Registered No. 06250176

BrightHouse Group Limited

Half Year Report

for the twenty-six weeks ended 28 September 2019

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Operational Headlines for the Half Year 2019-20

BrightHouse Group Limited (the "Company"), the leading provider of rent-to-own products in the United Kingdom, today announces interim results of operations for the thirteen weeks and twenty-six weeks ended 28 September 2019.

Key Summary

- Gross dues of £2.8m (Q2 2018/19: £4.7m), Net dues loss of £1.7m (Q2 2018/19: loss of £0.2m). RTO trading is down as we continue to operate in a tough trading environment and we seek to adjust our business model to the new regulatory landscape
- Cash loans success continued with 11,900 new loans issued during the quarter and a contract portfolio of £23.8m
- Cost of bad debt of £8.9m (Q2 2018/19: £8.9m) shows the recovery of cost of bad debt after the Q1 2019/20 results impacted by 30 store closures and the retail reorganisations in March 2019
- The business continues to benefit from management's ongoing programme to reduce the cost to serve as operating expenses pre-exceptional items reduced by 11% to £29.3m for Q2 2019/20 compared to £32.9m for Q2 2018/19
- EBITDA loss for the quarter of £3.2m (Q2 2018/19: loss of £1.0m)
- We have increased the affordability provision by £5.6m as a result of an increase in the number of complaints received and we have disclosed a contingent liability in respect of our affordability provision

The following table reconciles EBITDA to loss before tax for the Second Quarter 2019-20 and the Second Quarter 2018-19, as well as the Half Year 2019-20 and the Half Year 2018-19.

(in thousands of £)	**For the Second Quarter 2019-20**	**For the Second Quarter 2018-19**	**For the Half Year 2019-20**	**For the Half Year 2018-19**
Loss before tax	(16,193)	(11,718)	(25,899)	(22,192)
Financial income and expense	4,043	2,689	7,929	5,355
Depreciation of fixtures and equipment and amortization of software	3,152	3,435	6,300	6,909
Exceptional items	6,167	4,605	6,533	5,816
Finance related costs	215	–	429	–
Impact of IFRS 16	(629)	–	(1,193)	–
EBITDA	(3,245)	(989)	(5,901)	(4,112)

Certain Definitions

Definitions of certain terms used in this Half Year Report and certain financial and operating data can be found below.

"APR" refers to the annual percentage interest rate.

"Company" refers to BrightHouse Group Limited.

"Contract Portfolio" refers to, collectively, all the hire purchase agreements existing on any given date. For a detailed explanation of Contract Portfolio as a non-IFRS operating measure, see "Introduction—Presentation of Financial and Other Data—Presentation of non-IFRS operating measures".

"FCA" refers to the Financial Conduct Authority.

"Half Year 2018-19" refers to the twenty-six weeks ended 29 September 2018.

"Half Year 2019-20" refers to the twenty-six weeks ended 28 September 2019.

"Half Year Report" refers to this report as of and for the twenty-six weeks ended 28 September 2019.

"IFRS" refers to International Financial Reporting Standards as adopted by the European Union.

"Indenture" refers to the indenture dated 2 February 2018 relating to the 9% senior secured notes due 2023 issued by the group.

"Insurance Subsidiaries" refers to, collectively, Caversham Insurance Limited and Caversham Holdings (Malta) Limited.

"Notes" refers to the 9% senior secured notes due 2023 issued by the group on 2 February 2018.

"SEC" refers to the U.S. Securities and Exchange Commission.

"Second Quarter 2018-19" refers to the thirteen weeks ended 29 September 2018.

"Second Quarter 2019-20" refers to the thirteen weeks ended 28 September 2019.

"sterling", "pound sterling" and "£" refer to the lawful currency of the United Kingdom.

"the period" and "this period" refer to the Second Quarter 2019-20 unless the context otherwise requires.

"we", "us", "our", "Group" and other similar terms refer to the Company and its consolidated subsidiaries unless the context otherwise requires or is clear from context.

Presentation of Financial and Other Data

For the purposes of this Half Year Report we refer to the twenty-six weeks ended 28 September 2019 as "Half Year 2019-20", and the twenty-six weeks ended 29 September 2018 as " Half Year 2018-19". We refer to our fiscal year started 1 April 2019 and ending 31 March 2020 as "Fiscal 2020".

Consolidated financial statements

The consolidated financial statements of the Company and its subsidiaries for the thirteen weeks and twenty-six weeks ended 28 September 2019 presented in this Half Year Report have been prepared in accordance with IFRS and in accordance with the accounting policies presented in the offering memorandum relating to the Notes. The consolidated financial statements are unaudited and have been derived from the internal management reporting of the Company. The results of operations for prior periods or interim periods are not necessarily indicative of the results to be expected for the full financial reporting periods or any future reporting periods.

Presentation of non-IFRS financial measures

In this Quarterly Report, we present certain non-IFRS financial measures, including EBITDA and certain related ratios. As used in this Quarterly Report, the following terms have the following meanings:

We define "EBITDA" as profit for the period before financial charges, tax, depreciation of fixtures, equipment and vehicles (but not depreciation of hire purchase assets), amortisation of software, IFRS 16 and exceptional items.

We believe that EBITDA is a useful indicator of our overall financial performance and EBITDA is a useful indicator of our liquidity and our ability to incur and service our indebtedness, and can assist certain investors, securities analysts and other interested parties in evaluating us.

EBITDA and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. You should exercise caution in comparing EBITDA as reported by us to that reported by other companies. EBITDA as presented herein differs from the definition of "Consolidated EBITDA" contained in the Indenture or for purposes of any of our other indebtedness. The information presented as EBITDA is unaudited and has not been prepared in accordance with IFRS or any other accounting standards. In addition, the presentation of these measures is not intended to and does not comply with the reporting requirements of the SEC and will not be subject to review by the SEC; compliance with its requirements would require us to make changes to the presentation of this information.

