin	4.2%	8.3%

Adjusted EBITDA fell to £64.1m with a margin of 2.9% (2021: £161.3m, margin of 7.4%) with adjusted EBITDA from continuing operations totalling £88.9m compared to £169.6m in 2021.

Adjusted EBITDA (continuing) represents a margin of 4.2% (2021: 8.3%) reflective of the challenging environment that we have seen in 2022 and the Group's strategy to, as far as possible, protect consumers from these inflationary pressures in addition to adverse foreign exchange, together with administrative cost inflation across payroll and marketing.

#### **SaaS change in accounting policy**

Following the IFRIC agenda decision in 2021, the Group updated its accounting treatment and policy for IAS 38 Intangible Assets accordingly. The impact of this was that costs in relation to SaaS solutions have been recognised within administrative costs during the year. Comparative costs were recognised within intangible assets and amortised in line with the previous accounting policy. An alternative performance measure (APM) has been presented this year to provide a like-for-like comparison reflective of the prospective treatment. This APM will not be repeated in future years.

#### **Discontinued categories**

During the year, and as previously announced, a strategic review was undertaken in the year to review our non-core operations. As a result, the Group proactively chose to discontinue certain loss-making territories and categories.

A new APM has been presented this year to provide information as a result of this decision. The categories that have been discontinued - notably THG OnDemand and ProBikeKit - contributed revenue of £119m (2021: £147m) and an EBITDA loss of £15m (2021: £8m). The strategic review is now complete with these operations expected to be fully exited by the end of Q3 2023.

#### **Depreciation and amortisation**

Total depreciation and amortisation costs were £94m and £109m respectively (2021: £70m and £99m) an increase of 19.9% on the prior year. Depreciation increased as a result of the previous investment made in the global warehouse expansion program which is almost complete, with the automated beauty fulfilment facility at Manchester Airport (Icon 2) finalising its commissioning phase in early 2023.

Amortisation increased primarily due to the full year impact of the charge in respect of intangibles recognised on acquisitions during 2021, plus the continued investment in our proprietary technology platform during the period which totalled £60.7m (2021: £47.6m). This investment is focused on the technology to support both internal and external customers and ensures that we continually enhance the functionality and capability of the platform.

#### **Operating loss**

Operating loss before adjusted items totals £150m (2021: £8m). This loss was a result of the challenging macroeconomic environment (principally cost inflation and commodity prices) and our focus on price protection to customers. These costs are expected to be partially transitional in nature and are showing promising signs of abating as we move into 2023. Furthermore the Group has responded with a number of pricing and cost initiatives during the year to ensure the cost base is appropriately rebalanced and these will continue to annualise into 2023.

The Group incurred an operating loss in the period of £496m (2021: £137m). This is primarily driven by the increase in costs as set out above which have compressed gross margins, along with one-off costs incurred during the year. These costs relate mainly to the non-cash impairment charge and costs related to the discontinuation of loss-making categories.

Non-cash impairment totals £275m. This was driven by the factors set out in the adjusted items section below. The impairment relates to charges in respect of THG Beauty and THG Ingenuity totalling £269m, other intangibles within discontinued categories of £4m and assets held for sale totalling £2m.

Costs incurred in respect of the discontinuation of loss-making categories are a result of inventory provisions in respect of discounting and clearance along with disposal of impacted inventory, costs of warehouse exits and other non-recoverable assets. These costs total £32m.

#### **Finance costs net of finance income**

Finance costs net of finance income have increased to £54m (2021: £49m) driven principally by higher lease charges as the new facilities from the warehouse expansion programme contain a full year charge in 2022, vs. part year in 2021 and the additional £156m debt facility drawn in Q4.

#### **Loss before tax and tax rate**

Reported loss before tax was £550m (2021: £186m). The effective tax rate is 1.8% (2021: 25.9%), based on a total tax credit of £9.8m (2021: £48.2m). The effective tax rate differs from the average statutory rate of 19.0%. This is primarily due to a movement in deferred tax not recognised (-7.8%), and the impact of goodwill impairment (-9.3%).

At the balance sheet date the total net deferred tax liability is £77m (2021: £74m). The deferred tax liability in respect of intangible assets recognised on consolidation was £151m (2021: £152m). The deferred tax asset in respect of tax losses recognised was £55m (2021: £60m). There were £58m of unrecognised deferred tax assets in respect of tax losses at the balance sheet date (2021: £nil). This non-recognition has an impact on the income statement tax credit, and this is one of the primary reasons for the effective tax rate being below the statutory rate.

#### **Earnings per share**

Loss per share was (£0.44) per share (2021: (£0.13) per share). The non-cash impairment charge has a material impact here and if this were to be removed, the loss per share would have been (£0.21) per share.

#### **Segmental Summary**

Following the completion of the divisional reorganisation during the year, the Group reports 31 December 2022 results on a divisional basis. This is a change in the current year and the prior year has also been restated to show a comparative on a like-for-like basis of preparation.

Following the restructure, revenue is now recharged for the services that THG Ingenuity provides to the wider Group in the form of platform fees, customer services, fraud detection services, THG Studios, fulfilment, postage and marketing services. These items are eliminated on consolidation and shown separately in the following tables.

#### **Overview**

2022 £m	THG Beauty	THG Nutrition	THG Ingenuity	Other	Central	Inter-group elimination	Continuing Total	Discontinued categories [11]	FY 2022 Total
External revenue	1,235.0	675.1	159.6	50.9	-	-	2,120.6	118.7	2,239.2
Inter-segment revenue	-	-	597.4	-	-	(597.4)	-	-	-
<b>Total revenue</b>	<b>1,235.0</b>	<b>675.1</b>	<b>757.0</b>	<b>50.9</b>	<b>-</b>	<b>(597.4)</b>	<b>2,120.6</b>	<b>118.7</b>	<b>2,239.2</b>
Adjusted EBITDA pre SaaS costs	32.9	51.8	29.3	(1.9)	(23.2)	-	<b>88.9</b>	(14.6)	<b>74.3</b>
<b>Adjusted EBITDA</b>	<b>32.9</b>	<b>51.8</b>	<b>19.1</b>	<b>(1.9)</b>	<b>(23.2)</b>	<b>-</b>	<b>78.7</b>	<b>(14.6)</b>	<b>64.1</b>
Adjusted EBITDA margin	2.7%	7.7%	2.5%	-3.7%	-	-	3.7%	-12.3%	2.9%

2021 £m	THG Beauty	THG Nutrition	THG Ingenuity	Other	Central	Inter-group elimination	Continuing Total	Discontinued categories [12]	FY 2021 Total
External revenue	1,181.5	659.5	146.3	46.1	-	-	2,033.4	146.5	2,179.9
Inter-segment revenue [13]	-	-	602.5	-	-	(602.5)	-	-	-
<b>Total revenue</b>	<b>1,181.5</b>	<b>659.5</b>	<b>748.8</b>	<b>46.1</b>	<b>-</b>	<b>(602.5)</b>	<b>2,033.4</b>	<b>146.5</b>	<b>2,179.9</b>
<b>Adjusted EBITDA</b>	<b>70.2</b>	<b>76.6</b>	<b>40.4</b>	<b>(2.1)</b>	<b>(15.5)</b>	<b>-</b>	<b>169.6</b>	<b>(8.3)</b>	<b>161.3</b>
Adjusted EBITDA margin	5.9%	11.6%	5.4%	-4.6%	-	-	8.3%	-5.7%	7.4%

#### **THG Beauty**

£m	2022	2021	Change %
Revenue	1,235.0	1,181.5	+4.5%

Adjusted EBITDA	32.9	70.2	-53.2%
Margin %	2.7%	5.9%	-330bps

THG Beauty sales grew +4.5% year on year to £1,235m despite tough covid comparatives in 2021, due to online retail benefitting in H1 2021, from the closure of physical retail stores. The division successfully integrated Dermstore, Cult Beauty and Bentley Laboratories into THG Beauty in the year, which supported growth across our two key territories, UK and the US, with the acquisitions delivering in line with expectations.

THG Beauty delivered Adjusted EBITDA of £33m (2021: £70m) with a margin of 2.7% (2021: 5.9%), being a 330bps reduction on 2021. The reduction in margin is an effect of inflation, the consumer environment deteriorating driven by the emerging cost of living crisis and in Q4 material disruption in the UK courier network impacting seasonal gifting and consumers propensity to spend online.

Three key acquisitions being Cult Beauty, Dermstore and Bentley, were integrated in the year, with synergies beginning to be realised in the second half of 2022. Average order values continue to increase totalling £63 per basket for 2022 (2021: £60), this is driven from a focus on customer loyalty (with the launch of LF Beauty+) and continued investment to drive increased customer engagement in both third party and THG own brands and growth of market share in our key territories.

#### THG Nutrition

£m	2022	2021	Change %
Revenue	675.1	659.5	+2.4%
Adjusted EBITDA	51.8	76.6	-32.4%
Margin %	7.7%	11.6%	-390bps

THG Nutrition sales grew 2.4% year on year to £675m, with foreign exchange providing headwinds, alongside a particularly strong comparative period from the increase in online retail due to the closure of physical retail stores. Within THG Nutrition the input cost environment was one of the most challenging we have ever faced. In the context of this exceptionally challenging environment, we are encouraged by the robustness of trading to deliver revenue growth in 2022.

