Registered No. 06250176

BrightHouse Group Limited

Quarterly Report

for the thirteen weeks ended 30 June 2018

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Publication Date: 24 August 2018

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Operational Highlights for the First Quarter 2018-19

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 ended 30 June 2018.

Key Summary

- During the First Quarter 2018-19 our customer additions increased to 17,400 new customers compared to 13,700 in First Quarter 2017-18;
- During the First Quarter 2018-19 our customer losses reduced to 19,700 customers compared to 23,700 customers in First Quarter 2017-18;
- The group’s asset base remains strong as our contract portfolio is at £380.1 million;
- The group had a cash balance of £22.6 million at 30 June 2018;
- In the last 12 months since our new transactional website launched, it has led to 23,000 sign ups;
- Our cost of debt has reduced to 11.7% for the First Quarter 2018-19 compared to 13.3% for the Fourth Quarter 2017-18;
- EBITDA for the First Quarter 2018-19 was a loss of £3.1 million compared to a profit of £0.6 million for the First Quarter 2017-18.

The reduction in EBITDA is primarily the result of lower revenue in the First Quarter 2018-19, which is a consequence of there being one fewer day in the First Quarter 2018-19 compared to the First Quarter 2017-18, together with the effect of the higher rate of customer terminations during the preceding twelve months which relate to the period prior to the introduction of tightened credit criteria in 2016-17.

Hamish Paton, Chief Executive Officer, said:

“Trading across the British High Street has been challenging, and BrightHouse has not been immune to the macroeconomic forces at play. In addition, the uncertainty of regulatory scrutiny continues, through the FCA’s ongoing high-cost credit review.

“However, we continued to see improvements in both new customer acquisition and the cost of debt, leading to us delivering results that are aligned with management’s expectations.

“We remain committed to serving the needs of our customers, who require an affordable way to obtain essential household goods.”

The following table reconciles EBITDA to loss before tax for the period for the First Quarter 2018-19 and the First Quarter 2017-18.

(in thousands of £)	For the First Quarter 2018-19	For the First Quarter 2017-18
Loss before tax	(10,474)	(8,126)
Financial income and expense	2,667	5,534
Depreciation of fixtures and equipment and amortisation of software	3,474	3,195
Exceptional items	1,210	55
EBITDA	(3,123)	658

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 Quarter 2017-18” refers to the thirteen weeks ended 1 July 2017.

“First Quarter 2018-19” refers to the thirteen weeks ended 30 June 2018.

“First Quarter Report” refers to this report as of and for the thirteen weeks ended 30 June 2018.

“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 (Malta) Limited and Caversham Holdings (Malta) Limited.

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

“OFT” refers to the Office of Fair Trading

“SEC” refers to the U.S. Securities and Exchange Commission.

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

“the period” and “this period” refer to the First Quarter 2018-19 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 purposes of this Quarterly Report we refer to the thirteen weeks ended 30 June 2018 as "First Quarter 2018-19", and the thirteen weeks ended 1 July 2017 as "First Quarter 2017-18". We refer to our fiscal year started 1 April 2018 and ending 31 March 2019 as "Fiscal 2019".

Consolidated financial statements

The consolidated financial statements of the Company and its subsidiaries for the thirteen weeks ended 30 June 2018 presented in this Quarterly 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 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 ended 30 June 2018

	Notes	*13 weeks ended 30 June 2018 (unaudited) £000*	*13 weeks ended 1 July 2017 (unaudited) £000*
Revenue	3	68,595	72,160
Cost of sales		(35,805)	(35,590)
Gross profit		32,790	36,570
Operating expenses		(40,597)	(39,162)
Operating (loss) / profit		(7,807)	(2,592)
Analysed by:			
Depreciation of fixtures and equipment and amortisation of intangible assets		3,474	3,195
Exceptional items	2	1,210	55
Earnings before interest, tax, depreciation, amortisation and exceptional items		(3,123)	658
Other finance income	4	23	3
Other finance expense	4	(2,690)	(5,537)
Loss before taxation		(10,474)	(8,126)
Tax credit	5	795	866
Loss for the period		(9,679)	(7,260)

The results shown above all relate to continuing activities.