EBITDA is not a measurement of performance under IFRS and you should not consider EBITDA as an alternative to net income or operating profit or other performance measures determined in accordance with IFRS, or to cash flows from operations, investing activities or financing activities. EBITDA has limitations as an analytical tool, and you should not consider it in isolation.

Presentation of non-IFRS operating measures

This Half Year Report includes information on our "Contract Portfolio" and other related data. Our Contract Portfolio consists of all of the hire purchase agreements we enter into with our customers. The value of our Contract Portfolio refers to the aggregate amount of remaining payments due under our hire purchase agreements on a given date through the term of the relevant contracts in effect on such date, assuming that all contracts are paid in full and not terminated prior to maturity. These payments include, in addition to the expected instalment payments towards the retail price of the product, interest and indirect taxes and payments from the purchase of our optional insurance and warranty products. This Half Year Report also presents information on the performance of our Contract Portfolio.

We present the value of our Contract Portfolio because it represents our best estimate of the undiscounted cash value of the aggregate payments that will come due under our existing hire purchase agreements at certain points in time. The value of our Contract Portfolio is an important supplemental measure by which our board of directors and management assess our performance, as they highlight the cash generation capacity of the assets underlying our business. However, these numbers are not derived from our internal financial systems or management accounts, but are derived from our non-financial operating systems and they have not been audited, reviewed or verified by independent auditors.

The value of the Contract Portfolio and other Contract Portfolio related performance data, as computed by us, may not be comparable to similar metrics used by other companies in our industry. In addition, our computations could differ in the future from the figures included in this Quarterly Report. Furthermore, levels of actual recoveries are uncertain and may vary materially due to several factors. Therefore, none of the value of our Contract Portfolio or any other Contract Portfolio related data included herein should be relied on as indicators of future revenue or performance.

Rounding adjustments

Certain numerical figures contained in this Half Year Report, including financial information and certain operating data, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or within a table may not conform exactly to the total figure given for that column or row or the sum of certain numbers presented as a percentage may not conform exactly to the total percentage given.

Consolidated Financial Statements

Group income statement

for the thirteen weeks and twenty-six weeks ended 28 September 2019

	Notes	*13 weeks ended 28 September 2019 (Unaudited) £000*	*13 weeks ended 29 September 2018 (Unaudited) £000*	*26 weeks ended 28 September 2019 (Unaudited) £000*	*26 weeks ended 29 September 2018 (Unaudited) £000*
Revenue	3	60,327	67,494	123,290	136,089
Cost of sales		(34,203)	(35,608)	(70,360)	(71,414)
Gross Profit		26,124	31,886	52,930	64,675
Operating expenses		(38,274)	(40,915)	(70,900)	(81,512)
Operating loss		(12,150)	(9,029)	(17,970)	(16,837)
Analysed by					
Depreciation of fixtures and equipment and amortisation of intangible assets		3,152	3,435	6,300	6,909
Exceptional items	2	6,167	4,605	6,533	5,816
Finance related costs		215	–	429	–
Impact of IFRS 16		(629)	–	(1,193)	–
Earnings before interest, tax, depreciation amortisation and exceptional items		(3,245)	(989)	(5,901)	(4,112)
Other finance income	4	45	–	75	23
Other finance expense	4	(4,088)	(2,689)	(8,004)	(5,378)
Loss before taxation		(16,193)	(11,718)	(25,899)	(22,192)
Tax (charge) / credit	5	(90)	(175)	(67)	620
Loss for the period		(16,283)	(11,893)	(25,966)	(21,572)

The results shown above all relate to continuing activities.
There are no recognised gains or losses other than the loss for the period, therefore a group statement of comprehensive income has not been presented.

Group statement of financial position

as of 28 September 2019

	Notes	*28 September 2019 (unaudited) £000*	*29 September 2018 (unaudited) £000*
Non-current assets			
Property, plant and equipment	6	106,437	104,539
Intangible assets	7	13,146	17,801
Trade and other receivables	10	7,724	10,967
Deferred tax assets	8	13,712	13,808
		141,019	147,115
Current assets			
Inventories	9	9,030	16,425
Trade and other receivables	10	45,072	43,440
Cash and cash equivalents	11	14,053	15,434
Corporation tax debtor		402	–
		68,557	75,299
Total assets		209,576	222,414
Current liabilities			
Trade and other payables	12	20,202	41,130
Financial liabilities	13	20,270	99
Other provisions	14	21,343	12,900
Current tax payable		431	478
Lease liabilities		2,259	–
		64,505	54,607
Non-current liabilities			
Financial liabilities	13	128,919	118,055
Lease liabilities	13	27,251	–
		156,170	118,055
Total liabilities		220,075	172,662
Net (liabilities) / assets		(11,099)	49,752
Equity attributable to equity holders of the parent			
Share capital	15	1,294	1,294
Share premium		72,598	72,598
Capital redemption reserve		57	57
Capital contribution reserve		39,274	39,274
Retained earnings		(124,322)	(63,471)
Total equity		(11,099)	49,752