THG Nutrition delivered an Adjusted EBITDA of £52m (2021: £77m) with a margin of 7.7% (2021: 11.6%), being a 390bps reduction year on year and considerably below medium-term norms for this division reflecting exceptional input prices. Measured price increases were successfully implemented during 2022, which has partially mitigated increases in wiley input prices, freight costs and foreign exchange rate movements, although we continued to support customers through these record high-cost pressures which temporarily suppressed the margin. When commodity prices normalise, which we are already experiencing in 2023, we expect a return to the historical EBITDA margin within THG Nutrition over the medium-term.

#### THG Ingenuity

£m	2022	2021	Change %
External revenue	159.6	146.3	+9.1%
Internal revenue	597.4	602.5 <sup>[14]</sup>	-0.9%
Total revenue	757.0	748.9	+1.1%
Adjusted EBITDA pre SaaS costs	29.3	40.4	-27.5%
Margin %	3.9%	5.4%	-150bps
Adjusted EBITDA	19.1	40.4	-52.7%
Margin %	2.5%	5.4%	-290bps

THG Ingenuity revenue from external customers increased by 9.1% to £160m, with a strategic re-positioning in Q3 2022, focusing on higher value and higher margin clients which provide improved quality recurring revenue. Total Adjusted EBITDA was £19m after a £10m charge for the SaaS accounting policy change as explained earlier.

THG Ingenuity delivered an Adjusted EBITDA margin of 2.5% (2021: 5.4%), being a 290bps reduction year on year. Following the decision to reposition the division there was a strategic exit of smaller accounts to implement the new strategy which will continue throughout 2023. As revenue scales and the revenue mix evolves towards the commerce offering we consider margins will return to and exceed those achieved historically.

Ingenuity Commerce revenue of £47m (2021: £45m) includes Software-as-a-Service licence fees, monthly brand building fees, infrastructure service fees, revenue share, translation and creative services, with most of this being recurring in nature, albeit complemented by non-recurring fees. FY22 revenue growth was suppressed while management execute the change in strategy, with smaller contracts paused, and the new customer base on a longer lead time from tender to live site.

Following the announcement of the divisional reorganisation during 2022, THG Ingenuity began to charge for its services to internal customers across the wider THG PLC Group. This generated revenue of £597m, relating to services provided which have previously not been recharged across the group due to the historical corporate structure in place. The revenue relates to platform fees, customer services, fraud detection services, THG Studios, fulfilment, postage and marketing services. This revenue is eliminated on consolidation.

#### Other

£m	2022	2021	Change %
Revenue	50.9	46.1	+10.5%
Adjusted EBITDA	(1.9)	(2.1)	+11.3%
Margin %	-3.7%	-4.6%	+90bps

Other includes THG Luxury and THG Experience. Revenue growth of 10.5% has been achieved as a result of the reopening of THG Experience venues in 2022, following lockdowns in 2021 driven by the worldwide pandemic, alongside the strong growth achieved within THG Luxury.

Adjusted EBITDA loss of £2m remained consistent with the prior year with margin pressure driven by macroeconomic pressures seen in other trading divisions.

### Central costs

£m	2022	2021	Change %
EBITDA loss from central costs	(23.2)	(15.5)	+49.3%

Central costs relate primarily to the PLC Board remuneration, professional services fees, group finance, M&A, risk (insurance) and governance costs that are not recharged to the divisions as they principally relate to the operations of the PLC holding company. The increase in FY22 was driven by an increased cost base as a result of the macroeconomic environment, increased investment in governance, and investment in sustainability initiatives.

### Discontinued categories

£m	2022	2021 <sup>[15]</sup>	Change %
Revenue discontinued	118.7	146.5	-19.0%
Adjusted EBITDA from discontinued categories	(14.6)	(8.3)	+74.7%
Margin %	-12.3%	-5.7%	-660bps

At the year end, certain loss-making categories and territories primarily within THG OnDemand were placed under strategic review and the Group has subsequently decided to exit these areas enabling management to focus attention on a simplified and streamlined group. The exit doesn't meet the criteria under IFRS 5: Discontinued operations, as these categories and territories are not a major component of the Group as defined by the accounting standard. However, to provide further information on the ongoing revenue and Adjusted EBITDA of the Group these have been shown separately. The discontinued categories contributed £118.7m of revenue and an Adjusted EBITDA loss of £14.6m in 2022. Management are reviewing the optimal route for exit of these categories with the process expected to be complete by the end of Q3 2023.

### Inter-group elimination

Intergroup eliminations relate to revenue recharged for the services that THG Ingenuity provides to the wider Group in the form of platform fees, customer services, fraud detection services, THG Studios, fulfilment, postage and marketing services. These are eliminated on consolidation.

### Adjusted items

	2022	2021
	£'000	£'000
<b>Within Cost of sales</b>		
Inventory provision for discontinuation of loss-making categories and decommissioning of facilities following strategic review	25,517	-
	<b>25,517</b>	-
<b>Within Distribution costs</b>		
Transportation, delivery and fulfilment costs in relation to Covid-19	18,504	26,628
Commissioning - new facilities	3,613	16,384
	<b>22,117</b>	<b>43,012</b>
<b>Within Administrative costs</b>		
Other costs following the outcome of strategic review	6,942	-
Restructuring costs to simplify the group structure	6,803	10,233
Impairment of assets within Experience, Luxury and OnDemand divisions	-	53,008
Impairment of certain intangible and tangible assets associated with Software-as-a-service arrangements	-	2,982
Impairment of assets	269,828	-
Impairment of assets within the discontinued categories	3,763	-
Impairment of non-core assets held for sale	1,831	-
Donations	362	1,090
Acquisitions - restructuring and integration	8,046	5,328
Acquisitions - legal and professional costs	-	12,225
Other legal and professional costs	570	1,350
	<b>298,145</b>	<b>86,216</b>
<b>Total adjusted items before finance costs</b>	<b>345,779</b>	<b>129,228</b>
<b>Within Finance costs</b>		
Softbank option - non-cash	(601)	601
<b>Total adjusted items before tax</b>	<b>345,178</b>	<b>129,829</b>
Tax impact	(11,634)	(11,901)
<b>Total adjusted items</b>	<b>333,544</b>	<b>117,928</b>

For full details on each category of adjusted item see note 4 to the financial statements.

In order to understand the underlying performance of the Group, certain costs included within cost of sales, 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 year-on-year.

Following the divisional reorganisation of the Group in the year, the Group has undertaken a strategic review of loss-making categories and territories. At the year end, certain loss-making categories and territories primarily within THG OnDemand were placed under strategic review. This review is now complete and these operations will be fully exited by the end of Q3 2023. This has led to a one-off non-cash inventory provision of £26m recognised within cost of sales. This one-off provision relates to discounting and clearance along with the disposal of impacted inventory within these non-core divisions and disposal of inventory following the decision to decommission some unprofitable warehouse operations within Asia.

Other costs following the outcome of the strategic review totalling £7m are included within administrative costs. These costs include the impact of triggering early lease break clauses for the unprofitable warehouse operations within Asia and marketing costs for pre-releases that will no longer be launched. The full exit of the discontinued areas is expected to be complete by the end of Q3 2023 with costs not recurring after this date.

Additional restructuring charges of £7m were incurred being the costs of executing the divisional reorganisation, principally relating to professional fees.

Following the decision to discontinue certain categories and territories an impairment has been charged totalling £4m against affected assets.

A further impact of the divisional reorganisation is that the assets and cash flows of each division are now separately identifiable. The result being the identification of additional cash-generating-units ('CGUs'), which are reflective of the new corporate structure. The result of more CGUs is that the impairment review has been undertaken at a more granular level than in previous years. Following the significant acquisitions within the THG Beauty division in recent years, a substantial amount of intangible assets are included within the underlying asset base whilst the market price of comparable assets, alongside many technology businesses has fallen over the last 18 months. This is reflective of more challenging global markets following the macroeconomic, inflationary and interest rate pressures driven by, amongst other things, the Russia-Ukraine conflict. Against this backdrop, the impairment review has led to an impairment of £183m within the Beauty division.

In addition, an impairment charge of £87m has been recognised within the THG Ingenuity cash-generating-unit. This has arisen as the impairment review has been undertaken at a more granular level than in previous years. Following the appointment of our new CEO of THG Ingenuity in 2022, the Group has repositioned its' strategy. Management believe they have made conservative growth assumptions which are lower than the growth rate prospects of the sectors in which THG Ingenuity operates given the recent change in strategy. Alongside this, THG Ingenuity has made significant investment for the future in its platform and global infrastructure network. These factors combined with the challenging macroeconomic environment impacting several of the key assumptions, particularly the discount rate, which have also had a bearing on peer valuations, has led to the impairment of the historical goodwill within this cash-generating-unit.

During the year there has been a cost incurred in respect of transportation, delivery and fulfilment costs in relation to Covid-19. The ongoing incremental excess cost 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 these incremental costs.

In addition, restructuring and dual-running integration costs of £8m were also incurred in relation to the 2021 acquisitions as they were embedding into the Group infrastructure. These costs are expected to decrease in 2023.