Group statement of comprehensive income

for the thirteen weeks ended 30 June 2018

	13 weeks ended 30 June 2018 (unaudited) £000	*13 weeks ended 1 July 2017 (unaudited) £000*
Loss for the period	(9,679)	(7,260)
Other comprehensive income for the period net of tax	–	–
Total comprehensive income for the period net of tax	(9,679)	(7,260)

Group statement of financial position

as of 30 June 2018

	Notes	*30 June 2018 (unaudited) £000*	*1 July 2017 (unaudited) £000*
Non-current assets			
Property, plant and equipment	6	107,653	113,679
Intangible assets	7	18,762	20,013
Trade and other receivables	10	10,870	12,342
Deferred tax assets	8	13,971	11,529
		151,256	157,563
Current assets			
Inventories	9	17,261	19,918
Trade and other receivables	10	43,167	41,740
Cash and cash equivalents	11	22,619	66,787
		83,047	128,445
Total assets		234,303	286,008
Current liabilities			
Trade and other payables	12	41,523	49,531
Financial liabilities	13	–	218,644
Other provisions	14	12,265	15,029
Current tax payable		815	870
		54,603	284,074
Non-current liabilities			
Financial liabilities	13	118,055	37,698
Total Liabilities		172,658	321,772
		61,645	(35,764)
Equity attributable to equity holders of the parent			
Share capital	15	1,294	50
Share premium		72,598	552
Capital redemption reserve		57	57
Own shares reserve		–	(296)
Capital contribution reserve		39,274	–
Retained earnings		(51,578)	(36,127)
Total equity		61,645	(35,764)

Group statement of changes in equity

as of and for the thirteen weeks ended 30 June 2018

	Share capital (unaudited) £000	*Share Premium (unaudited) £000*	*Capital redemption reserve (unaudited) £000*	*Own shares (unaudited) £000*	*Capital contribution reserve (unaudited) £000*	*Retained earnings (unaudited £000*	*Total Equity (unaudited) £000*
As of 1 April 2017	50	552	57	(296)	–	(28,867)	(28,504)
Loss for the period	–	–	–	–	–	(7,260)	(7,260)
As of 1 July 2017	50	552	57	(296)	–	(36,127)	(35,764)
As of 1 April 2018	1,294	72,598	57	–	39,274	(41,899)	71,324
Loss for the period	–	–	–	–	–	(9,679)	(9,679)
As of 30 June 2018	1,294	72,598	57	–	39,274	(51,578)	61,645

Group statement of cash flows

for the thirteen weeks ended 30 June 2018

	Notes	*13 weeks ended 30 June 2018 (unaudited)* £000	*13 weeks ended 1 July 2017 (unaudited)* £000
Cash flows from operating activities			
Loss for the period		(9,679)	(7,260)
Adjustments for:			
Sales proceeds from sales of rental assets		612	614
Depreciation		23,047	23,804
Amortisation of intangible assets		2,642	2,186
Financial income		(23)	(3)
Financial expense		2,713	5,537
Profit on rental assets sold to customers		(360)	(683)
Rental assets written off as obsolete or not recoverable from defaulting customers		5,800	5,593
Purchase of rental assets		(23,646)	(25,759)
Taxation		(795)	(866)
Operating cash inflow before changes in working capital		311	3,163
(Increase) / Decrease in trade and other receivables		(241)	(5,327)
Increase in inventories		(3,763)	(6,628)
Increase in trade and other payables		9,288	11,634
(Decrease) / Increase in provisions		(1,309)	(1,364)
Cash generated from operations		4,286	1,478
Tax paid		-	-
Net cash flow from operating activities		4,286	1,478
Cash flows from investing activities			
Interest received		23	3
Purchase of property, plant and equipment		(561)	(218)
Payments to acquire intangible assets		(1,090)	(3,610)
Net cash from investing activities		(1,628)	(3,825)
Cash flows from financing activities			
Interest paid		-	(8,662)
Net cash flow from financing activities		-	(8,662)
Net (Decrease) / Increase in cash and cash equivalents		2,658	(11,009)
Cash and cash equivalents at the beginning of the period		19,961	77,796
Cash and cash equivalents at the end of the period	11	22,619	66,787

Notes to the Group financial statements

as of and for the thirteen weeks ended 30 June 2018

1. Accounting policies and basis of preparation

This Quarterly report contains condensed consolidated financial information of BrightHouse Group Limited for the thirteen weeks ended 30 June 2018. The unaudited Quarterly 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 2018. This financial information should be read in conjunction with the consolidated financial statements of BrightHouse Group Limited for the year ended 31 March 2018.