Group statement of changes in equity

as of and for the twenty six weeks ended 28 September 2019

	Share capital (unaudited) £000	*Share Premium (unaudited) £000*	*Capital redemption reserve (unaudited) £000*	*Capital contribution reserve (unaudited) £000*	*Retained earnings (unaudited £000*	*Total Equity (unaudited) £000*
As of 1 April 2018	1,294	72,598	57	39,274	(41,899)	71,324
Loss for the period	–	–	–	–	(21,572)	(21,572)
As of 29 September 2018	1,294	72,598	57	39,274	(63,471)	49,752
As of 1 April 2019	1,294	72,598	57	39,274	(91,586)	21,637
IFRS 16 implementation	–	–	–	–	(6,770)	(6,770)
Loss for the period	–	–	–	–	(25,966)	(25,966)
As of 28 September 2019	1,294	72,598	57	39,274	(124,322)	(11,099)

Group statement of cash flows

for the thirteen weeks and twenty-six weeks ended 28 September 2019

	Notes	*13 weeks ended 28 September 2019 (Unaudited) £000*	*13 weeks ended 29 September 2018 (Unaudited) £000*	*26 weeks ended 28 September 2019 (Unaudited) £000*	*26 weeks ended 29 September 2018 (Unaudited) £000*
Cash flows from operating activities					
Loss for the period		(16,283)	(11,893)	(25,966)	(21,572)
Adjustments for:					
Sales proceeds from sales of rental assets		565	566	1,147	1,178
Depreciation		22,484	23,753	46,451	46,800
Amortisation of intangible assets		2,455	2,809	4,898	5,451
Loss on disposal of leased assets		26	–	440	–
Financial income		(45)	–	(75)	(23)
Financial expense		4,088	2,665	8,004	5,378
Profit on rental assets sold to customers		(545)	(271)	(896)	(631)
Rental assets written off as obsolete or not recoverable from defaulting customers		6,125	6,310	13,095	12,110
Purchase of rental assets		(17,289)	(26,996)	(34,960)	(50,642)
Taxation		90	175	67	(620)
Operating cash inflow/(outflow) before changes in working capital		1,671	(2,882)	12,205	(2,571)
Increase in trade and other receivables		(2,216)	(354)	(3,252)	(595)
Decrease / (Increase) in inventories		560	836	(448)	(2,927)
(Decrease) / Increase in trade and other payables		(4,750)	(3,071)	(14,030)	6,217
Increase / (Decrease) in provisions		2,781	635	(1,515)	(674)
Cash generated from operations		(1,954)	(4,836)	(7,040)	(550)
Tax refunded/(paid)		231	(348)	435	(348)
Net cash flow from operating activities		(1,723)	(5,184)	(6,605)	(898)
Cash flows from investing activities					
Interest received		12	–	24	23
Purchase of property, plant and equipment		(331)	(251)	(455)	(812)
Payments to acquire intangible assets		(739)	(1,848)	(1,479)	(2,938)
Net cash from investing activities		(1,058)	(2,099)	(1,910)	(3,727)
Cash flows from financing activities					
Proceeds of new loans		13,200	99	23,600	99
Interest paid		(618)	–	(1,101)	–
Repayment of term loans		(11,000)	–	(13,500)	–
Net cash flow from financing activities		1,582	99	8,999	99
Net (decrease)/increase in cash and cash equivalents		(1,199)	(7,184)	484	(4,526)
Cash and cash equivalents at the beginning of the period		15,252	22,619	13,569	19,961
Cash and cash equivalents at the end of the period	11	14,053	15,435	14,053	15,435

Notes to the Group financial statements

as of and for the thirteen weeks and twenty-six weeks ended 28 September 2019

1. Accounting policies and basis of preparation

This Half Year report contains condensed consolidated financial information of BrightHouse Group Limited for the thirteen weeks and the twenty-six weeks ended 28 September 2019. The unaudited Half Year financial information has been prepared using consistent accounting policies, presentation, and method of computation to those applied in the latest annual financial statements of BrightHouse Group Limited for the year ended 31 March 2019. This financial information should be read in conjunction with the consolidated financial statements of BrightHouse Group Limited for the year ended 31 March 2019.

Basis of preparation

The consolidated financial statements of BrightHouse Group Limited and its subsidiaries (the "Group") are approved by the directors and prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union ("EU") ("Adopted IFRS"). The financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated. The financial information contained in this interim statement does not constitute statutory accounts as defined by Section 435 of the Companies Act 2006.

2. Exceptional items

Recognised as part of operating loss

	13 weeks ended 28 September 2019 (Unaudited) £000	*13 weeks ended 29 September 2018 (Unaudited) £000*	*26 weeks ended 28 September 2019 (Unaudited) £000*	*26 weeks ended 29 September 2018 (Unaudited) £000*
Affordability claims	5,600	2,500	5,600	2,500
Vacant and onerous lease provision	394	393	760	413
Restructuring	173	1,013	173	2,203
Historical staff purchase scheme	–	700	–	700
	6,167	4,606	6,533	5,816

Affordability claims

The volume of complaints received have been higher than we forecasted and therefore our provision for affordability claims has increased by £5.6m to £12.6m. Further details of this are disclosed in note 14 to the accounts.

Vacant and Onerous lease provision

As at 28 September 2019 we reassessed the provision and incurred a charge of £394,000 to reflect the remaining liability of the leases.

Restructuring

The business-wide cost reduction programme continues and led to incremental retail and supply chain redundancy costs of £173,000 during the Second Quarter 2019-20.

Notes to the Group financial statements

as of and for the thirteen weeks and twenty-six weeks ended 28 September 2019

3. Revenue

Revenue comprises consideration from the provision of a range of services to domestic customers who are predominately in the sub-prime market. During the year we offered customers cash loans products and/or rent-to-own hire purchase agreements and related insurance and warranty agreements. Our rent-to-own product catalogue includes home electronic, domestic appliances, technology products and household furniture.

Customers entering into our hire purchase agreements from 2 September 2013 are entitled to return assets at any time with no further payments falling due and with no penalties incurred. With effect from 26 February 2017, when we unbundled warranty cover, the automatic right of return remains included within the hire purchase agreement.