#### Cashflow

	2022	2021
	£'000	£'000
<b>EBITDA</b>	<b>64,114</b>	161,276
Working capital movements	<b>23,528</b>	(65,322)
Tax paid	<b>(4,857)</b>	(7,095)
Adjusted items	<b>(45,071)</b>	(65,528)
Net cash generated in operating activities	<b>37,714</b>	23,331
Acquisition of subsidiaries net of cash acquired	<b>(5,691)</b>	(769,890)
Purchase of property, plant and equipment	<b>(94,854)</b>	(111,553)
Purchase of intangible assets	<b>(81,564)</b>	(77,620)
Proceeds from issuance of ordinary shares net of fees	<b>(73)</b>	760,230
Proceeds from bank borrowings	<b>156,000</b>	-
Other	<b>(74,576)</b>	(61,252)
<b>Net decrease in cash and cash equivalents</b>	<b>(63,044)</b>	(236,754)
Cash and cash equivalents at the beginning of the year	536,827	773,581
<b>Cash and cash equivalents at the end of the year</b>	<b>473,783</b>	536,827

The total cash outflow for the year was £63m (2021: £237m).

There was an inflow from working capital movements totalling £24m (2021: outflow £65m) primarily driven by a focused reduction in inventory. This reduction followed a prolonged period of investment over recent years, to manage uncertainty around Brexit and subsequently Covid-19, on top of an increased inventory footprint required to expand our global warehouse supply chain which can now be rationalised as the expansion program is approaching completion.

Cash paid on adjusting items totalled £45m (2021: £66m) driven by a reduction in transportation, delivery and fulfilment costs in relation to Covid-19. This has decreased as the effects of global lockdowns have lessened during 2022, alongside the successful integration of 2021 acquisitions, allowing synergies to begin to be realised which will annualise into 2023.

In 2021, there was a cash outflow of £770m for acquisition of subsidiaries. This has reduced to £6m in 2022, solely related to the settlement of contingent consideration due on the acquisitions completed in 2021.

In 2021, there was a one-off £760m cash inflow from share issuance. This did not recur in 2022.

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 £176m (2021: £189m). This is lower than initially guided as the group rationalised spend in year. The expanded global distribution infrastructure and automation is delivering operating efficiencies during a substantial cost inflationary period, and further working capital improvements are expected.

In October 2022, the Group signed an incremental £156m banking facility, provided by existing lenders, for a three year term, illustrating their continued support for the group. This provided additional cash inflows in 2022.

The Group ended the year with cash and cash equivalents of £474m (2021: £537m).

### Balance sheet

#### Cash and cash equivalents and net cash before lease liabilities

	2022	2021
	£'000	£'000
Loans and other borrowings	(679,189)	(489,865)
Lease liabilities	(334,376)	(349,173)
Cash and cash equivalents	473,783	536,827
<b>Sub-total</b>	<b>(539,782)</b>	<b>(302,211)</b>
<b>Adjustments</b>		
Retranslate debt balance at swap rate where hedged by foreign exchange derivatives	24,782	(2,548)
<b>Net debt</b>	<b>(515,000)</b>	<b>(304,759)</b>
<b>Net (debt)/cash before leases liabilities</b>	<b>(180,624)</b>	<b>44,414</b>

The Group's balance sheet remains robust closing the period with cash balances of £474m (2021: £537m). The €600m Term Loan B matures in December 2026 and the incremental £156m facility matures in Q4 2025. The Group revolving credit facility of £170m remains undrawn and has not been drawn post IPO.

Net debt before lease liabilities and adjusted for the impact of hedging was £181m (2021 net cash: £44m). The increase in net debt year on year is driven by the investment in property, plant and equipment, leases and intangible assets in the period totalling £176m.

### Capital expenditure

Property, plant and equipment totalled £360m (2021: £336m) which increased to £1,276m (2021: £1,506m) when including intangible assets. The movement in the year was driven by additional investment in the THG Ingenuity platform and continued investment in the Group's global warehouse expansion programme which is now nearing completion. These were offset by the depreciation, amortisation and impairment charges incurred.

### Consolidated statement of comprehensive income

		2022	2021
		Total	Total
	Note	£'000	£'000
Revenue	2	2,239,229	2,179,910
Cost of sales		(1,359,254)	(1,225,506)
<b>Gross profit</b>		<b>879,975</b>	954,404
Distribution costs		(402,769)	(429,940)
Administrative costs		(972,771)	(661,927)
<b>Operating loss</b>	3	<b>(495,565)</b>	(137,463)
Finance income	6	2,359	623
Finance costs	6	(56,522)	(49,447)

<b>Loss before taxation</b>	<b>(549,728)</b>	(186,287)
Income tax credit	9,771	48,213
<b>Loss for the financial year</b>	<b>(539,957)</b>	(138,074)

#### Other comprehensive (expense)/income

Items that may be subsequently reclassified to profit or loss:

Exchange differences on translating foreign operations, net of tax	62,953	(272)
Net gain on cash flow hedges	9,753	11,391
<b>Total comprehensive expense for the financial year</b>	<b>(467,251)</b>	(126,955)
Basic and diluted loss per share (£)	(0.44)	(0.13)

#### Adjusted EBITDA

		2022	2021
	Note	£'000	£'000
<b>Operating loss</b>		<b>(495,565)</b>	(137,463)
Adjustments for:			
Share-based payments	5	10,734	-
Adjusted items - impairment	4	274,422	55,990
Adjusted items - other	4	70,357	73,238
Depreciation	8,14	94,191	70,478
Amortisation	7	108,975	99,033
<b>Adjusted EBITDA<sup>[16]</sup></b>		<b>64,114</b>	161,276

#### Consolidated statement of financial position

		2022	2021
	Note	£'000	£'000
<b>Non-current assets</b>			
Intangible assets	7	1,275,762	1,506,292
Property, plant and equipment	8	360,041	335,620
Right-of-use assets	14	294,309	310,282
Investments		1,400	1,400
Other financial assets		21,567	-
		<b>1,953,079</b>	2,153,594
<b>Current assets</b>			
Assets held for sale	8.2	21,397	-
Inventories	9	373,271	466,781
Trade and other receivables	10	264,949	263,929
Other financial assets		301	2,700
Current tax asset		2,377	-
Cash and cash equivalents	11	473,783	536,827
		<b>1,136,078</b>	1,270,237
<b>Total assets</b>		<b>3,089,157</b>	3,423,831
<b>Equity</b>			
Ordinary shares		6,903	6,684
Share premium		2,024,452	2,022,311
Merger reserve		615	615
Capital redemption reserve		523	523
Hedging reserve		(6,221)	(12,964)
Cost of hedging reserve		16,704	13,694
FX reserve		61,859	(1,094)
Retained earnings		(803,096)	(274,015)
		<b>1,301,739</b>	1,755,754
<b>Non-current liabilities</b>			
Borrowings	13	648,197	489,113
Other financial liabilities		4,189	-
Lease liabilities	14	290,381	305,831
Provisions		18,840	15,623
Deferred tax		76,598	73,766
		<b>1,038,205</b>	884,333
<b>Current liabilities</b>			
Contract liability		34,256	36,143
Trade and other payables	12	636,440	676,563
Borrowings	13	30,992	752



Current tax liability		-	4,118
Lease liabilities	14	43,995	43,342
Provisions		3,530	883
Other financial liabilities		-	21,943
		<b>749,213</b>	<b>783,744</b>
<b>Total liabilities</b>		<b>1,787,418</b>	<b>1,668,077</b>
<b>Total equity and liabilities</b>		<b>3,089,157</b>	<b>3,423,831</b>

### Consolidated statement of changes in equity

	Note	Ordinary shares £'000	Share premium £'000	Merger reserve £'000	Capital Redemption reserve £'000	FX reserve £'000	Hedging reserve £'000	Cost of Hedging reserve £'000	Retained earnings £'000	Total equity £'000
<b>Balance at 1 January 2021</b>		6,061	1,287,171	615	523	(822)	(18,003)	7,342	(138,361)	1,144,526
Loss for the year		-	-	-	-	-	-	-	(138,074)	(138,074)
<b>Other comprehensive expense:</b>										
Impact of foreign exchange		-	-	-	-	(272)	-	-	-	(272)
Movement on hedging instruments		-	-	-	-	-	5,039	6,352	-	11,391
<b>Total comprehensive (expense) / income for the period</b>		-	-	-	-	(272)	5,039	6,352	(138,074)	(126,955)
Issue of ordinary share capital		623	735,140	-	-	-	-	-	-	735,763
Deferred tax effect in equity		-	-	-	-	-	-	-	2,420	2,420
<b>Balance at 31 December 2021</b>		<b>6,684</b>	<b>2,022,311</b>	<b>615</b>	<b>523</b>	<b>(1,094)</b>	<b>(12,964)</b>	<b>13,694</b>	<b>(274,015)</b>	<b>1,755,754</b>
<b>Balance at 1 January 2022</b>		<b>6,684</b>	<b>2,022,311</b>	<b>615</b>	<b>523</b>	<b>(1,094)</b>	<b>(12,964)</b>	<b>13,694</b>	<b>(274,015)</b>	<b>1,755,754</b>
Loss for the year		-	-	-	-	-	-	-	(539,957)	(539,957)
<b>Other comprehensive income:</b>										
Impact of foreign exchange		-	-	-	-	62,953	-	-	-	62,953
Movement on hedging instruments		-	-	-	-	-	6,743	3,010	-	9,753
<b>Total comprehensive (expense) / income for the period</b>		-	-	-	-	62,953	6,743	3,010	(539,957)	(467,251)
Issue of ordinary share capital		219	2,141	-	-	-	-	-	-	2,360
Share-based payments	5	-	-	-	-	-	-	-	10,734	10,734
Deferred tax effect in equity		-	-	-	-	-	-	-	142	142
<b>Balance at 31 December 2022</b>		<b>6,903</b>	<b>2,024,452</b>	<b>615</b>	<b>523</b>	<b>61,859</b>	<b>(6,221)</b>	<b>16,704</b>	<b>(803,096)</b>	<b>1,301,739</b>

