Registered No. 06250176

BrightHouse

BrightHouse Group Limited

Quarterly Report

as of and for the thirty-nine weeks ended 28 December 2019

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Operational Headlines for the First Three Quarters 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 thirty-nine weeks ended 28 December 2019.

Key Summary

- The board is currently undertaking a strategic review which envisages a reduction in rent-to-own and a shift towards cash loans in due course. The board is continuing to consider all options with a view to maximizing value for stakeholders
- Gross dues of £3.1m (Q3 2018/19: £6.2m), Net dues loss of £1.5m (Q3 2018/19: gain of £0.8m). RTO trading is down as we continue to operate in a tough trading environment and seek to adjust our business model to the new regulatory landscape
- Cost of bad debt of £7.5m (Q3 2018/19: £8.9m) shows the recovery of cost of bad debt after the Q1 2019/20 results were impacted by 30 store closures and retail reorganisations in March 2019
- The business continues to benefit from management's ongoing programme to further reduce the cost-to-serve as operating expenses pre-exceptional items reduced to £30.0m for Q3 2019/20 compared to £32.1m for Q3 2018/19.
- EBITDA loss for the quarter of £4.5m (Q3 2018/19: profit of £0.1m)
- We increased the affordability provision by £4.9m during the quarter which represents a higher volume of claims being received than previously forecast. We have disclosed a contingent liability with respect to the uncertainty around the future volume of claims and the potential outcome of the test cases under discussion with FOS. The level of redress claims from customers is putting increasing pressure on the available liquidity in the group
- We have agreed with Greensill to begin a gradual reduction of the limit of our facility. It has been agreed that by 31st March we will reduce the facility limit to £29.1m from £35m, in line with excess free cash flow and scheduled repayments of the amounts outstanding under the facility. We continue to discuss with them our requirements going forwards in order to agree an amortisation schedule
- In addition, Dave Poole is due to depart as a director during April. Plans are in an advanced stage to identify a replacement.

The following table reconciles EBITDA to loss before tax for the Third Quarter 2019-20 and the Third Quarter 2018-19, as well as the First Three Quarters 2019-20 and the First Three Quarters 2018-19.

(in thousands of £)	For the Third Quarter 2019-20	For the Third Quarter 2018-19	For the First Three Quarters 2019-20	For the First Three Quarters 2018-19
Loss before tax	(17,692)	(7,928)	(43,590)	(30,120)
Financial income and expense	4,242	2,713	12,171	8,068
Depreciation of fixtures and equipment and amortization of software	3,089	3,264	9,389	10,173
Exceptional items	6,061	2,035	12,594	7,851
Finance related costs	214	–	643	–
Impact of IFRS 16	(483)	–	(1,676)	–
EBITDA	(4,569)	84	(10,469)	(4,028)

Certain Definitions

Definitions of certain terms used in this Quarterly 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.

"First Three Quarters 2018-19" refers to the thirty-nine weeks ended 29 December 2018.

"First Three Quarters 2019-20" refers to the thirty-nine weeks ended 28 December 2019.

"First Three Quarters Report" refers to this report as of and for the thirty-nine weeks ended 28 December 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.

"Third Quarter 2018-19" refers to the thirteen weeks ended 29 December 2018.

"Third Quarter 2019-20" refers to the thirteen weeks ended 28 December 2019.

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

"the period" and "this period" refer to the Third 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 First Three Quarters Report we refer to the thirty-nine weeks ended 28 December 2019 as “First Three Quarters 2019-20”, and the thirty-nine weeks ended 29 December 2018 as “First Three Quarters 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 thirty-nine weeks ended 28 December 2019 presented in this First Three Quarters 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 Quarterly 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 Quarterly 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 Quarterly 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 thirty-nine weeks ended 28 December 2019