On this basis the rent-to-own transactions are treated as being operating leases in nature and the directors believe that at the inception of the lease there are no minimum future lease payments as the goods can be returned at any time.

Cash loans revenue comprises interest income and fee income earned. Interest income on customer receivables is recognised using an effective interest rate as defined by IFRS 9 until the end of the agreement. Income is recognised on the gross receivable when accounts are in IFRS 9 stages 1 and 2**,** and on the net receivable for accounts in stage 3. Accounts can only move between stages for revenue recognition purposes at the Group's interim or year end balance sheet date.

4. Finance income and expense

Recognised in the income statement

	13 weeks ended 28 September 2019 (Unaudited) £000	*13 weeks ended 29 September 2018 (Unaudited) £000*	*26 weeks ended 28 September 2019 (Unaudited) £000*	*26 weeks ended 29 September 2018 (Unaudited) £000*
Interest income	12	13	24	23
Unwinding of discount on VAT incurred in advance (note 10)	33	(13)	51	–
Finance income	45	–	75	23

	13 weeks ended 28 September 2019 (Unaudited) £000	*13 weeks ended 29 September 2018 (Unaudited) £000*	*26 weeks ended 28 September 2019 (Unaudited) £000*	*26 weeks ended 29 September 2018 (Unaudited) £000*
Interest expense	4,088	2,686	8,004	5,376
Unwinding of discount on VAT incurred in advance (note 10)	–	3	–	2
Finance expense	4,088	2,689	8,004	5,378

Notes to the Group financial statements

as of and for the thirteen weeks and twenty-six weeks ended 28 September 2019

5. Taxation

Tax on loss on ordinary activities
Recognised in the income statement

	13 weeks ended 28 September 2019 (Unaudited) £000	*13 weeks ended 29 September 2018 (Unaudited) £000*	*26 weeks ended 28 September 2019 (Unaudited) £000*	*26 weeks ended 29 September 2018 (Unaudited) £000*
Current tax:				
Corporation tax charge overseas	67	12	67	24
Total current tax	67	12	67	24
Deferred tax:				
Deferred tax charge / (credit)	–	163	–	(644)
Total taxation in income statement	67	175	67	(620)

Notes to the Group financial statements

as of and for the thirteen weeks and twenty-six weeks ended 28 September 2019

6. Property, plant and equipment

	Rental assets (unaudited) £000	*Fixtures and equipment (unaudited) £000*	*Leased assets (unaudited) £000*	*Total (unaudited) £000*
Cost:				
As of 1 April 2018	212,108	63,331	–	275,439
Additions	50,642	812	–	51,454
Disposals	(61,228)	–	–	(61,228)
As of 29 September 2018	201,522	64,143	–	265,665
As of 1 April 2019	197,656	65,319	–	262,975
Asset created as a result of IFRS16	–	–	27,208	27,208
Additions	34,960	455	–	35,415
Disposals	(59,944)	–	(440)	(60,384)
As of 28 September 2019	172,672	65,774	26,768	265,214
Depreciation:				
As of 1 April 2018	106,948	55,945	–	162,893
Depreciation charge for the period	45,342	1,458	–	46,800
Disposals	(48,567)	–	–	(48,567)
As of 29 September 2018	103,724	57,403	–	161,127
As of 1 April 2019	100,275	58,651	–	158,926
Depreciation charge for the period	39,349	1,402	5,700	46,451
Disposals	(46,600)	–	–	(46,600)
As of 28 September 2019	93,024	60,053	5,700	158,777
Net book value:				
As of 28 September 2019	79,648	5,721	21,068	106,437
As of 1 April 2019	97,381	6,668	–	104,049
As of 29 September 2018	97,799	6,740	–	104,539
As of 1 April 2018	105,160	7,386	–	112,546

Notes to the Group financial statements

as of and for the thirteen weeks and twenty-six weeks ended 28 September 2019

7. Intangible assets

	Software (unaudited) £000	*Goodwill (unaudited) £000*	*Total (unaudited) £000*
Cost:			
As of 1 April 2018	80,872	74,978	155,850
Additions	2,938	-	2,938
As of 29 September 2018	83,810	74,978	158,788
As of 1 April 2019	87,641	74,978	162,619
Additions	1,479	-	1,479
As of 28 September 2019	89,120	74,978	164,098
Amortisation:			
As of 1 April 2018	60,558	74,978	135,536
Amortisation charge for the period	5,451	-	5,451
As of 29 September 2018	66,009	74,978	140,987
As of 1 April 2019	71,076	74,978	146,054
Amortisation charge for the period	4,898	-	4,898
As of 28 September 2019	75,974	74,978	150,952
Net book value:			
As of 28 September 2019	13,146	-	13,146
As of 1 April 2019	16,565	-	16,565
As of 29 September 2018	17,801	-	17,801
As of 1 April 2018	20,314	-	20,314

Impairment testing

Goodwill arose from the acquisition of BrightHouse Limited and has been allocated to the Group's one cash generating unit (CGU) of retail sales, hire-purchase agreements and associated premiums for insurance and warranty contracts.

Notes to the Group financial statements

as of and for the thirteen weeks and twenty-six weeks ended 28 September 2019

8. Deferred tax assets

	28 September 2019 (Unaudited) £000	*29 September 2018 (Unaudited) £000*
Assets:		
Tax losses recognised	7,516	7,730
Other property, plant and equipment	6,046	5,910
Capital contributions on lease incentives	150	168
Total tax assets	13,712	13,808

9. Inventories

	28 September 2019 (Unaudited) £000	*29 September 2018 (Unaudited) £000*
Goods held for resale at cost	9,030	16,425

During the period assets acquired for resale amounting to £34,960,000 (2018 – £50,642,000) were capitalised within property, plant and equipment as rental assets when issued to stores in advance of being hired to customers pursuant to hire and hire purchase agreements.