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 profit

	13 weeks ended 30 June 2018 (unaudited) £000	*13 weeks ended 1 July 2017 (unaudited) £000*
Vacant and onerous lease provision	20	47
Restructuring provision	1,190	8
	1,210	55

Vacant and Onerous lease provision

During the First Quarter 2018-19 incremental costs of £20,000 were incurred relating to servicing vacant properties.

Restructuring

A business-wide cost reduction programme is underway which led to store and head office redundancy costs. There were £717,000 of incremental redundancy costs during the First Quarter 2018-19. There were also £472,000 of cost in relation to restructuring of key departments within the business during the period.

3. Revenue

Revenue comprises revenue from the provision of home electronic and domestic appliances, technology products, household furniture and other related products to domestic customers through hire purchase agreements and related service insurance and warranty agreements.

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. The Group accounts for its revenue on an accruals basis for all domestic hire-purchase, insurance and warranty agreements taking credit for all weekly or monthly instalments that have fallen due, but not for instalments which will fall due in the future under contracts in existence at the balance sheet date.

On this basis the 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.

Notes to the Group financial statements

as of and for the thirteen weeks ended 30 June 2018

4. Finance income and expense

Recognised in the income statement

	13 weeks ended 30 June 2018 (unaudited) £000	*13 weeks ended 1 July 2017 (unaudited) £000*
Interest income	10	3
Unwinding of discount on VAT incurred in advance (note 10)	13	–
Finance income	23	3

	13 weeks ended 30 June 2018 (unaudited) £000	*13 weeks ended 1 July 2017 (unaudited) £000*
Interest expense	2,690	5,427
Unwinding of discount on VAT incurred in advance (note 10)	–	24
Unwinding of discount on provision (note 14)	–	86
Finance expense	2,690	5,537

5. Taxation

Tax on loss on ordinary activities

Recognised in the income statement

	13 weeks ended 30 June 2018 (unaudited) £000	*13 weeks ended 1 July 2017 (unaudited) £000*
Current tax:		
Corporation tax charge UK	–	–
Corporation tax charge overseas	12	13
Total current tax	12	13
Deferred tax:		
Deferred tax credit	(807)	(879)
Total taxation in income statement	(795)	(866)

Notes to the Group financial statements

as of and for the thirteen weeks ended 30 June 2018

6. Property, plant and equipment

	Rental assets (unaudited) £000 (restated)	*Fixtures, equipment and vehicles (unaudited) £000*	*Total (unaudited) £000 (restated)*
Cost:			
As of 1 April 2017	230,457	62,250	292,707
Additions	25,547	218	25,765
Disposals	(34,310)	–	(34,310)
As of 1 July 2017	221,694	62,468	284,162
As of 1 April 2018	212,108	63,331	275,439
Additions	23,646	561	24,207
Disposals	(30,971)	–	(30,971)
As of 30 June 2018	204,783	63,892	268,675
Depreciation:			
As of 1 April 2017	123,622	52,056	162,893
Depreciation charge for the period	22,583	1,009	23,046
Disposals	(28,787)	–	(24,918)
As of 1 July 2017	117,418	53,065	161,021
As of 1 April 2018	106,948	55,945	162,893
Depreciation charge for the period	22,215	832	23,047
Disposals	(24,918)	–	(24,918)
As of 30 June 2018	104,245	56,777	161,022
Net book value:			
As of 30 June 2018	100,538	7,115	107,653
As of 1 April 2018	106,835	10,194	117,029
As of 1 July 2017	104,276	9,403	113,679
As of 1 April 2017	106,835	10,194	117,029

Notes to the Group financial statements

as of and for the thirteen weeks ended 30 June 2018

6. Property, plant and equipment (continued)

The Group has determined that there has been a historical error in the disclosure of rental asset resulting in the non-removal of cost and depreciation on disposals. The error has no net book value effect.