	Notes	*13 weeks ended 28 December 2019 (Unaudited) £000*	*13 weeks ended 29 December 2018 (Unaudited) £000*	*39 weeks ended 28 December 2019 (Unaudited) £000*	*39 weeks ended 29 December 2018 (Unaudited) £000*
Revenue	3	55,681	68,168	178,971	204,257
Cost of sales		(30,211)	(35,985)	(100,571)	(107,399)
Gross Profit		25,470	32,183	78,400	96,858
Operating expenses		(38,920)	(37,398)	(109,819)	(118,910)
Operating loss		(13,450)	(5,215)	(31,419)	(22,052)
Analysed by					
Depreciation of fixtures and equipment and amortisation of intangible assets		3,089	3,264	9,389	10,173
Exceptional items	2	6,061	2,035	12,594	7,851
Finance related costs		214	–	643	–
Impact of IFRS 16		(483)	–	(1,676)	–
Earnings before interest, tax, depreciation amortisation and exceptional items		(4,569)	84	(10,469)	(4,028)
Other finance income	4	(19)	32	56	55
Other finance expense	4	(4,223)	(2,745)	(12,227)	(8,123)
Loss before taxation		(17,692)	(7,928)	(43,590)	(30,120)
Tax credit	5	1,188	4,568	1,121	5,188
Loss for the period		(16,504)	(3,360)	(42,469)	(24,932)

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 December 2019

	Notes	28 December 2019 (unaudited) £000	29 December 2018 (unaudited) £000
Non-current assets			
Property, plant and equipment	6	107,426	112,128
Intangible assets	7	11,194	17,307
Trade and other receivables	10	7,920	11,289
Deferred tax assets	8	14,898	17,026
		141,438	157,750
Current assets			
Inventories	9	6,781	17,423
Trade and other receivables	10	41,101	44,729
Cash and cash equivalents	11	18,643	16,609
Corporation tax debtor		402	232
		66,927	78,993
Total assets		208,365	236,743
Current liabilities			
Trade and other payables	12	18,768	39,789
Financial liabilities	13	34,057	16,099
Other provisions	14	23,603	11,096
Current tax payable		429	–
Lease liabilities		2,363	–
		79,220	66,984
Non-current liabilities			
Financial liabilities	13	134,720	123,367
Lease liabilities	13	24,539	–
		159,259	123,367
Total liabilities		238,479	190,351
Net (liabilities) / assets		(30,114)	46,392
Equity attributable to equity holders of the parent			
Share capital	16	1,294	1,294
Share premium		72,598	72,598
Capital redemption reserve		57	57
Capital contribution reserve		39,274	39,274
Retained earnings		(143,337)	(66,831)
Total equity		(30,114)	46,392

Group statement of changes in equity

as of and for the thirty-nine weeks ended 28 December 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	–	–	–	–	(24,932)	(24,932)
As of 29 December 2018	1,294	72,598	57	39,274	(66,831)	46,392
As of 1 April 2019	1,294	72,598	57	39,274	(91,586)	21,637
IFRS 16 implementation	–	–	–	–	(9,282)	(9,282)
Loss for the period	–	–	–	–	(42,469)	(42,469)
As of 28 December 2019	1,294	72,598	57	39,274	(143,337)	(30,114)

Group statement of cash flows

for the thirteen weeks and thirty-nine weeks ended 28 December 2019

	Notes	*13 weeks ended 28 December 2019 (Unaudited) £000*	*13 weeks ended 29 December 2018 (Unaudited) £000*	*39 weeks ended 28 December 2019 (Unaudited) £000*	*39 weeks ended 29 December 2018 (Unaudited) £000*
Cash flows from operating activities					
Loss for the period		(16,503)	(3,360)	(42,469)	(24,932)
Adjustments for:					
Sales proceeds from sales of rental assets		486	563	1,633	1,742
Depreciation		21,255	24,256	67,706	71,056
Amortisation of intangible assets		2,433	2,565	7,331	8,016
Loss on disposal of leased assets		–	–	440	–
Financial income		19	(32)	(56)	(55)
Financial expense		4,223	2,745	12,227	8,123
Profit on rental assets sold to customers		(261)	(442)	(1,157)	(1,073)
Rental assets written off as obsolete or not recoverable from defaulting customers		5,342	6,134	18,437	18,244
Purchase of rental assets		(24,733)	(37,677)	(59,693)	(88,319)
Taxation		(1,188)	(4,568)	(1,121)	(5,188)
Operating cash (outflow) / inflow before changes in working capital		(8,927)	(9,816)	3,278	(12,386)
Decrease / (Increase) in trade and other receivables		3,745	(1,596)	493	(2,191)
Decrease / (Increase) in inventories		2,249	(998)	1,801	(3,925)
(Decrease) / Increase in trade and other payables		(5,931)	1,345	(19,961)	7,562
Increase / (Decrease) in provisions		2,260	(1,804)	745	(2,478)
Cash generated from operations		(6,604)	(12,869)	(13,644)	(13,418)
Tax refunded		–	641	435	292
Net cash flow from operating activities		(6,604)	(12,228)	(13,209)	(13,126)
Cash flows from investing activities					
Interest received		11	14	35	37
Purchase of property, plant and equipment		(1,471)	(420)	(1,926)	(1,232)
Payments to acquire intangible assets		(481)	(2,071)	(1,960)	(5,009)
Net cash from investing activities		(1,941)	(2,477)	(3,851)	(6,204)
Cash flows from financing activities					
Proceeds of new loans		21,750	16,301	45,350	16,400
Interest paid		(1,015)	(322)	(2,116)	(322)
Repayment of term loans		(7,600)	(100)	(21,100)	(100)
Net cash flow from financing activities		13,135	15,879	22,134	15,978
Net increase/(decrease) in cash and cash equivalents		4,590	1,174	5,074	(3,352)
Cash and cash equivalents at the beginning of the period		14,053	15,435	13,569	19,961
Cash and cash equivalents at the end of the period	11	18,643	16,609	18,643	16,609