10. Trade and other receivables

	28 September 2019 (unaudited) £000	*29 September 2018 (unaudited) £000*
Current:		
Trade receivables	1,133	2,212
Customer loans receivable	11,238	–
Amounts owed from ultimate parent undertaking	4,608	3,759
Other trade receivables and prepayments	12,343	17,352
Other non-trade receivables	107	602
VAT incurred in advance of recovery from customers	15,643	19,420
Other taxes and social security	–	95
	45,072	43,440
Non-current:		
VAT incurred in advance of recovery from customers	6,950	9,383
Other trade receivables and prepayments	774	1,584
	7,724	10,967

Notes to the Group financial statements

as of and for the thirteen weeks and twenty-six weeks ended 28 September 2019

10. Trade and other receivables (continued)

The directors consider that the carrying amount of trade and other receivables approximates to their fair value. Trade receivables primarily comprise VAT recoverable which is paid on the full value of assets acquired by customers under hire and hire purchase agreements when the contracts commence and are recovered from customers over the full length of these agreements or from HMRC on customer default.

Within trade receivables £6,950,000 (2018 – £9,383,000) is receivable after more than one year and has been discounted to determine its fair value. All trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and a bad debt provision of £1,232,000 (2018 – £1,325,000) has been recorded accordingly. In addition, some of the unprovided trade receivables are past due as of the reporting date. The age of financial assets past due but not provided for is as follows:

	28 September 2019 (unaudited) £000	*29 September 2018 (unaudited) £000*
1-7 days	70	74
8-14 days	66	77
15-45 days	260	267
45-90 days	9	10
	405	428

Movements in bad debt provision

	28 September 2019 (unaudited) £000	*29 September 2018 (unaudited) £000*
At beginning of period	1,335	1,345
Amounts written off as uncollectable	(8,074)	(8,109)
Increase in bad debt provision	7,971	8,089
At end of period	1,232	1,325

The movement in the bad debt provision consists of individually insignificant balances.

Notes to the Group financial statements

as of and for the thirteen weeks and twenty-six weeks ended 28 September 2019

11. Cash and cash equivalents

	28 September 2019 (unaudited) £000	*29 September 2018 (unaudited) £000*
Cash and cash equivalents per balance sheet and cash flow statement	14,053	15,434

Cash and cash equivalents comprise cash at bank and in hand. Included within cash and cash equivalents is restricted cash of £2,502,000 (2018 – £4,499,000) most of which represents cash at bank held by entities who supply insurance related services within the Group which is restricted due to certain regulatory and solvency requirements.

The directors consider that the carrying amount of cash and cash equivalents approximates to their fair value.

12. Trade and other payables

	28 September 2019 (unaudited) £000	*29 September 2018 (unaudited) £000*
Trade payables	3,655	15,293
Other taxes and social security	1,401	2,338
Other non-trade payables	208	328
Accrued expenses	10,619	19,128
Accrued interest	4,319	4,043
	20,202	41,130

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The directors consider that the carrying amount of trade and other payables approximates to their fair value.

13. Financial liabilities

	28 September 2019 (Unaudited) £000	*29 September 2018 (Unaudited) £000*
Current liabilities:		
Revolving credit facility	20,270	99
	20,270	99

Notes to the Group financial statements

as of and for the thirteen weeks and twenty-six weeks ended 28 September 2019

13. Financial liabilities (continued)

	28 September 2019 (Unaudited) £000	*29 September 2018 (Unaudited) £000*
Non-current liabilities:		
Senior secured notes 2023	128,919	118,055
	128,919	118,055

Terms and debt repayment schedule

Revolving credit facility

The revolving credit facility has a limit of £35 million.

Senior secured notes 2023

On the 2nd of February 2018 the £220 million bond was refinanced in exchange for debt and equity.

The holders of the existing bond accepted the following in exchange for releasing the liability;

- An equal share of £107,208,000 of new debt to be issued on The International Stock Exchange, an additional £4,467,000 which was issued to bondholders who consented early to the refinancing and £3,705,625 which was issued to all bondholders in exchange for the accrued interest on the existing bond. After adjustments for de minimis payments in cash of 286,331, the total value of the new issued debt is £115,091,000. The bond was issued with an interest rate of 9% which is payable on 15 May and 15 November. The bond is due for payment on 15 May 2023.
- An equal share of 97% of the new holding company of the group, BrightHouse TopCo Limited. The bondholders could choose whether to receive cash in exchange for these shares, in which case the remaining shares were offered to the remaining bondholders at £245 per share. All offers of remaining shares were taken up. The value of the cashouts and subsequent share subscriptions was £2,463,230.

BrightHouse Group Limited was released from its bond in exchange for an intercompany debt due to its subsidiary, BrightHouse FinCo Limited, (issuer of the new issued debt of £115,091,000) and an intercompany debt due to its ultimate parent, BrightHouse TopCo Limited, (issuer of the new equity to bondholders). The debt due to BrightHouse TopCo Limited was immediately capitalised via the issue of shares with a nominal value of £1,252,893.