	Original	*Restated*
	As of 1 July 2017	As of 1 July 2017
Cost Carried forward	98,921	221,694
Depreciation Carried forward	(5,455)	117,418
Net book value	104,276	104,276

Notes to the Group financial statements

as of and for the thirteen weeks ended 30 June 2018

7. Intangible assets

	Software (unaudited) £000	*Goodwill (unaudited) £000*	*Total (unaudited) £000*
Cost:			
As of 1 April 2017	70,117	74,978	145,095
Additions	3,610	–	3,610
As of 1 July 2017	73,727	74,978	148,705
As of 1 April 2018	80,872	74,978	155,850
Additions	1,090	–	1,090
As of 30 June 2018	81,962	74,978	156,940
Amortisation:			
As of 1 April 2017	51,528	74,978	126,506
Amortisation charge for the period	2,186	–	2,186
As of 1 July 2017	53,714	74,978	128,692
As of 1 April 2018	60,558	74,978	135,536
Amortisation charge for the period	2,642	–	2,642
As of 30 June 2018	63,200	74,978	138,178
Net book value:			
As of 30 June 2018	18,762	–	18,762
As of 1 April 2018	20,314	–	20,314
As of 1 July 2017	20,013	–	20,013
As of 1 April 2017	18,589	–	18,589

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 ended 30 June 2018

8. Deferred tax assets

	30 June 2018 (unaudited) £000	*1 July 2017 (unaudited) £000*
Assets:		
Tax losses recognised	7,977	4,714
Other property, plant and equipment	5,809	6,695
Capital contributions on lease incentives	185	120
Total tax assets	13,971	11,529

9. Inventories

	30 June 2018 (unaudited) £000	*1 July 2017 (unaudited) £000*
Goods held for resale at cost	17,261	19,918

During the period assets acquired for resale amounting to £23,646,000 (2017 – £25,547,000) 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

	30 June 2018 (unaudited) £000	*1 July 2017 (unaudited) £000*
Current:		
Trade receivables	2,120	1,264
Amounts owed from ultimate parent undertaking	3,388	–
Other trade receivables and prepayments	17,005	17,098
Other non-trade receivables	358	973
VAT incurred in advance of recovery from customers	19,936	21,015
Other taxes and social security	360	1,390
	43,167	41,740

	30 June 2018 (unaudited) £000	*1 July 2017 (unaudited) £000*
Non-current:		
VAT incurred in advance of recovery from customers	9,689	11,349
Other trade receivables and prepayments	1,181	993
Other non-trade receivables	–	–
	10,870	12,342

Notes to the Group financial statements

as of and for the thirteen weeks ended 30 June 2018

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 £9,689,000 (2017 – £11,349,000) 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 £1,274,000 (2017 – £1,452,000) 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:

	30 June 2018 (unaudited) £000	*1 July 2017 (unaudited) £000*
1-7 days	85	97
8-14 days	83	107
15-45 days	289	398
45-90 days	9	10
	466	612

Movements in bad debt provision

	30 June 2018 (unaudited) £000	*1 July 2017 (unaudited) £000*
At beginning of period	1,345	1,335
Amounts written off as uncollectable	(4,163)	(4,249)
Increase in bad debt provision	4,092	4,366
At end of period	1,274	1,452

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 ended 30 June 2018

11. Cash and cash equivalents

	30 June 2018 (unaudited) £000	*1 July 2017 (unaudited) £000*
Cash and cash equivalents per balance sheet and cash flow statement	22,619	66,787

Cash and cash equivalents comprise cash at bank and in hand. Included within cash and cash equivalents is restricted cash of £4,793,000 (2017 – £6,354,000). This includes restricted cash of £4,489,000 (2017 - £6,004,000) 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. This also includes restricted cash of £304,000 (2017 – £350,000) which represents cash held by the Group on behalf of customers.

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

The reduction in the cash balance year on year represents the expenditure on the refinancing of our senior secured notes, our affordability action plan and investment into stock during the period

12. Trade and other payables

	30 June 2018 (unaudited) £000	*1 July 2017 (unaudited) £000*
Trade payables	15,203	20,116
Other taxes and social security	2,703	2,369
Other non-trade payables	332	361
Accrued expenses	21,927	24,391
Accrued interest	1,358	2,294
	41,523	49,531

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

	30 June 2018 (unaudited) £000	*1 July 2017 (unaudited) £000*
Current liabilities:		
Senior secured notes 2018	–	218,644
	–	218,644

On 9 May 2013 the Group issued £220 million senior secured notes which were due 15 May 2018. Interest was fixed at 7.875% and payable on 15 May and 15 November every year to the date of expiry. The senior secured notes 2018 include

Notes to the Group financial statements

as of and for the thirteen weeks ended 30 June 2018

an issue of £220 million less fees incurred on the debt facility of £1,356,000. These fees are amortised over the term of the facilities.