Notes to the Group financial statements

as of and for the thirteen weeks and thirty-nine weeks ended 28 December 2019

1. Accounting policies and basis of preparation

This Quarterly Report contains condensed consolidated financial information of BrightHouse Group Limited for the thirteen weeks and the thirty-nine weeks ended 28 December 2019. The unaudited 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 December 2019 (Unaudited) £000	*13 weeks ended 29 December 2018 (Unaudited) £000*	*39 weeks ended 28 December 2019 (Unaudited) £000*	*39 weeks ended 29 December 2018 (Unaudited) £000*
Affordability claims	4,900	–	10,500	2,500
Vacant and onerous lease provision	369	491	1,129	905
Restructuring	792	1,444	965	3,646
Historical staff purchase scheme	–	100	–	800
	6,061	2,035	12,594	7,851

Affordability claims

The volume of complaints received have been higher than we forecasted and therefore our provision for affordability claims has increased by £4.9m to £17.5m. Further details of this are disclosed in note 14 to the accounts.

Vacant and Onerous lease provision

As at 28 December 2019 we reassessed the provision and incurred a charge of £369,000 to reflect the remaining liability of the leases.

Restructuring

The business-wide cost reduction programme continues and led to incremental redundancy costs in retail, supply chain and head office of £792,000 during the Third Quarter 2019-20.

Notes to the Group financial statements

as of and for the thirteen weeks and thirty-nine weeks ended 28 December 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 December 2019 (Unaudited) £000	*13 weeks ended 29 December 2018 (Unaudited) £000*	*39 weeks ended 28 December 2019 (Unaudited) £000*	*39 weeks ended 29 December 2018 (Unaudited) £000*
Interest income	11	14	35	37
Unwinding of discount on VAT incurred in advance (note 10)	(30)	18	21	18
Finance income	(19)	32	56	55

	13 weeks ended 28 December 2019 (Unaudited) £000	*13 weeks ended 29 December 2018 (Unaudited) £000*	*39 weeks ended 28 December 2019 (Unaudited) £000*	*39 weeks ended 29 December 2018 (Unaudited) £000*
Interest expense	4,223	2,747	12,227	8,123
Unwinding of discount on VAT incurred in advance (note 10)	–	(2)	–	–
Finance expense	4,223	2,745	12,227	8,123

Notes to the Group financial statements

as of and for the thirteen weeks and thirty-nine weeks ended 28 December 2019

5. Taxation

Tax on loss on ordinary activities

Recognised in the income statement

	13 weeks ended 28 December 2019 (Unaudited) £000	*13 weeks ended 29 December 2018 (Unaudited) £000*	*39 weeks ended 28 December 2019 (Unaudited) £000*	*39 weeks ended 29 December 2018 (Unaudited) £000*
Current tax:				
Adjustment in respect of prior years	–	(1,365)	–	(1,365)
Corporation tax charge overseas	(2)	15	65	39
Total current tax	(2)	(1,350)	65	(1,326)
Deferred tax:				
Deferred tax credit	(81)	(3,218)	(81)	(3,862)
Adjustment in respect of prior years	(1,105)	–	(1,105)	–
Total deferred tax	(1,186)	(3,218)	(1,186)	(3,862)
Total taxation in income statement	(1,188)	(4,568)	(1,121)	(5,188)