Notes to the Group financial statements

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14. Other provisions

	Dilapidation Provision £000	*Affordability Action Plan £000*	*Affordability Claims £000*	*Restructuring Provision £000*	*Onerous Lease Provision £000*	*Historical staff purchase scheme £000*	*Total £000*
As of 1 April 2018	3,317	815	6,340	140	2,962	–	13,574
Charged to the income statement	-	-	2,500	2,203	413	–	5,116
Utilised during the period	(131)	(381)	(2,437)	(2,274)	(567)	–	(5,790)
As of 29 September 2018	3,186	434	6,403	69	2,808	–	12,900
As of 1 April 2019	3,042	–	11,386	1,244	6,386	800	22,858
Charged to the income statement	–	–	5,600	173	760	–	6,533
Utilised during the period	(165)	–	(4,366)	(1,417)	(2,100)	–	(8,048)
As of 28 September 2019	2,877	–	12,620	–	5,046	800	21,343

Dilapidation provision
£165,000 has been utilised during the period for work completed on a number of stores.

Affordability claims
We have continued to receive affordability claims from customers which we are required to investigate and, if it is found that the correct procedures have not been followed, reimburse them accordingly.

The volume of complaints received have been higher than we forecasted and therefore our provision for affordability claims has increased by £5.6m to £12.6m.

The current provision recognised is based upon an estimation of future claims, payout rates using historic rates, processing costs and the rate of cases referred to the Financial Ombudsman Service.

However, a number of risks and uncertainties remain in particular with respect to the number of claims that will be received, the rate of cases referred and key decisions by FOS. We are in the process of disputing recent cases where the Financial Ombudsman Service has given initial adjudicator views against us in terms of our historical product prices and our affordability assessments, we have disclosed a contingent liability in note 15 in respect of our concerns.

Restructuring
The brought forward provision covers the non-property related costs resulting from the store closures and retail restructuring in March 2019. During the Half Year 2019-20 the group incurred costs in relation to incremental redundancies in retail and supply chain.

Onerous lease provision
This provision covers both leases on unprofitable stores and vacant properties.

During the period incremental costs were incurred in relation to costs to service the vacant properties.

Notes to the Group financial statements

as of and for the thirteen weeks and twenty-six weeks ended 28 September 2019

15. Contingent liability

Since the period end we are in the process of disputing recent cases where the Financial Ombudsman Service has given initial adjudicator views against us in terms of our historical product prices and our affordability assessments. If these test cases were formally upheld by the Ombudsman there would be a material increase in the cost for settling such cases, it is not possible to quantify the aggregated increased cost of such a situation.

16. Share capital

	28 September 2019 (unaudited)		29 September 2018 (unaudited)	
Allotted, called up and fully paid	*No.*	*£000*	*No.*	*£000*
A Ordinary shares of £0.001 each	1,291,642,507	1,294	1,291,642,507	1,294

Nature and purpose of reserves

Share capital
Share capital comprises the nominal value of the Company's Ordinary shares as stated above.

Share premium
The share premium reserve is the premium paid on the Company's ordinary shares.

Capital redemption reserve
The capital reserve includes the nominal value of shares brought back by the company.

Capital contribution reserve
The reserve includes amounts given to the group from its shareholders.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis is intended to assist in providing an understanding of our financial condition, changes in financial condition and results of operations and should be read together with our consolidated financial statements as of and for the thirteen weeks and twenty-six weeks ended 28 September 2019 and the accompanying notes included elsewhere in this Half Year Report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below in "Forward-Looking Statements".

Forward-Looking Statements

This Half Year Report includes "forward-looking statements" within the meaning of the securities laws of certain applicable jurisdictions. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts contained in this Half Year Report, including, without limitation, those regarding our intentions, beliefs or current expectations concerning, among other things: our future financial conditions, financial performance, performance of our Contract Portfolio, results of operations and liquidity; our strategy, plans, objectives, prospects, growth, goals and targets; future developments in the markets in which we participate or are seeking to participate; and anticipated regulatory changes in the industry in which we operate. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "aim", "anticipate", "believe", "continue", "could", "estimate", "expect", "forecast", "guidance", "intend", "may", "plan", "project", "should" or "will" or, in each case, their negative, or other variations or comparable terminology. Forward-looking statements appear in various locations of this Half Year Report, including, without limitation, in the section entitled "*Management's Discussion and Analysis of Financial Condition and Results of Operations*."

By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance. Although we believe that the expectations reflected in the forward looking statements contained herein were reasonable at the time they were made, our actual financial condition, results of operations and cash flows, and the development of the industry, the macroeconomic environment and the regulatory landscape in which we operate, may differ materially from (and be more negative than) those made in, or suggested by, the forward-looking statements contained in this Half Year report. In addition, even if our financial condition, results of operations and cash flows, and the development of the industry and regions in which we operate, are consistent with the forward-looking statements contained in this Half Year Report, those results or developments may not be indicative of results or developments in subsequent periods.

Any forward-looking statements are only made as of the date of this Half Year Report and, except as required by law or the rules and regulations of any stock exchange on which the Notes are listed, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Half Year Report.

Overview

BrightHouse now offers customers cash loans as well as our rent-to-own offer. The later gives access to high-quality branded household goods, wrapped together in a straightforward proposition, which is clearly explained to customers, with insurance and after sales service options available. All loans and goods are available with affordable weekly payments, professional in-store attention and a comprehensive after sales service via 245 stores across the UK. The Group undertakes a bespoke credit assessment, incorporating third party data, combined with a detailed affordability check allowing customers with lower incomes and/or impaired credit records access to goods and/or a loan.

Cash loans are over a fixed 18 month period, for a value up to £1,000 with an APR of 149%, and no other financial products are sold in connection with the loans.

All product agreements taken out prior to 27 April 2015 included a package of benefits within the retail price. This incorporates: delivery and installation; cover providing for unlimited repair and maintenance of the product over the life of the agreement; a short term replacement product if the product needs to be repaired outside the home; a repair or like-for-like replacement in the event of loss through accidental damage, fire or theft; and allows the customer to return the goods, cancel agreements and restart a new agreement with their equity protected.