### Consolidated statement of cash flows

	Note	2022 £'000	2021 £'000
<b>Cash flows from operating activities before adjusted cash flows</b>			
Cash generated from operations		87,642	95,954
Income tax paid		(4,857)	(7,095)
<b>Net cash generated from operating activities before adjusted cash flows</b>		<b>82,785</b>	<b>88,859</b>
Cash flows relating to adjusted items		(45,071)	(65,528)
<b>Net cash generated from operating activities</b>		<b>37,714</b>	<b>23,331</b>
<b>Cash flows from investing activities</b>			
Acquisition of subsidiaries net of cash acquired		(5,691)	(768,490)
Purchase of investments		-	(1,400)
Purchase of property, plant and equipment		(94,854)	(111,553)
Purchase of intangible assets		(81,564)	(77,620)
Interest received	6	2,359	323
<b>Net cash used in investing activities</b>		<b>(179,750)</b>	<b>(958,740)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of ordinary shares net of fees		(73)	760,230
Interest paid		(27,922)	(25,359)
Proceeds from bank borrowings		156,000	-
Repayment of lease liabilities	14	(49,012)	(36,216)
<b>Net cash flow from financing activities</b>		<b>82,446</b>	<b>698,655</b>

<b>Net decrease in cash and cash equivalents</b>		<b>(63,044)</b>	(236,754)
Cash and cash equivalents at the beginning of the year		<b>536,827</b>	773,581
<b>Cash and cash equivalents at the end of the year</b>	11	<b>473,783</b>	536,827

## Notes to the 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 Icon 1 7-9 Sunbank Lane, Ringway, Altrincham, United Kingdom, WA15 0AF. 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 financial period presented here is for the 12 months ending 31 December 2022, and a prior period comparative of the 12 months ending 31 December 2021.

#### b. Basis of preparation

The consolidated financial statements, have been prepared in accordance with UK-adopted international accounting standards ("IFRS") and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006. The financial statements have been prepared on the historical cost basis, except for derivatives which are held at fair value.

The financial information included in this preliminary statement of results does not constitute statutory accounts within the meaning of section 435 of the Companies Act (the "Act"). These Condensed Consolidated Financial Statements of THG PLC and its subsidiaries apply the same accounting policies, presentation and methods of calculation as those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2022, which were prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board and were also prepared in accordance with IFRS adopted by the European Union ('EU'), the Companies Act 2006 and Article 4 of the EU IAS Regulations.

The statutory accounts for the 12 months ending 31 December 2022 were approved by the Board of Directors on 17 April 2023. The Auditors of the Group made a report thereon under Chapter 3 or part 16 of the Act. This report was unqualified and does not contain a statement under sections 498 (2) or (3) of the Act.

The statutory accounts for the 12 months ending 31 December 2021 have been delivered to the registrar of Companies, and the Auditors of the Group made a report thereon under Chapter 3 or part 16 of the Act. This report was unqualified and does not contain a statement under sections 498 (2) or (3) of the Act.

The financial statements are presented in pounds sterling, rounded to the nearest hundred thousand unless otherwise stated. The Directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements of the Group.

The accounting policies adopted by the Group in the current year are consistent with those adopted during the year ended 31 December 2021.

There have been no new or amended accounting standards or interpretations adopted during the year that have had a significant impact on the Group's financial statements.

There are no standards, interpretations or amendments to IFRS that have been issued but are not yet effective that are expected to have a material impact on the Group's financial statements.

### 2. Segmental reporting and revenue

Following the completion of the divisional reorganisation, the Directors have re-assessed the criteria and considerations under IFRS 8 'Operating Segments' in order to identify operating segments within the Group. For 31 December 2022, the Directors have concluded that the Group has six operating segments. Until 31 December 2021, the Group only had one operating segment. During 2022, the Group's activities were divided into the following segments THG Beauty, THG

Nutrition, THG Ingenuity, THG OnDemand (disclosed under the discontinued categories segment), THG Luxury and THG Experience. This corresponds to the internal reporting and organisational structure that changed during the year. THG Luxury and THG Experience segments are aggregated due to being below the quantitative thresholds as set out in IFRS 8. Central costs are disclosed separately.

The prior year segmental analysis for EBITDA has been presented as this measure has been reported to the Chief Operating Decision Maker (CODM) during the current year as a comparative measure following the restructure. The prior year segmental revenue includes an illustrative internal recharge from THG Ingenuity to the wider THG PLC Group as if this was in place throughout 2021 to provide a like-for-like comparison.

The results of each division are reported to the Board of Directors and are treated as reportable operating segments. The following table describes the main activities for each reportable operating segment:

Segment	Activities
THG Beauty	The 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	THG Ingenuity provides a complete digital commerce solution for consumer brand owners across its three pillars of technology, digital and operations. Being part of the THG group, a global digital brand owner in Beauty & Nutrition, Ingenuity is uniquely placed to bring relevant, practical, and international expertise in every area of commerce.
Other	Includes THG Luxury and THG Experience. THG Luxury operates D2C websites retailing luxury clothing and homewear. THG Experience comprises prestige events locations at Hale Country Club & Spa, King Street Townhouse Hotel and Great John Street Hotel.
Discontinued categories	At the year end, certain loss-making categories and territories primarily within THG OnDemand were placed under strategic review. This review is now complete and these operations will be fully exited in 2023. The exit doesn't meet the criteria under IFRS 5: Discontinued operations at the balance sheet date, as these categories and territories are not a major component of the Group as defined by the accounting standard, however, management began to report the financial results of these categories separately in their reporting to the CODM, as such the result has also been shown in the same format within this note.

Central costs relate primarily to the PLC Board remuneration, professional services fees, group finance, M&A, risk (insurance) and governance costs that are not recharged to the divisions as they principally relate to the operations of the PLC holding company.

The CODM is the executive Board directors, who makes the key operating decisions for the business. The CODM receives daily financial information at the combined Group level, along with monthly information at a divisional level and uses this information to allocate resources, make operating decisions and monitor the performance of each of the divisions.

The measure of the Group's profit or loss used by THG's management team are both Adjusted EBITDA pre SaaS change in accounting policy and Adjusted EBITDA comprising operating loss less interest, tax, depreciation, amortisation, shared-based payments and adjusted items. This is reconciled to the nearest IFRS measure (loss before tax) in the below table.

	THG Beauty £'000	THG Nutrition £'000	THG Ingenuity £'000	Other £'000	Central PLC £'000	Inter-group elimination £'000	Result before discontinued categories £'000	Discontinued categories <sup>[17]</sup> £'000	2022 Total £'000
2022 External revenue	1,234,977	675,133	159,580	50,878	-	-	2,120,568	118,661	2,239,229
Internal revenue	-	-	597,420	-	-	(597,420)	-	-	-
<b>Total revenue</b>	<b>1,234,977</b>	<b>675,133</b>	<b>757,000</b>	<b>50,878</b>	<b>-</b>	<b>(597,420)</b>	<b>2,120,568</b>	<b>118,661</b>	<b>2,239,229</b>
Adjusted EBITDA pre- SaaS costs	32,866	51,783	29,304	(1,907)	(23,167)	-	88,879	(14,582)	74,297
<b>Adjusted</b>	<b>32,866</b>	<b>51,783</b>	<b>19,121</b>	<b>(1,907)</b>	<b>(23,167)</b>	<b>-</b>	<b>78,696</b>	<b>(14,582)</b>	<b>64,114</b>

<b>EBITDA</b>									
<b>Margin %</b>	2.7%	7.7%	2.5%	-3.7%	-	-	3.7%	-12.3%	2.9%
Depreciation									(94,191)
Amortisation									(108,975)
Share-based payments									(10,734)
Adjusted items									(345,779)
<b>Operating loss</b>									<b>(495,565)</b>
Finance income									2,359
Finance costs									(56,522)
<b>Loss before taxation</b>									<b>(549,728)</b>

An element of THG Ingenuity revenue is contract based and therefore is recognised over time; all other revenue streams are recognised at a point in time. Of the total revenues recognised for THG Ingenuity, £73.8m (2021: £75.6m) is recognised over time.

Segment assets and liabilities are not disclosed because they are not yet regularly reported or reviewed by the Board.

In 2021, the Group only had one operating segment. The below information has been included as the comparative disclosure.