Notes to the Group financial statements

as of and for the thirteen weeks and thirty-nine weeks ended 28 December 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	88,319	1,232	–	89,551
Disposals	(93,378)	–	–	(93,378)
As of 29 December 2018	207,049	64,563	–	271,612
As of 1 April 2019	197,656	65,319	–	262,975
Asset created as a result of IFRS16	–	–	28,817	28,817
Additions	59,693	785	1,141	61,619
Disposals	(89,858)	–	(440)	(90,298)
As of 28 December 2019	167,491	66,104	29,518	263,113
Depreciation:				
As of 1 April 2018	106,948	55,945	–	162,893
Depreciation charge for the period	68,899	2,157	–	71,056
Disposals	(74,466)	–	–	(74,466)
As of 29 December 2018	101,381	58,102	–	159,483
As of 1 April 2019	100,275	58,651	–	158,926
Depreciation charge for the period	57,103	2,058	8,545	67,706
Disposals	(70,945)	–	–	(70,945)
As of 28 December 2019	86,433	60,709	8,545	155,687
Net book value:				
As of 28 December 2019	81,058	5,395	20,973	107,426
As of 1 April 2019	97,381	6,668	–	104,049
As of 29 December 2018	105,667	6,461	–	112,128
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 thirty-nine weeks ended 28 December 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	5,009	–	5,009
As of 29 December 2018	85,881	74,978	160,859
As of 1 April 2019	87,641	74,978	162,619
Additions	1,960	–	1,960
As of 28 December 2019	89,601	74,978	164,579
Amortisation:			
As of 1 April 2018	60,558	74,978	135,536
Amortisation charge for the period	8,016	–	8,016
As of 29 December 2018	68,574	74,978	143,552
As of 1 April 2019	71,076	74,978	146,054
Amortisation charge for the period	7,331	–	7,331
As of 28 December 2019	78,407	74,978	153,385
Net book value:			
As of 28 December 2019	11,194	–	11,194
As of 1 April 2019	16,565	–	16,565
As of 29 December 2018	17,307	–	17,307
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 thirty-nine weeks ended 28 December 2019

8. Deferred tax assets

	28 December 2019 (Unaudited) £000	*29 December 2018 (Unaudited) £000*
Assets:		
Tax losses recognised	7,743	10,879
Other property, plant and equipment	7,036	5,993
Capital contributions on lease incentives	119	154
Total tax assets	14,898	17,026

9. Inventories

	28 December 2019 (Unaudited) £000	*29 December 2018 (Unaudited) £000*
Goods held for resale at cost	6,781	17,423

During the period assets acquired for resale amounting to £59,693,000 (2018 – £88,319,000) 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 December 2019 (unaudited) £000	*29 December 2018 (unaudited) £000*
Current:		
Trade receivables	1,284	2,138
Customer loans receivable	9,922	459
Amounts owed from ultimate parent undertaking	4,720	3,679
Other trade receivables and prepayments	10,401	17,970
Other non-trade receivables	72	230
VAT incurred in advance of recovery from customers	14,702	20,253
	41,101	44,729
Non-current:		
VAT incurred in advance of recovery from customers	7,253	9,987
Other trade receivables and prepayments	667	1,302
	7,920	11,289

Notes to the Group financial statements

as of and for the thirteen weeks and thirty-nine weeks ended 28 December 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 £7,253,000 (2018 – £9,987,000) 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 £1,093,000 (2018 – £1,132,000) 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 December 2019 (unaudited) £000	*29 December 2018 (unaudited) £000*
1-7 days	89	79
8-14 days	76	82
15-45 days	241	257
45-90 days	8	8
	414	426

Movements in bad debt provision

	28 December 2019 (unaudited) £000	*29 December 2018 (unaudited) £000*
At beginning of period	1,335	1,345
Amounts written off as uncollectable	(11,146)	(11,786)
Increase in bad debt provision	10,904	11,573
At end of period	1,093	1,132

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 thirty-nine weeks ended 28 December 2019

11. Cash and cash equivalents

	28 December 2019 (unaudited) £000	*29 December 2018 (unaudited) £000*
Cash and cash equivalents per balance sheet and cash flow statement	18,643	16,609

Cash and cash equivalents comprise cash at bank and in hand. Included within cash and cash equivalents is restricted cash of £2.5 million (2018 – £5.2 million) 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 December 2019 (unaudited) £000	*29 December 2018 (unaudited) £000*
Trade payables	1,621	18,331
Other taxes and social security	1,495	2,548
Other non-trade payables	19	327
Accrued expenses	14,185	17,226
Accrued interest	1,448	1,357
	18,768	39,789