Overview (continued)

With effect from 27 April 2015, product insurance was offered as a separate optional cover. Customers must have insurance cover in place, providing cover for loss through accidental damage, fire and theft before entering into an agreement whether through their own provider or through BrightHouse.

From 26 February 2017, the proposition was improved to allow greater flexibility and choice for the customer. Our customers are now able to choose their product as well as the term of the agreement, and hence their weekly payment, and make choices about service cover and insurance.

As at the period end, the representative APR offered in our hire purchase agreements is 69.9% and the actual rate offered to individual customers is in the range of 42.6% – 99.9% based upon the customer's individual credit score, the product taken and the length of the agreement.

Key Performance Indicators

We use certain key operating measures to track the financial and operating performance of our business. None of these terms are measures of financial performance under IFRS, nor have these measures been audited or reviewed by an auditor, consultant or expert. These numbers are not derived exclusively from our internal financial systems or management accounts, but also from our non-financial operating systems. As they are defined by our management, these terms may not be directly comparable to similar terms used by competitors or other companies.

	As of and for the twenty-six weeks ended 28 September 2019	**As of and for the twenty-six weeks ended 29 September 2018**
RTO customers and agreements		
Total RTO customers (thousands)(1)	179.5	199.4
Total Gross Dues (in millions of £)(2)	6.1	9.4
Closing Dues base (in millions of £)(2)	20.9	25.2
Average number of contracts per customer(3)	2.42	2.53
Average revenue per customer per month(4)	£116.49	£126.59
Stores		
Number of stores	245	281
RTO Contract Portfolio (in millions of £)(5)	283.9	370.9

(1) Total Rent to Own ("RTO") customers represents the number of distinct individuals who are party to one or more hire purchase agreements outstanding on the relevant date with us, without regard to the number of hire purchase agreements entered into by each such customer.

(2) Dues is the expected amount of receipts from customer agreement instalments in an average month. (An average month is assumed to have 4.333 weeks). Gross Dues is the Dues value for new agreements signed in the relevant period. Closing Dues Base is the total closing dues at the end of the relevant period for all active agreements.

(3) Average number of contracts per customer is calculated by dividing the number of total hire purchase agreements outstanding on the relevant date by the number of total customers on such date.

(4) Average revenue per customer per month is calculated by dividing the closing dues base at the period end by the closing customer base at the period end.

(5) The value of our Rent to Own ("RTO") Contract Portfolio refers to the aggregate amount of remaining payments due under our hire purchase agreements on a given date through the term of the relevant contracts in effect on such date, assuming all contracts are paid in full. These payments include, in addition to the expected instalment payments towards the retail price of the product, interest and indirect taxes and payments from the purchase of our optional insurance and warranty products.

Key Performance Indicators (continued)

Total RTO customers

Revenue is driven by the number of customers and their average spend with BrightHouse. RTO customer numbers decreased by 10.0% from 199,400 as at 29 September 2018 to 179,500 as at 28 September 2019. This reduction is attributed to the fall in sign-ups driven by the store closures and retail reorganisations. We continue to operate in a tough trading environment and we seek to adjust our business model to the new regulatory landscape. Customers signing up fully online increased from 3,800 in the Half Year 2018-19 to 5,400 in the Half Year 2019-20.

Total Gross Dues

Total Gross Dues decreased by 35.4% to £6.1 million for the Half Year 2019-20 from £9.4 million for the Half Year 2018-19. This is mainly due to lower gross dues from existing customer add-on sales which reduced by 31.9% from £7.0 million in the Half Year 2018-19 to £4.8 million in the Half Year 2019-20. This has been driven by a number of factors including store closures, retail reorganisations and price pressure as a result of the FCA's High-cost Credit Review. We continue to operate in a tough trading environment and we seek to adjust our business model to the new regulatory landscape. Web only gross dues have increased by 101.8% to £0.72 million for the Half Year 2019-20 from £0.36 million for the Half Year 2018-19.

Closing Dues base

The Closing Dues base decreased by 17.2% to £20.9 million as at 28 September 2019 from £25.2 million as at 29 September 2018 primarily due to the lower gross dues from existing customer add-on sales as discussed above. This is a significant factor in the lower revenue recorded in the Half Year 2019-20.

Average number of contracts per customer

Average number of contracts per customer decreased from 2.53 as at 29 September 2018 to 2.42 as at 28 September 2019.

Average revenue per customer per month

The average revenue per customer per month has decreased from £126.59 to £116.49 as a result of the reduced BrightCare penetration, product price benchmarking and the reduction in the number of contracts per customer.

Number of stores

As of 28 September 2019, we had a total of 245 stores.

RTO Contract Portfolio

The value of our Rent-to-Own ("RTO") Contract Portfolio as at 28 September 2019 was £283.9 million compared to £370.9 million as at 29 September 2018.

Regulation and compliance

The FCA continues to focus on the high-cost credit market with the objective of changing business models, they made this intention clear in their High-cost Credit Review. We have now fully implemented the requirements of the review and will continue to work proactively and constructively with them in order to meet the needs of our customers, many of whom can be classed as vulnerable, and who have limited alternative credit options during the normal supervision activities.

In this report we have disclosed a contingent liability in respect to a number of initial adjudicator decisions that we have received from the Financial Ombudsman Service in relation to our historical product prices and our current affordability assessments. We are in the process of disputing the rulings however, if either ruling became final and binding, there would be a material increase in the cost to settle cases. If we fail to overturn the rulings it will impact the ratio of cases we uphold, the value of any redress payments and the number of cases we are likely to receive. We are unable to quantify this impact at this stage.