13. Financial liabilities (continued)

	30 June 2018 (unaudited) £000	*1 July 2017 (unaudited) £000*
Non-current liabilities:		
Unsecured 10% loan stock issued to related parties	–	37,698
Senior secured notes 2023	118,055	–
	118,055	37,698

Terms and debt repayment schedule

Unsecured 10% loan stock

The unsecured 10% loan stock was redeemable on 9 May 2040 and formed part of the investment made in the Group by funds advised by Vision Capital LLP. The unsecured 10% loan stock was subordinated and junior in right of payment to the senior secured notes. The terms of the unsecured loan stock were such that the maturity date could not be prior to the maturity date of the senior secured notes. This loan was waived on 2 February 2018 by Vision Capital LLP when it had a balance of £39,274,000 and appears in the statement of changes in equity.

The amount above includes £nil (2017: £10,386,000) of accrued interest.

Senior secured notes 2018 and 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 ended 30 June 2018

14. Other provisions

	Dilapidation provision	*Affordability Action Plan*	*Historic Unaffordable Lending*	*Restructuring*	*Onerous lease provision*	*Total provision*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
As of 1 April 2017	3,807	8,246	–	154	4,100	16,307
Unwind of discount and other payables	–	–	–	–	86	86
Charged to the income statement	–	–	–	8	189	197
Released during the period	–	–	–	–	(142)	(142)
Utilised during the period	(192)	(68)	–	(162)	(997)	(1,419)
As of 1 July 2017	3,615	8,178	–	–	3,236	15,029
As of 1 April 2018	3,317	815	6,340	140	2,962	13,574
Unwind of discount and other payables	–	–	–	–	–	–
Charged to the income statement	–	–	–	1,191	19	1,210
Released during the period	–	–	–	–	–	–
Utilised during the period	(39)	(278)	(727)	(1,261)	(214)	(2,519)
As of 30 June 2018	3,278	537	5,613	70	2,767	12,265

Dilapidation provision

£39,000 has been utilised during the period for work completed on a number of stores.

Affordability action plan

On 24 October 2017 we announced our Redress Scheme, reviewed by the FCA, and began repaying monies to our customers. We expect to incur a further £537,000 of costs in the future to complete the scheme including costs to close the scheme and the remaining payments to customers.

Historic Unaffordable Lending

In addition to the announced redress scheme, we have continued to receive claims from customers not included within the scheme which we are required to investigate and, if it is found that the correct procedures have not been followed, reimburse them accordingly.

During the period we incurred an additional £727,000 to investigate and settle these claims. We have assessed the value of the provision and at this point consider it to still represent the best estimate of the future costs of investigating and settling the claims we have currently received and any future claims we may receive.

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.

Notes to the Group financial statements

as of and for the thirteen weeks ended 30 June 2018

14. Other provisions (continued)

However, a number of risks and uncertainties remain in particular with respect to the number of claims that will be received and the rate of cases referred. The cost could differ from the Group's estimates and the assumptions underpinning them, and could result in a further provision being required.

Restructuring
The brought forward provision covers the non-property related costs resulting from the business wide cost reduction programme announced in March 2017. During the First Quarter 2018 the group incurred costs in relation to incremental redundancies of £717,000 and costs in relation to restructuring of key departments within the business during the period.

Vacant and 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.

15. Share capital

	30 June 2018 (unaudited)		*1 July 2017 (unaudited)*	
Allotted, called up and fully paid	*No.*	*£000*	*No.*	*£000*
A Ordinary shares of £0.001 each	1,291,642,507	1,294	4,340,000	4
Ordinary shares of £0.001 each	–	–	152,500	–
B Ordinary shares of £0.01 each	–	–	200,000	2
C Ordinary shares of £0.01 each	–	–	75,000	1
D Ordinary shares of £0.01 each	–	–	62,500	1
E Ordinary shares of £0.01 each	–	–	62,500	1
F Ordinary shares of £500 each	–	–	1	1
G Ordinary shares of £0.001 each	–	–	107,499	–
H Ordinary shares of £500 each	–	–	1	1
A Preferred shares of £0.0000001 each	–	–	6,725,639	–
B Preferred shares of £0.0000001 each	–	–	86,583,475	–
Deferred shares of £0.0000001 each	–	–	6,993,992,053	–
C Preferred shares of £1.00 each	–	–	40,500	41