	THG Beauty £'000	THG Nutrition £'000	THG Ingenuity £'000	Other £'000	Central PLC £'000	Inter-group elimination <sup>[18]</sup> £'000	Result before discontinued categories £'000	Discontinued categories <sup>[19]</sup> £'000	2021 Total <sup>[20]</sup> £'000
2021 External revenue	1,181,529	659,531	146,306	46,062	-	-	2,033,428	146,482	2,179,910
Internal revenue	-	-	602,545	-	-	(602,545)	-	-	-
<b>Total revenue</b>	<b>1,181,529</b>	<b>659,531</b>	<b>748,851</b>	<b>46,062</b>	<b>-</b>	<b>(602,545)</b>	<b>2,033,428</b>	<b>146,482</b>	<b>2,179,910</b>
<b>Adjusted EBITDA</b>	<b>70,234</b>	<b>76,633</b>	<b>40,410</b>	<b>(2,137)</b>	<b>(15,517)</b>	<b>-</b>	<b>169,623</b>	<b>(8,348)</b>	<b>161,276</b>
<b>Margin %</b>	5.9%	11.6%	5.4%	-4.6%	-	-	8.3%	-5.7%	7.4%
Depreciation									(70,478)
Amortisation									(99,033)
Adjusted items									(129,228)
<b>Operating loss</b>									<b>(137,463)</b>
Finance income									623
Finance costs									(49,447)
<b>Loss before taxation</b>									<b>(186,287)</b>

The Group has provided an analysis of external revenue by region (by destination):

	2022	2021
	£'000	£'000
UK	960,535	909,452
USA	446,542	406,489
Europe	449,783	458,027
Rest of the world	382,369	405,942
	<b>2,239,229</b>	<b>2,179,910</b>

The Group's non-current assets by geography are as follows:

	2022	2021
	£'000	£'000
UK	1,257,689	1,891,133
Europe	145,057	37,966
Rest of the world	550,333	224,495
	<b>1,953,079</b>	<b>2,153,594</b>

Following the completion of the divisional reorganisation in the year, certain intangible assets have been reclassified between geographies, given the greater granularity of information available.

### 3. Operating loss

		2022	2021
	Note	£'000	£'000
Operating loss has been arrived at after charging / (crediting):			
Adjusted items - impairment	4	275,422	55,990
Adjusted items - other	4	70,357	73,238
Employee costs		275,145	260,892
Share-based payments	5	10,734	-
Depreciation on fixed assets	8	50,896	38,269
Depreciation on right-of-use assets	14	43,295	32,209
Amortisation of intangibles	7	108,975	99,033
Government grants		(1,752)	(1,662)
Net foreign exchange gain		1,422	444

### 4. Adjusted items

These are items which are material in nature and include, but are not limited to, costs relating to acquisitions, disposals and significant events or programmes, some of which span multiple years. These items are excluded from adjusted EBITDA as management believe their inclusion distorts the underlying trading performance. This is consistent with the way that financial performance is measured by management and reported to the Board.

	2022	2021
	£'000	£'000
<b>Within Cost of sales</b>		
Inventory provision for discontinuation of loss-making categories and decommissioning of facilities following strategic review	25,517	-
	<b>25,517</b>	<b>-</b>
<b>Within Distribution costs</b>		
Transportation, delivery and fulfilment costs in relation to Covid-19	18,504	26,628
Commissioning - new facilities	3,613	16,384
	<b>22,117</b>	<b>43,012</b>
<b>Within Administrative costs</b>		
Other costs following the outcome of strategic review	6,942	-
Restructuring costs to simplify the Group structure	6,803	10,233
Impairment of assets within Experience, Luxury and OnDemand divisions	-	53,008
Impairment of certain intangible and tangible assets associated with Software-as-a-service arrangements	-	2,982
Impairment of assets	269,828	-
Impairment of assets within the discontinued categories	3,763	-
Impairment of non-core assets held for sale	1,831	-
Donations	362	1,090
Acquisitions - restructuring and integration	8,046	5,328
Acquisitions - legal and professional costs	-	12,225
Other legal and professional costs	570	1,350
	<b>298,145</b>	<b>86,216</b>
<b>Total adjusted items before finance costs</b>	<b>345,779</b>	<b>129,228</b>
<b>Within Finance costs</b>		
Non-cash - revaluation of SBM option	(601)	601
<b>Total adjusted items before tax</b>	<b>345,178</b>	<b>129,829</b>
Tax impact	(11,634)	(11,901)
<b>Total adjusted items</b>	<b>333,544</b>	<b>117,928</b>

*Inventory provision for discontinuation of loss-making categories and decommission of facilities following strategic review*

Following the divisional reorganisation, the Group has undertaken a strategic review of loss-making categories and territories within THG OnDemand and other non-core divisions. In addition, as part of the strategic review in the year, the Group also reviewed its warehousing facilities resulting in some sites being decommissioned. The result of the decommissioning identified inventory where there was no economic benefit of the Group to moving to an alternative warehouse or selling via other channels. The outcome of these reviews has led to a one off inventory provision for the categories being discontinued of £25.5m which has been recognised within cost of sales.

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

In 2022, we continue to be impacted by Covid-19 surcharges from suppliers with routes travelling through and into Asia, although at a lesser rate during 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. 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. We anticipate the costs to reduce significantly in 2023.

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. As the impact of the pandemic have lessened the requirement to charter flights has dropped away in the first half of 2022 and this cost will not continue.
- 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 and this cost has continued to decrease each month during 2022 and post year end.
- 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. This cost will not continue.

#### *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. These warehouses are in operation, although further automation is required to be implemented into the sites to reach to optimal efficiency expected of the sites, including Autostore automation in New Jersey in 2023 and automated sortation in Icon in 2022. The costs have significantly reduced year on year as these projects reach completion stages. The majority of the costs incurred in the prior year relate to the commissioning of the multiple ICON warehouses, of which two out of three completed during 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 on average 18 months 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 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 fulfilment 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 charges are anticipated as the respective projects are completed, however the quantum of which is expected to continue to reduce year on year as these projects are completed. The key projects ongoing into 2023 are for Icon and New Jersey and are expected to be completed by the end of 2023 at which point these costs will not continue. The costs to date for these two sites total £12.0m with the projects being c90% complete at 31 December 2022.

*Other costs following the outcome of strategic review*

Other costs following the outcome of the strategic review totalling £6.9m are included within administrative costs. These costs include the costs triggering early lease break clauses for the unprofitable warehouse operations within Asia and marketing costs for pre-releases that will no longer be launched. The full exit of the discontinued areas is expected to be complete by the end of Q3 2023 with costs not recurring after this date.

*Restructuring costs to simplify the Group structure*

The costs included within restructuring costs of £6.8m (2021: £10.2m) include costs of executing the Group simplification project.

*Impairment*

*Impairment of assets within Experience, Luxury and OnDemand divisions*

See impairment of assets within the discontinued categories heading for information relating to 2022.

In 2021, a one off, non-cash impairment of £53.0m was recognised in respect of THG Experience, THG Luxury and THG OnDemand business units.

*Impairment of certain intangible and tangible assets associated with Software-as-a-Service arrangements*

There was no impairment of these costs incurred in 2022. SaaS costs incurred in 2022 have been recognised within the underlying administrative expenses.

The Group hold various arrangements for SaaS solutions. Given the IFRIC agenda decision in 2021, the Group updated its accounting treatment and policy for IAS 38 Intangible Assets accordingly in the prior year. We determined that £3.0m of SaaS related costs no longer met the criteria for recognition as an asset under IAS 38. Accordingly, this amount was expensed in full and has been disclosed as an adjusting item because it arises from the one-off introduction of interpretations to accounting guidance.

*Impairment of assets*

A further impact of the divisional reorganisation is that the assets and cash flows of each division are now separately identifiable. The result being the identification of additional cash-generating-units ('CGUs'), which are reflective of the new corporate structure. The result of more CGUs is that the impairment review has been undertaken at a more granular level than in previous years. Following the significant acquisitions within the THG Beauty division in recent years, a substantial amount of intangible assets are included within the underlying asset base whilst the market price of comparable assets, alongside many technology businesses has fallen over the last 18 months. This is reflective of more challenging global markets following the macroeconomic, inflationary and interest rate pressures driven by, amongst other things, the Russia-Ukraine conflict. Against this backdrop, the impairment review has led to an impairment of £183m within the Beauty division.

In addition, an impairment charge of £87m has been recognised within the THG Ingenuity cash-generating-unit. This has arisen as the impairment review has been undertaken at a more granular level than in previous years. Following the appointment of our new CEO of THG Ingenuity in 2022, the Group has repositioned its' strategy. Management believe they have made conservative growth assumptions which are lower than the growth rate prospects of the sectors in which THG Ingenuity operates given the recent change in strategy. Alongside this, THG Ingenuity has made significant investment for the future in its platform and global infrastructure network. These factors combined with the challenging macroeconomic environment impacting several of the key assumptions, particularly the discount rate, which have also had a bearing on peer valuations, has led to the impairment of the historical goodwill within this cash-generating-unit.

*Impairment of assets within the discontinued categories*

Following the decision to discontinue certain categories and territories an impairment has been charged totalling £3.7m against affected assets.

*Impairment of non-core assets held for sale*

An impairment charge of £1.8m has been recognised against non-core assets that meet the criteria to be classified as held for sale under IFRS 5. The net book value of these assets has been reclassified to a current asset and an impairment charge has been recognised for the difference between the selling price and the carrying value.

#### *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 2021, as part of its Covid-19 response, the Group made several charitable donations to the local region, totalling £1.1m.

#### *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 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 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.

#### *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 2022.

#### *Other legal and professional costs*

The Group incurs legal and professional costs that are non-recurring, one-off in nature and not related to trading activities. These costs are included as adjusted items and can include, but are not limited to, legal costs for one off matters and other fees associated with investor activities.