Discussion and Analysis of Our Consolidated Results of Operations

Results of operations for the Second Quarter 2019-20 compared with the Second Quarter 2018-19

The following table sets forth certain information with respect to our consolidated results of operations for the Second Quarter 2019-20 and the Second Quarter 2018-19, respectively, which have been derived from our unaudited consolidated financial statements included elsewhere herein, as well as the period on period changes (expressed in absolute terms and percentages) for the period under review.

(in thousands of £, except percentages)	For the Second Quarter 2019-20	For the Second Quarter 2018-19	Change Amount	Change %
	(unaudited)			
Revenue	60,327	67,494	(7,167)	(10.6%)
Gross profit	26,124	31,886	(5,762)	(18.1%)
Gross profit margin	43%	47%	(4%)	
Operating expenses excluding exceptionals	(32,107)	(36,310)	4,203	11.6%
EBITDA	(3,245)	(989)	(2,256)	(228.1%)
Exceptionals	(6,167)	(4,605)	(962)	(20.9%)
Loss for the period	(16,283)	(11,893)	(3,790)	(31.9%)

Revenue

Our revenue decreased by £7.2 million to £60.3 million from £67.5 million. This decrease was primarily due to the fall in customer numbers and contract portfolio value as documented previously.

Gross profit

Gross profit reduced by £5.8 million to £26.1 million from £31.9 million. This was driven by higher cost of bad debt during the period and the reduced margins caused by regulation announced in the FCA's High-cost Credit Review.

This gives a gross profit margin of 43% for the Second Quarter 2019-20 compared to 47% for the Second Quarter 2018-19.

Net operating expenses before exceptional items

Our operating expenses decreased by £4.2 million to £32.1 million (53.2% of revenue) from £36.3 million (51.2% of revenue) primarily due to the reduced store base driving payroll and property cost savings.

EBITDA

Our EBITDA loss for the quarter is (£3.2) million compared to (£1.0) million in the previous year quarter. This is the result of the reduction in revenue and gross profit margin discussed above.

Exceptionals

The charge in this period represents an increase in the affordability claims provision, costs of maintaining, marketing and exiting closed stores and further restructuring of the business.

Loss for the period

Our loss for the Second Quarter 2019-20 is (£16.3) million compared to (£11.9) million in the Second Quarter 2018-19. This is the result of the factors described above.

Cash Flows

(in thousands of £)	For the Second Quarter 2019-20	For the Second Quarter 2018-19	For the Half Year 2019-20	For the Half Year 2018-19
Cash and cash equivalents at beginning of period	15,252	22,619	13,569	19,961
Net cash flow from operating activities	(1,723)	(5,184)	(6,605)	(898)
Net cash flow from investing activities	(1,058)	(2,099)	(1,910)	(3,727)
Net cash flow from financing activities	1,582	99	8,999	99
Net (decrease)/increase in cash and cash equivalents	(1,199)	(7,184)	484	(4,526)
Cash and cash equivalents at end of period	**14,053**	**15,435**	**14,053**	**15,435**

Net cash flow from operating activities

Net cash flow from operating activities decreased from an outflow of £5.2 million in the Second Quarter 2018-19 to an outflow of £1.7 million in the Second Quarter 2019-20 due to lower rental asset purchases and an increase in the affordability claims provision; partly offset by reduced earnings from the lower dues base and the issue of new cash loans.

Net cash flow from investing activities

Net cash used in investing activities reduced by £1.0 million to an outflow of £1.1 million for the Second Quarter 2019-20 from an outflow of £2.1 million for the Second Quarter 2018-19. This has been analysed in the capital expenditure section.

Net cash flow from financing activities

The net cash inflow in the period represented drawdowns from the RCF less repayments made.

Restricted cash

Included within cash and cash equivalents is restricted cash of £2.5 million (2018 – £4.5 million) most of which represents cash at bank held by entities who supply insurance related services within the Group which is restricted due to regulatory and solvency requirements.

Capital Expenditures

Our capital expenditures (excluding purchases of hire purchase assets) comprise investments in our information technology systems and capital expenditure relating to the refurbishment of existing stores and service centres. The following table sets out our capital expenditures for the Second Quarter 2019-20 and the Second Quarter 2018-19:

(in millions of £)	For the Second Quarter 2019-20	For the Second Quarter 2018-19	For the Half Year 2019-20	For the Half Year 2018-19
Capital expenditure on information technology hardware	–	–	0.1	0.4
Capital expenditure on software development(1)	0.7	1.8	1.4	2.8
Others(2)	0.4	0.3	0.4	0.5
Total capital expenditure	**1.1**	**2.1**	**1.9**	**3.7**

(1) Includes expenditure relating to our digital platform and other strategic programmes.

(2) Primarily includes capital expenditure relating to our stores and service centres, including refurbishment, new signage and similar improvements.

Total capital expenditure incurred in the Second Quarter 2019-20 decreased by £1.0 million to £1.1 million compared to the Second Quarter 2018-19 which is due to increased focus on cash management during the quarter.

Off-Balance Sheet Arrangements

We do not currently have any off-balance sheet financing arrangements other than low-value or short term operating leases for stores, vehicles and office equipment. As of 28 September 2019, the value of our RTO Contract Portfolio, which is unrecognised and maintained off-balance sheet until instalment payments are due, was £283.9 million compared to £370.9 million at 29 September 2018 which represents a 23.5% reduction. The Contract Portfolio was supported by hire purchase assets, recognised on our balance sheet, underpinning our RTO Contract Portfolio, having a net book value of £79.6 million as of 28 September 2019.

Key Contacts and Calendar

Key Contacts

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Finance Calendar

Details of future results releases will be made available on our website.