Notes to the Group financial statements

as of and for the thirteen weeks ended 30 June 2018

15. Share capital (continued)

Between 14 November 2017 and 20 November 2017 management and the Employee Benefit Trust transferred all of their ordinary shares and preference shares (the “Management Shares”) back to the company for £nil consideration. On 2 February 2018, the Company cancelled the Management Shares, consolidated all its remaining share capital into 38,749,275 A Ordinary Shares, and issued a further 1,252,893,232 A Ordinary Shares at par to its parent.

The A ordinary shares carries voting rights exercisable in proportion to the number of shares held by each member. Any income and capital distributed by the company shall be appointed amongst the A ordinary Shareholders in proportion to the number of A ordinary shares held by them respectively.

Before the transactions above, ‘A Ordinary Shares’ were controlled by VCP VI B. ‘B Ordinary Shares’, ‘C Ordinary Shares’, ‘D Ordinary Shares’, ‘E Ordinary Shares’, ‘F Ordinary Shares’, ‘G Ordinary Shares’ and ‘Ordinary Shares’ were controlled by management (‘Management Shares’). ‘A Preferred Shares’ were controlled by VCP VI B, ‘B Preferred Shares’ were controlled by VCP VI B and management and ‘Deferred Shares’ were controlled by the Employee Benefit Trust. Dividends were distributed first to A Preferred Shares until the maximum hurdle rate, described in the Articles of Association, had been met. Remaining dividend amounts were then distributed to B Preferred Shares until the maximum hurdle rate had been met. Deferred Shares received no dividend distribution. All other classes of share were treated equally for any remaining distribution. For voting, each class of share held in aggregate, the % of votes as follows: A Ordinary: 75%, B Ordinary: 5%, C Ordinary 5%, D Ordinary 5%, E Ordinary 5% and F Ordinary 5%. All other classes of share held no voting rights.

In the event of a sale of the business, realisation proceeds were allocated in the following order. To the extent that the hurdle rate exceeds any previous return of capital A Preferred Shares received proceeds first. Next to the extent that the hurdle rate exceeds any previous return of capital B Preferred Shares received proceeds. Deferred Shares received a maximum of 1p on a sale of the business. Finally any remaining proceeds were distributed equally between the remaining share classes. However, in certain circumstances described in the Articles, participation of Management Shares in the proceeds may increase.

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.

Own shares reserves

The own shares reserve includes the nominal value of shares held by the employee benefit trust.

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 ended 30 June 2018 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

We are the leading player in the rent-to-own market in the United Kingdom measured by revenue, total customers and number of stores. We offer an integrated retail, credit and service proposition attractive to low income and credit impaired consumers who have limited access to traditional financing alternatives. We conduct our operations from our 280 stores which are located across the United Kingdom and through our fully transactions website. Our product offering consists of a well-balanced mix of quality new and refurbished household goods, including essential and aspirational products, from four main categories: (i) televisions and audio products; (ii) domestic appliances, including washers, fridges and cookers; (iii) furniture, including sofas, dining sets and beds; and (iv) consumer technology, including mobile devices, gaming consoles and computers. Each product category includes a choice of leading brands from name-brand manufacturers, as well as entry level products and quality refurbished products, across a wide range of price points, which are carefully selected to appeal to low income customers.

Overview (continued)

We continue to evolve our proposition to ensure that it meets the needs of our customers. With effect from 26 February 2017, the proposition was improved to allow greater flexibility and choice for the customer. Our customers are able to choose the length of the agreement they use to purchase products from us. This gives the customer choice over the amount of the weekly payment, and the total amount payable under the agreement. They also have choice about whether to purchase a service package from us, and how to insure the product. If taken, our optional product service and insurance covers can be cancelled by the customer at any time. The Group accounts for its revenue on an accruals basis for all domestic hire-purchase and insurance and warranty agreements taking credit for all weekly or monthly instalments that have fallen due, but not for instalments which will fall due in the future under contracts in existence at the balance sheet date.