#### *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. On 26 July 2022, the Group announced that in light of global macroeconomic 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. At 31 December 2022, the option has therefore been derecognised.

The option had previously been classified as a derivative instrument, an option that held value for SBM and consequently fell under the provisions of IFRS 9 (Financial Instruments). The impact of the derecognition is a non-cash £0.6m gain recognised on the revaluation. As this is a non-recurring transaction the revaluation effects of this option have been presented as an adjusted item.

## **5. Share-based payments**

The Group operates a share-based compensation plan, under which the Group receives services from employees as consideration for equity settled instruments (options) of the Company. Options over Ordinary Shares were granted to participants on 16 June 2022, with top up options awarded to certain participants on 3 October 2022. 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 option awards will vest in three equal tranches on 31 December 2022, 31 December 2023 and 31 December 2024 provided participants remain in continued employment with the Company at each date. Performance conditions are attached to a small proportion of the awards to a small number of participants.

	<b>2022</b>	2021
	<b>£'000</b>	£'000
Expense arising from equity-settled share-based payment transactions	<b>10,734</b>	-

The following table shows the shares granted and outstanding at the beginning and end of the year:

	<b>2022</b>
	<b>Number of shares</b>
As at 1 January	-
Granted during the year	<b>43,352,699</b>
Vested during the year	<b>(12,547,412)</b>
Forfeited during the year	<b>(1,556,687)</b>
As at 31 December	<b>29,248,600</b>

The key inputs to calculate the charge are the share price at the date of grant and an assumption around those not remaining in continued employment, spread across the vesting period. Achievement of performance conditions have been considered where appropriate. The range of exercise prices are £0.00 to £0.11, and the weighted average remaining contractual life is 9.6 years.

## 6. Finance income and cost

	<b>2022</b>	2021
	<b>£'000</b>	£'000
<b>Finance income</b>		
Bank interest receivable	<b>2,359</b>	323
Derivative financial instrument	-	300
	<b>2,359</b>	623
<b>Finance costs</b>		
Bank interest payable and charges	<b>43,791</b>	36,496
Interest on lease liabilities	<b>14,332</b>	12,350
Revaluation of SBM option	<b>(601)</b>	601
	<b>56,522</b>	49,447

## 7. Intangible assets

	Goodwill £'000	Platform development costs £'000	Intellectual property £'000	Brands £'000	New Product Development £'000	Total £'000
<b>Cost or valuation</b>						
<b>At 1 January 2021</b>	<b>421,684</b>	<b>179,742</b>	<b>146,749</b>	<b>110,170</b>	<b>4,765</b>	<b>863,110</b>
Additions	78	47,587	24,135	2,559	3,710	<b>78,069</b>
Business combinations	329,401	-	63,623	494,736	-	<b>887,760</b>
Transfers	-	(6,919)	1,474	(1,474)	195	<b>(6,724)</b>
Disposals	-	(1,611)	(41,249)	(566)	-	<b>(43,426)</b>
Currency translation differences	3,919	28	2,858	1,933	1	<b>8,739</b>
<b>At 31 December 2021</b>	<b>755,082</b>	<b>218,827</b>	<b>197,590</b>	<b>607,358</b>	<b>8,671</b>	<b>1,787,528</b>
<b>At 1 January 2022</b>	<b>755,082</b>	<b>218,827</b>	<b>197,590</b>	<b>607,358</b>	<b>8,671</b>	<b>1,787,528</b>
Additions	-	55,513	20,736	353	4,513	<b>81,115</b>

Business combinations	2,375	-	-	-	-	<b>2,375</b>
Transfers	-	2,592	-	-	-	<b>2,592</b>
Disposals	-	(9,031)	(464)	-	-	<b>(9,495)</b>
Currency translation differences	33,520	348	6,110	33,045	29	<b>73,052</b>
<b>At 31 December 2022</b>	<b>790,977</b>	<b>268,249</b>	<b>223,972</b>	<b>640,756</b>	<b>13,213</b>	<b>1,937,167</b>

#### Accumulated amortisation

<b>At 1 January 2021</b>	<b>270</b>	<b>103,440</b>	<b>61,621</b>	<b>22,121</b>	<b>1,365</b>	<b>188,817</b>
Transfers	-	(3,438)	-	-	-	(3,438)
Amortisation	-	36,894	35,921	24,682	1,536	99,033
Impairment loss	33,359	1,759	4,637	-	-	39,755
Currency translation	-	(4)	420	36	-	452
Disposals	-	(1,568)	(41,249)	(566)	-	(43,383)
<b>At 31 December 2021</b>	<b>33,629</b>	<b>137,083</b>	<b>61,350</b>	<b>46,273</b>	<b>2,901</b>	<b>281,236</b>

<b>At 1 January 2022</b>	<b>33,629</b>	<b>137,083</b>	<b>61,350</b>	<b>46,273</b>	<b>2,901</b>	<b>281,236</b>
Amortisation	-	39,837	28,980	38,274	1,884	108,975
Impairment loss	271,003	-	2,194	20	373	273,590
Currency translation	-	443	3,263	3,386	7	7,099
Disposals	-	(9,031)	(464)	-	-	(9,495)
<b>At 31 December 2022</b>	<b>304,632</b>	<b>168,332</b>	<b>95,323</b>	<b>87,953</b>	<b>5,165</b>	<b>661,405</b>

#### NBV

At 1 January 2021	421,414	76,302	85,128	88,049	3,400	674,293
At 31 December 2021	721,453	81,744	136,240	561,085	5,770	1,506,292
<b>At 31 December 2022</b>	<b>486,345</b>	<b>99,917</b>	<b>128,649</b>	<b>552,803</b>	<b>8,048</b>	<b>1,275,762</b>

Included within Intellectual property is £4.4m (2021: £3.3m) of capitalised costs incurred to obtain a contract with a customer. The costs relate to sales commissions paid to sales personnel upon initial acquisition of a customer contract. Amortisation of £0.8m (2021: £0.6m) was recognised in the period in relation to these assets.

Given the impairment charge in the year, as explained within the CFO report, any change to the key assumptions could lead to a further adjustment. See the Annual Report and Accounts (note 11) for more information and sensitivity disclosures.

## 8. Property, plant and equipment

	Motor vehicles £'000	Plant and machinery £'000	Fixtures and fittings £'000	Computer equipment and software £'000	Leasehold improvements and freehold buildings £'000	Total £'000
<b>Cost</b>						
<b>At 1 January 2021</b>	<b>2,055</b>	<b>70,080</b>	<b>74,435</b>	<b>66,942</b>	<b>103,751</b>	<b>317,263</b>
Additions	119	45,277	36,125	28,667	15,991	<b>126,179</b>
Business combinations	213	11,877	765	738	3,380	<b>16,973</b>
Transfers	-	-	-	6,722	-	<b>6,722</b>
Currency translation differences	(1)	(541)	(859)	(44)	131	<b>(1,314)</b>
Disposals	(54)	(245)	(3,016)	(2,551)	(250)	<b>(6,116)</b>
<b>At 31 December 2021</b>	<b>2,332</b>	<b>126,448</b>	<b>107,450</b>	<b>100,474</b>	<b>123,003</b>	<b>459,707</b>
<b>At 1 January 2022</b>	<b>2,332</b>	<b>126,448</b>	<b>107,450</b>	<b>100,474</b>	<b>123,003</b>	<b>459,707</b>
Additions	12	16,370	40,461	21,446	17,309	<b>95,598</b>
Transfer to assets held for sale	-	-	(6,831)	-	(17,071)	<b>(23,902)</b>
Transfers	-	(2,592)	-	-	-	<b>(2,592)</b>
Currency translation differences	-	3,137	2,461	2,031	478	<b>8,107</b>
	(27)					<b>(7,670)</b>

Disposals		(263)	(2,148)	(5,232)	-	
<b>At 31 December 2022</b>	<b>2,317</b>	<b>143,100</b>	<b>141,393</b>	<b>118,719</b>	<b>123,719</b>	<b>529,248</b>
<b>Accumulated depreciation</b>						
<b>At 1 January 2021</b>	<b>1,095</b>	<b>9,038</b>	<b>20,442</b>	<b>18,478</b>	<b>27,989</b>	<b>77,042</b>
Depreciation (note 3)	250	11,623	6,833	17,174	2,389	38,269
Impairment	-	5,533	2,555	1,224	67	9,379
Transfers	-	-	-	3,438	-	3,438
Currency translation differences	-	242	(147)	26	67	188
Disposals	(54)	(251)	(1,344)	(2,330)	(250)	(4,229)
<b>At 31 December 2021</b>	<b>1,291</b>	<b>26,185</b>	<b>28,339</b>	<b>38,010</b>	<b>30,262</b>	<b>124,087</b>
<b>At 1 January 2022</b>	<b>1,291</b>	<b>26,185</b>	<b>28,339</b>	<b>38,010</b>	<b>30,262</b>	<b>124,087</b>
Depreciation (note3)	323	16,238	9,799	21,018	3,518	50,896
Impairment of assets held for sale	-	-	1,831	-	-	1,831
Transfer to assets held for sale	-	-	(1,831)	-	(674)	(2,505)
Currency translation differences	-	840	409	1,083	131	2,463
Disposals	(27)	(160)	(2,148)	(5,230)	-	(7,565)
<b>At 31 December 2022</b>	<b>1,587</b>	<b>43,103</b>	<b>36,399</b>	<b>54,881</b>	<b>33,237</b>	<b>169,207</b>
<b>NBV</b>						
At 1 January 2021	960	61,042	53,993	48,464	75,762	240,221
At 31 December 2021	1,041	100,263	79,111	62,464	92,741	335,620
<b>At 31 December 2022</b>	<b>730</b>	<b>99,997</b>	<b>104,994</b>	<b>63,838</b>	<b>90,482</b>	<b>360,041</b>

## 8.2 Assets held for sale

In Q4 2022, the Group committed to a plan to sell some non-core freehold buildings that were no longer in use by the Group and not required to execute its future strategy. In accordance with IFRS 5: Non-current assets held for sale and discontinued operations, the assets were classified as held for sale on the Groups statement of financial position at 31 December 2022. Immediately before the classification as an asset held for sale, the recoverable amount was estimated and an impairment loss of £1,831,000 was recognised to reduce the carrying amount of the assets to their fair value less costs to sell. This was recognised within adjusted items (note 4) as this was a one-off charge outside the normal course of business. The assets held for sale are valued using Level 2 fair value hierarchy inputs based on quoted prices in an active market.