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 December 2019 (Unaudited) £000	*29 December 2018 (Unaudited) £000*
Current liabilities:		
Revolving credit facility	34,057	16,099
	34,057	16,099

Notes to the Group financial statements

as of and for the thirteen weeks and thirty-nine weeks ended 28 December 2019

13. Financial liabilities (continued)

	28 December 2019 (Unaudited) £000	*29 December 2018 (Unaudited) £000*
Non-current liabilities:		
Senior secured notes 2023	134,720	123,367
	134,720	123,367

Terms and debt repayment schedule

Revolving credit facility

The revolving credit facility currently has a limit of £35 million. The agreement with Greensill Capital (UK) Limited contains a definition of a "Contract Portfolio Diminution Event" which occurs if, in broad terms, the ratio of (i) external financial liabilities (being the senior secured note liabilities and super senior liabilities), divided by 55% to (ii) the value of our loan contract portfolio falls below 1. As at 28 December 2019 the ratio was 0.96. If a Contract Portfolio Diminution Event occurs, Greensill is entitled to give notice to cancel undrawn commitments. The facility is currently fully drawn and Greensill has not issued such a notice to date; however, we have agreed with Greensill to begin a gradual reduction of the limit of our facility. It has been agreed that by 31st March we will reduce the facility limit to £29.1m from £35m, in line with excess free cash flow and scheduled repayments of the amounts outstanding under the facility. We continue to discuss with them our requirements going forwards in order to agree an amortisation schedule.

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

as of and for the thirteen weeks and thirty-nine weeks ended 28 December 2019

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	3,646	905	800	7,851
Utilised during the period	(275)	(596)	(4,479)	(3,718)	(1,261)	-	(10,329)
As of 29 December 2018	3,042	219	4,361	68	2,606	800	11,096
As of 1 April 2019	3,042	–	11,386	1,244	6,386	800	22,858
Charged to the income statement	–	–	10,500	965	1,129	–	12,594
Utilised during the period	(191)	–	(7,044)	(2,009)	(2,605)	–	(11,849)
As of 28 December 2019	2,851	–	14,842	200	4,910	800	23,603

Dilapidation provision
£191,000 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 has been higher than we forecasted and therefore our provision for affordability claims has increased by £10.5m to £17.5m.

The level of redress claims is putting an increasing pressure on the liquidity of the business.

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 First Three Quarters 2019-20 the group incurred costs in relation to incremental redundancies in retail, supply chain and head office.

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 thirty-nine weeks ended 28 December 2019

15. Contingent liability

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 December 2019 (unaudited)		*29 December 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 thirty-nine weeks ended 28 December 2019 and the accompanying notes included elsewhere in this Quarterly 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 Quarterly 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 Quarterly 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 Quarterly 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 Quarterly 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 Quarterly 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 Quarterly 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 Quarterly 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% – 69.9% 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 thirty-nine weeks ended 28 December 2019	As of and for the thirty-nine weeks ended 29 December 2018
RTO customers and agreements		
Total RTO customers (thousands)(1)	172.0	203.1
Total Gross Dues (in millions of £)(2)	9.2	15.7
Closing Dues base (in millions of £)(2)	19.4	26.1
Average number of contracts per customer(3)	2.47	2.55
Average revenue per customer per month(4)	£112.70	£128.42
Stores		
Number of stores	245	276
RTO Contract Portfolio (in millions of £)(5)	276.8	392.1

(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 15.3% from 203,100 as at 29 December 2018 to 172,000 as at 28 December 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 6,900 in the First Three Quarters 2018-19 to 8,500 in the First Three Quarters 2019-20.

Total Gross Dues

Total Gross Dues decreased by 41.4% to £9.2 million for the First Three Quarters 2019-20 from £15.7 million for the First Three Quarters 2018-19. This is mainly due to lower gross dues from existing customer add-on sales which reduced by 38.1% from £11.9 million in the First Three Quarters 2018-19 to £7.4 million in the First Three Quarters 2019-20. Gross dues from new customers decreased by 51.6% from £3.8m in the First Three Quarters 2018-19 to £1.8m in the First Three Quarters 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 40.4% to £1.1 million for the First Three Quarters 2019-20 from £0.8 million for the First Three Quarters 2018-19.