We offer our products on an affordable payment schedule. This enables customers to have the items they want and need while spreading the cost over a number of years. Prior to entering into an agreement with a customer, we conduct bespoke creditworthiness and affordability assessments. If these are passed, we will enter into a hire purchase agreement with the customer, providing, primarily, weekly instalment payments and no initial deposit. Ownership of the product passes to the customer upon full payment under the hire purchase agreement. The representative APR offered in our hire purchase agreements is 69.9%. The actual rate offered to individual customers is currently in the range 69.9% – 99.9% based upon the customer's individual credit score, the product taken and the length of the agreement. Included within the credit agreement, we provide customers, for no additional cost, the right of return and cancellation at any time, typically without penalty. As a result, customers benefit from the flexibility to return the product and terminate the hire purchase at any time should their preferences or circumstances change.

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 thirteen weeks ended 30 June 2018	As of and for the thirteen weeks ended 1 July 2017
Summary Statistical and Operating Data		
Customer Data		
Total customers (thousands)(1)	200.4	221.9
Total Gross Dues (in millions of £)(2)	4.73	4.91
Closing Dues base (in millions of £)(2)	25.40	25.83
Average number of contracts per customer(3)	2.55	2.58
Average revenue per customer per month(4)	£126.70	£116.40
Stores		
Number of stores	280	283
Contract Portfolio (in millions of £)(5)	380.1	401.8

(1) Total 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 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.

Key Performance Indicators (continued)

(5) 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 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.

Total customers

Revenue is driven by the number of customers and their average spend with BrightHouse.

Customer numbers decreased by 9.7% from 221,900 as at 1 July 2017 to 200,400 as at 30 June 2018, as the rate of customer termination in the last twelve months continued to reflect the higher level of customer acquisition achieved before the stricter affordability processes and tightened credit criteria were put in place during the 2016-17 financial year.

However, in First Quarter 2018-19, new customer acquisition improved by 26.2% to 17,300 from 13,700 in First Quarter 2017-18. Customer Losses in First Quarter 2018-19 reduced by 16.9% to 19,700 from 23,700 in First Quarter 2017-18; as the rate of termination rebalanced towards the lower rate of acquisition experienced when the tightened criteria were introduced.

Total Gross Dues

Total Gross Dues decreased by 3.7% to £4.73 million for the First Quarter 2018-19 from £4.9 million for the First Quarter 2017-18. This is due to lower gross dues from add-on sales which reduced by 11% from £3.98 million in First Quarter 2017-18 to £3.53 million in First Quarter 2018-19. This is a result of the lower customer numbers across the First Quarter 2018-19 compared to First Quarter 2017-18.

Closing Dues base

The Closing Dues base decreased by 1.7% to £25.40 million as at 30 June 2018 from £25.83 million as at 1 July 2017, compared to a reduction of 17.1% between 2 July 2016 and 1 July 2017. Across First Quarter 2018-19, on average, closing dues were £573k lower than First Quarter in 2017-18. This is a significant factor in the lower revenue recorded in First Quarter 2018-19.

Average number of contracts per customer

Average number of contracts per customer decreased from 2.58 as at 1 July 2017 to 2.55 as at 30 June 2018.

Number of stores

As of 30 June 2018, we had a total of 280 stores, which reflects the continuation of our business plan to review and reduce our store estate, as appropriate, as we further develop our transactional website.

Contract Portfolio

The value of our Contract Portfolio as at 30 June 2018 was £380.1 million compared to £401.8 million as at 1 July 2017.

Regulation and compliance

Our business is authorised and regulated by the Financial Conduct Authority (the “FCA”).

On 31 May 2018 the FCA issued a consultation paper as part of their High-cost Credit Review. For rent-to-own, this includes consideration of whether it would be appropriate to introduce a price cap for the market, and a proposal to require a two day gap between the sale of the credit agreement and the sale of the extended warranty. Any new rules introduced following consultation are likely to take effect by 1 April 2019. We will continue to engage constructively with the FCA through the consultation period, in order that we can continue to meet the needs of our customers whilst remaining within the regulatory requirements.

Strategic Review

Central to our business plan is the objective to return to positive customer growth, improve margins and develop a multi-channel operation. During the last 12 months, we have developed our transactional website to allow new and existing customers to sign up online without visiting a store. We anticipate making further propositional changes to target adjacent facets of customer demand.