As at 31 December 2022, there was no further write-down as the carrying amount of the assets held for sale did not fall below their fair value less costs to sell. These assets were previously recognised within the THG Ingenuity and THG Experience operating segments.

	2022	2021
<b>Assets classified as held for sale</b>	<b>£'000</b>	<b>£'000</b>
Transfer from property, plant and equipment (note 8)	21,397	-
	<b>21,397</b>	-

## 9. Inventories

	2022	2021
	<b>£'000</b>	<b>£'000</b>
Goods held for resale	296,133	378,605
Raw materials	72,327	80,542
Goods in transit	4,811	7,634
	<b>373,271</b>	<b>466,781</b>

Goods in transit relate to goods whose control is still to be transferred to the customers as of the reporting date. The cost of inventories recognised as an expense and included in cost of sales amounted to £1,272.9m (2021: £1,178.7m). The value of inventories written down and recognised as an expense in the statement of comprehensive income in the year was £8.6m (2021: £7.6m). Within goods held for resale is a £3.0m (2021: £3.0m) right to recover asset which represents the carrying value of inventory expected to be received back from customers as returns.

## 10. Trade and other receivables

	2022	2021
	£'000	£'000
Trade receivables	121,122	119,567
Less: loss allowance	(1,805)	(2,268)
Net trade receivables	119,317	117,299
Prepayments	28,362	21,372
Accrued income	40,004	58,329
Other taxation and social security	33,748	26,883
Other receivables	43,518	40,046
	264,949	263,929

Trade and other receivables are principally denominated in Sterling.

## 11. Cash and cash equivalents

	2022	2021
	£'000	£'000
Cash and cash equivalents	473,783	536,827

Cash and cash equivalents includes amounts receivable of £3.1m (2021: £3.6m) from banks and £17.4m (2021: £8.9m) from payment providers, for credit and debit card transactions. Such amounts clear the bank shortly after the transaction takes place.

## 12. Trade and other payables

	2022	2021
	£'000	£'000
Trade payables	321,709	297,539
Accruals	244,553	326,957
Other taxation and social security	58,811	28,259
Other payables	1,880	6,160
Government grants	2,635	2,592
Contingent consideration on acquisitions	6,852	15,056
	636,440	676,563

The Directors consider the carrying amount of trade and other payables approximates to their fair value when measured by discounting cash flows at market rates of interest as at the balance sheet date.

Contingent consideration on acquisitions is measured at fair value using unobservable inputs (level 3 of the fair value hierarchy). The unobservable inputs used in the fair value calculation include internal data such as forecasts, budgets and actual results to date. The fair values are sensitive to changes in EBITDA or revenue given that these key metrics are what the performance targets are based on. The reduction year on year is driven by payments made of £7.6m, plus £0.5m of hindsight adjustments.

Included within trade payables is £53.7m (2021: £42.3m) due to suppliers that participate in the Group's supply chain financing agreement. The agreement does not change the suppliers agreed payment terms directly with the Group.

## 13. Interest bearing loans and borrowings

		2022	2021
	Note	£'000	£'000
<b>Current</b>			
Bank borrowings		30,992	752
Lease liabilities	14	43,995	43,342

		<b>74,987</b>	44,094
<b>Non-current</b>			
Bank borrowings		<b>648,197</b>	489,113
Lease liabilities	14	<b>290,381</b>	305,831
		<b>938,578</b>	794,944

Bank borrowings relate predominantly to the 7-year Euro term loan B, undrawn 5-year revolving credit facility and an incremental facility obtained during the year. The revolving credit facility is provided by Barclays, HSBC, Santander, Citibank, NatWest and JPM. The term loan B carried an interest rate of 4.50% plus EURIBOR and the revolving credit facility interest rate is SONIA. The Group increased its bank borrowings in 2022 with an incremental facility obtained plus Commercial Facility Loan. This loan is provided by the Groups existing lenders and carries a base rate of Daily RFR (SONIA). The floating element of the term loan B is hedged by interest rate derivatives. Management note that EURIBOR is being reformed as a benchmark rate and are in dialogue with its lending and hedging partners to minimise the impact on the Group as transition occurs.

If interest rates moved by 100bps, the Group's loss before tax would be c.£3.7m higher / lower (2021: c.£5.1m) and the subsequent move on the derivative valuation would cause equity to be c.£18.5m higher / lower (2021: c.£12.5m) as a result of the same move.

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

	<b>2022</b>	2021
	<b>£'000</b>	£'000
Loans and other borrowings	<b>(679,189)</b>	(489,865)
Lease liabilities	<b>(334,376)</b>	(349,173)
Cash and cash equivalents	<b>473,783</b>	536,827
<b>Sub-total</b>	<b>(539,782)</b>	(302,211)
<b>Adjustments:</b>		
Retranslate debt balance at swap rate where hedged by foreign exchange derivatives	<b>24,782</b>	(2,548)
<b>Net debt</b>	<b>(515,000)</b>	(304,759)
<b>Net (debt)/cash before lease liabilities</b>	<b>(180,624)</b>	44,414

#### 14. Leases

Set out below are the carrying amounts of the right-of-use assets recognised and movements during the period:

	Motor vehicles £'000	Plant and machinery £'000	Computer equipment and software £'000	Land and buildings £'000	Total £'000
<b>As at 1 January 2021</b>	<b>539</b>	<b>665</b>	-	<b>192,683</b>	<b>193,887</b>
Additions	44	-	6	156,467	<b>156,517</b>
Depreciation (note 3)	(172)	(274)	(4)	(31,759)	<b>(32,209)</b>
Lease modifications	-	-	-	(427)	<b>(427)</b>
Impairment	-	-	-	(6,856)	<b>(6,856)</b>
Currency translation differences	(33)	(17)	-	(580)	<b>(630)</b>
<b>As at 31 December 2021</b>	<b>378</b>	<b>374</b>	<b>2</b>	<b>309,528</b>	<b>310,282</b>
<b>As at 1 January 2022</b>	<b>378</b>	<b>374</b>	<b>2</b>	<b>309,528</b>	<b>310,282</b>
Additions	-	-	-	13,608	<b>13,608</b>
Depreciation (note 3)	(173)	(213)	(1)	(42,908)	<b>(43,295)</b>
Lease modifications	-	-	(1)	17,856	<b>17,855</b>
Disposals	-	-	-	(11,426)	<b>(11,426)</b>
Currency translation differences	5	3	-	7,277	<b>7,285</b>
<b>As at 31 December 2022</b>	<b>210</b>	<b>164</b>	-	<b>293,935</b>	<b>294,309</b>

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2022	2021
	£'000	£'000
<b>As at 1 January</b>	<b>349,173</b>	236,185
Additions	6,620	137,601
Accretion of interest	14,130	12,350
Payments	(49,012)	(36,216)
Lease modifications	17,820	(443)
Disposals	(13,510)	-
Currency translation differences	9,155	(304)
<b>As at 31 December</b>	<b>334,376</b>	349,173
Current	43,995	43,342
Non-current	290,381	305,831

The Group had total cash outflows for leases of £49.0m in 2022 (2021: £36.2m).

The following are the amounts recognised in the year in the consolidated statement of comprehensive income:

	2022	2021
	£'000	£'000
Depreciation expense on right-of-use assets	43,295	32,209
Interest expense on lease liabilities	14,130	12,350
	<b>57,425</b>	44,559

#### 15. Earnings per share

The following table reflects the income and share data used in the basic and diluted EPS calculations:

	2022	2021
Loss for the financial year (£'000)	(539,957)	(138,074)
Weighted average number of ordinary shares for basic EPS	1,239,485,253	1,099,043,113
Basic and Diluted EPS (£'s)	(0.44)	(0.13)

If the impact of impairment charges in the year was removed, the Basic and Diluted EPS would be £(0.21).

The basic loss per share has been calculated by dividing the loss attributable to the Group by the weighted average number of ordinary shares in issue.

The diluted loss per share has been calculated by adjusting the weighted average number of shares for the effects of the D, E, F, G and H shares, assuming full vesting of all potentially dilutive shares.