Closing Dues base

The Closing Dues base decreased by 6.7% to £19.4 million as at 28 December 2019 from £26.1 million as at 29 December 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 First Three Quarters 2019-20.

Average number of contracts per customer

Average number of contracts per customer decreased from 2.55 as at 29 December 2018 to 2.47 as at 28 December 2019.

Average revenue per customer per month

The average revenue per customer per month has decreased from £128.42 to £112.70 as a result of reduced BrightCare penetration, product price benchmarking and the reduction in the number of contracts per customer.

Number of stores

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

RTO Contract Portfolio

The value of our Rent-to-Own ("RTO") Contract Portfolio as at 28 December 2019 was £276.8 million compared to £392.1 million as at 29 December 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 Third Quarter 2019-20 compared with the Third Quarter 2018-19

The following table sets forth certain information with respect to our consolidated results of operations for the Third Quarter 2019-20 and the Third 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 Third Quarter 2019-20	For the Third Quarter 2018-19	Change Amount	Change %
	(unaudited)			
Revenue	55,681	68,168	(12,487)	(18.3%)
Gross profit	25,470	32,183	(6,713)	(20.9%)
Gross profit margin	45.7%	47.2%	(1.5%)	
Operating expenses excluding exceptionals	(32,859)	(32,099)	(760)	(2.4%)
EBITDA	(4,569)	84	(4,652)	
Exceptionals	(6,061)	(2,035)	(4,026)	
Loss for the period	(16,504)	(3,360)	(13,144)	

Revenue

Our revenue decreased by £12.5 million to £55.7 million from £68.2 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 £6.7 million to £25.5 million from £32.2 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 45.7% for the Third Quarter 2019-20 compared to 47.2% for the Third Quarter 2018-19.

Net operating expenses before exceptional items

Our operating expenses increased by £0.8 million to £32.9 million (59.0% of revenue) from £32.1 million (47.1% of revenue) primarily due to the reduced store base driving payroll and property cost savings.

EBITDA

Our EBITDA loss for the quarter is (£4.6) million compared to an EBITDA profit of £0.1 million in the Third Quarter 2018-19. 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 Third Quarter 2019-20 is (£16.5) million compared to (£3.4) million in the Third Quarter 2018-19. This is the result of the factors described above.

Cash Flows

(in thousands of £)	For the Third Quarter 2019-20	For the Third Quarter 2018-19	For the First Three Quarters 2019-20	For the First Three Quarters 2018-19
Cash and cash equivalents at beginning of period	14,053	15,435	13,569	19,961
Net cash flow from operating activities	(6,604)	(12,228)	(13,209)	(13,126)
Net cash flow from investing activities	(1,941)	(2,477)	(3,851)	(6,204)
Net cash flow from financing activities	13,135	15,879	22,134	(15,978)
Net increase/(decrease) in cash and cash equivalents	4,590	1,174	5,074	(3,352)
Cash and cash equivalents at end of period	**18,643**	**16,609**	**18,643**	**16,609**

Net cash flow from operating activities

Net cash flow from operating activities decreased from an outflow of £12.2 million in the Third Quarter 2018-19 to an outflow of £6.6 million in the Third Quarter 2019-20 due to lower rental asset purchases.

Net cash flow from investing activities

Net cash used in investing activities reduced by £0.6 million to an outflow of £1.9 million for the Third Quarter 2019-20 from an outflow of £2.5 million for the Third 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 – £5.2 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 Third Quarter 2019-20 and the Third Quarter 2018-19:

(in millions of £)	For the Third Quarter 2019-20	For the Third Quarter 2018-19	For the First Three Quarters 2019-20	For the First Three Quarters 2018-19
Capital expenditure on information technology hardware	0.1	0.1	0.2	0.5
Capital expenditure on software development[1]	0.5	2.2	1.9	5.0
Others[2]	0.2	0.2	0.6	0.7
Total capital expenditure	**0.8**	**2.5**	**2.7**	**6.2**

(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 Third Quarter 2019-20 decreased by £1.7 million to £0.8 million compared to the Third 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 December 2019, the value of our RTO Contract Portfolio, which is unrecognised and maintained off-balance sheet until instalment payments are due, was £276.8 million compared to £392.1 million at 29 December 2018 which represents a 29.4% 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 £81.1 million as of 28 December 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.