There was no change in the diluted earnings per share, since the effect of all potentially dilutive shares outstanding was anti-dilutive.

#### 16. Related Party Transactions

The Directors' interests in the ordinary share capital of the Company at the balance sheet date are detailed below:

	£ per share	Ordinary Shares 2022 Number	Ordinary Shares 2021 Number
M J Moulding	0.005	249,294,545	233,441,525
M J Moulding	1	361	361
J A Gallemore	0.005	3,638,116	3,638,116

J A Gallemore	1	3,174	3,174
D P Murphy <sup>[21]</sup>	0.005	n/a	14,566,016
I McDonald	0.005	2,505,943	2,505,943
Z Byng-Thorne <sup>21</sup>	0.005	n/a	69,765
T Hall <sup>21</sup>	0.005	n/a	33,557
D Sanders	0.005	21,926	21,926
C Allen	0.005	2,400,000	-
		<b>257,864,065</b>	<b>254,280,383</b>

In addition to the shareholdings noted above, the Directors had the following interests in vested Shares issued under previous incentive arrangements at the balance sheet date. These shares carry no voting rights.

		2022	2021	2022	2021
	Date of award	Subscription/exercise price £	Subscription/exercise price £	Number	Number
M J Moulding	Dec-19	0.23	0.23	43,641,266	43,641,266
M J Moulding	Aug-20	0.33	0.33	20,197,808	20,197,808
M J Moulding	Aug-20	0.28	0.28	7,733,792	7,733,792
J A Gallemore	Dec-19	0.23	0.23	185,476	185,476
J A Gallemore	Aug-20	0.33	0.33	2,666,963	2,666,963
J A Gallemore	Aug-20	0.28	0.28	4,000,537	4,000,537
D P Murphy <sup>20</sup>	Dec-19	0.23	0.23	n/a	370,953
I McDonald	Dec-19	0.23	0.23	185,476	185,476
				<b>78,611,318</b>	<b>78,982,271</b>

The Group has not provided any interest free loans to the Directors in 2022. In previous years the Group provided £0.3m of interest free loans to the Directors for them to subscribe for shares as part of the employee benefit scheme which remain outstanding at the balance sheet date. The share-based payments expense associated with the Directors was nil (2021: £293.6m).

On 11 August 2021, 89,612,682 H Shares held by M J Moulding were paid up and converted into listed Ordinary Shares, leading to a reduction in the unpaid share capital included within other receivables (note 10) of £30.5m.

The Group has in place an agreement on commercial terms with Moulding Capital Limited to provide property, facilities and project management services to the entity and its subsidiaries. This agreement generated £0.3m (2021: £0.6m) for the Group recognised within administrative expenses.

Prior to the IPO which took place in September 2020, THG divested the Propco Group, an entity now wholly owned by the Group's CEO. The Propco Group owns property assets occupied and utilised by THG and its operating businesses.

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

	2022 £'000	2021 £'000
Right-of-use asset	159,000	218,279
Lease liability	178,694	262,797

The amounts recognised on the Group's statement of comprehensive income in relation to the leases with Propco in the year are as follows:

	2022 £'000	2021 £'000
Depreciation arising on right-of-use assets	11,277	12,723
Expense recognised in financing costs	8,182	10,663
Impairment arising on right-of-use-assets	-	6,856
Impairment arising on property plant and equipment	-	8,156

The table below gives further detail around the leases in place:

Number of properties	Residual lease term date divestment	FY22 rent £'000
9	0-4 years	962
1	6 years	1,652
12	12-14 years	3,285
7	18-24 years	9,923

The following table shows the amounts receivable from or payable to Propco which are outstanding at the balance sheet date. 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.

Included within the amounts owed to Moulding Capital Limited is an amount of £10.5m in relation to fixtures and fitting that had been paid by the Propco on behalf of THG in respect of a fitout of one of the properties leased by THG. An extensive review was completed by THG to ensure that all assets were in use by THG. In addition legal specialists and property specialists were engaged to ensure that this transaction was completed on an arms-length basis. Following completion of this work and after approval by the Related Parties Committee the amount was recognised as an amount owed to related parties.

Related party	2022		2021	
	Amounts owed by related parties	Amounts owed to related parties	Amounts owed by related parties	Amounts owed to related parties
	£'000	£'000	£'000	£'000
Aghoco 1442 Ltd	-	100	-	217
Allenby Square Ltd	-	190	-	532
MCL Alpha PropCo Ltd	-	161	-	192
MCL Omega PropCo Ltd	-	-	-	1,243
MCL Icon Unit 3 PropCo S.à r.l.	-	296	-	296
MCL Gadbrook PropCo Ltd	-	242	-	242
MCL Icon Unit 4 PropCo Ltd	-	217	-	217
MCL PV PropCo Ltd	-	45	-	-
MCL A&A PropCo Ltd	-	241	-	241
MCL GJS PropCo Ltd	-	195	-	465
MCL HCC PropCo Ltd	-	285	-	355
MCL KS PropCo Ltd	-	225	-	225
Moulding Capital Limited	-	10,454	-	47
MCL Wroclaw sp. Z.o.o	-	-	-	645
MCL ICON S.à r.l	-	1,101	-	1,101
MCL Icon Unit 2 PropCo Limited	-	953	-	953
	-	14,705	-	6,971

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

[2] THG Beauty revenue restated to include A&A manufacturing

[3] THG Ingenuity revenue restated to exclude A&A manufacturing and include Arrow films

[4] Gross Margin % is presented before the impact of depreciation and amortisation

[5] Adjusted EBITDA is defined as operating profit before depreciation, amortisation, adjusted items and share-based payments. To remove Software-as-a-Service "SaaS" costs which have been recognised within administrative expenses in FY 2022 following the IFRIC agenda decision. Presentational change with no incremental change to cashflow.

[6] See CFO report for a reconciliation to adjusted EBITDA

[7] Net Cash / (Debt) is cash and cash equivalents less debt before lease liabilities, on a hedged basis (see note 13)

[8] Comparable to adjusted EBITDA from continuing divisions of £100.0m including stock clearance and Ingenuity strategic pivot



[9] Other (continued) is reported within THG Beauty from Q1 2023

[10] THG Ingenuity revenue is reported after inter-group elimination

[11] At the year end, certain loss-making categories and territories within non-core divisions were placed under strategic review and subsequently management has decided to exit these areas. The exit doesn't meet the criteria under IFRS 5: Discontinued operations as these categories and territories are not a major component of the Group as defined by the accounting standard, however, to provide further information on the ongoing revenue and Adjusted EBITDA of the Group the result of these operations has been shown separately in the above table.

[12] For the loss-making categories and territories within non-core divisions that have been shown separately within the 2022 table under the discontinued categories heading, the same adjustment has been included for the 2021 result to show a comparative of continuing operations year on year.

[13] Internal revenue was not recharged until the completion of the divisional reorganisation, however for illustrative purposes this has been shown above for 2021. This has been calculated using the same charging mechanisms in 2022 to provide a like-for-like comparison.

[14] Internal revenue was not recharged until the completion of the divisional reorganisation, however for illustrative purposes this has been shown above for 2021. This has been calculated using the same charging mechanisms in 2022 to provide a like-for-like comparison.

[15] For the loss-making categories and territories within non-core divisions shown separately within the 2022 table under the discontinued categories heading, the same adjustment has been included for the 2021 result to show a comparative of continued operations year on year.

[16] Adjusted EBITDA is defined as operating profit before depreciation, amortisation, share-based payments and adjusted items. The comprehensive expense is 100% attributable to the owners of the Parent Company.

[17] At the year end, certain loss-making categories and territories within non-core divisions were placed under strategic review and subsequently management has decided to exit these areas. The exit doesn't meet the criteria under IFRS 5: Discontinued operations and assets held for sale as these categories and territories are not a major component of the Group as defined by the accounting standard, however, to provide further information on the ongoing revenue and Adjusted EBITDA of the Group the result of these operations have been shown separately in the above table.

[18] Internal revenue was not recharged until the completion of the divisional reorganisation, however for illustrative purposes this has been shown above for 2021. This has been calculated using the same charging mechanisms in 2022 to provide a like-for-like comparison.

[19] For the loss-making categories and territories within non-core divisions that have been shown separately within the 2022 table under the discontinued categories heading, the same adjustment has been included for 2021 result to show a comparative of continuing operations year on year.

[20] Following the completion of the divisional reorganisation, the strategy of each segment has been reviewed and redefined where necessary, as a result some services were redefined within THG Ingenuity, THG Beauty and Other segments in 2022. To ensure that the comparative disclosure is consistent this has been restated in the above table. The impact is an increase in THG Beauty external revenue of £63.7m, decrease in THG Ingenuity external revenue of £48.0m and decrease of Other segments external revenue of £15.7m. THG Beauty has been restated to include Acheson & Acheson which was previously recognised within THG Ingenuity due to some services being delivered to THG Ingenuity customers which is no longer the case. THG Ingenuity has been restated to exclude Acheson & Acheson manufacturing and include Arrow Films which has been reclassified following the discontinuation of the other categories within THG OnDemand. The total revenue has not changed as a result of the inter-segment reclassifications.

[21] D P Murphy, Z Byng-Thorne and T Hall stepped down from the Board during the year and were therefore not Directors at 31 December 2022.

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