Cost management is another strategically important aspect of our focus over the year. Active management of lease renewal and lease breaks has led to significantly reduced costs through closures, relocations and renegotiations on both stores and engineering centres.

As part of the refinancing the group it was always envisaged that a revolving credit facility would be taken out to meet the short term funding requirements of the business. We are currently in detailed discussions with several parties to secure a super senior £35m facility.

Discussion and Analysis of Our Consolidated Results of Operations

Results of operations for the First Quarter 2018-19 compared with the First Quarter 2017-18

The following table sets forth certain information with respect to our consolidated results of operations for the First Quarter 2018-19 and the First Quarter 2017-18, 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 First Quarter 2018-19	For the First Quarter 2017-18	Change Amount	Change %
	(unaudited)			
Revenue	68,595	72,160	(3,565)	-4.9%
Gross profit	32,790	36,570	(3,780)	-10.3%
Gross profit margin	47.8%	50.7%	(2.9%)	
Operating expenses excluding exceptionals	(39,387)	(39,107)	(280)	0.7%
EBITDA	(3,123)	658	(3,781)	-
Exceptionals	(1,210)	(55)	(1,155)	-
Loss for the period	(9,679)	(7,260)	(2,419)	-

Revenue

Our revenue decreased by £3.6 million to £68.6 million from £72.2 million. A significant element of this reduction relates to the timing of the year end cut off, the remainder is largely attributable to the average closing dues base during the First Quarter of 2018-19 being lower than in the First Quarter of 2017-18.

Gross profit

Gross profit reduced by £3.8 million to £32.8 million from £36.6 million. This was caused by the reduction in the revenue discussed above, together with reduced product margins as a result of lower installation margins achieved in the latter part of First Quarter 2017-18, and a year on year increase in the cost of debt.

This gives a gross profit margin of 47.8% for the First Quarter 2018-19 compared to 50.7% for the First Quarter 2017-18.

In the context of the announcement of the Customer Redress programme announced in October 2017, Cost of Debt moved in an upward trajectory during Fiscal 2018. In the Final Quarter of 2017-18 cost of debt as a percentage of revenue, was 13.3%. However, this reduced to 11.7% in the First Quarter of 2018-19.

Net operating expenses before exceptional items

Our operating expenses increased by £0.3 million during the year to £39.4 million (57.4% of revenue) from £39.1 million (54.2% of revenue).

EBITDA

Our EBITDA for the period is (£3.1) million compared to £0.7 million in the previous period. This is the result of the reduction in revenue and gross profit margin discussed above

Exceptional

The charge in this period represents further restructuring of the business including changes to the retail management structure and reorganising the customer relations department.

Loss for the period

Our loss for the First Quarter 2018-19 is £9.7 million compared to £7.3 million in the First Quarter 2017-18. This is the result of the factors described above.

Cash Flows

(in thousands of £)	**For the First Quarter 2018-19**	**For the First Quarter 2017-18**
Cash and cash equivalents at beginning of period	19,961	77,796
Net cash flow from operating activities	4,286	1,478
Net cash from investing activities	(1,628)	(3,825)
Net cash flow from financing activities	-	(8,662)
Net increase/(decrease) in cash and cash equivalents	2,658	(11,009)
Cash and cash equivalents at end of period	**22,619**	**66,787**

Net cash flow from operating activities

Net cash flow from operating activities increased from £1.5 million in the First Quarter 2017-18 to £4.3 million in the First Quarter 2018-19 due to a more managed stock purchase to preserve available cash.

Net cash flow from investing activities

Net cash used in investing activities reduced by £2.2 million to an outflow of £1.6 million for the First Quarter 2018-19 from an outflow of £3.8 million for the First Quarter 2017-18. This has been analysed in the capital expenditure section.

Net cash flow from financing activities

No bond interest was paid in the period as the group took advantage of the option in the bond to accrue the interest into the face value of the debt.

Restricted cash

Included within cash and cash equivalents is restricted cash of £4.8 million (2017 – £6.4 million). This includes restricted cash of £4.5 million (2017 - £6.0 million) which represents cash at bank held by our Insurance Subsidiaries which is restricted due to regulatory and solvency requirements. This also includes restricted cash of £0.3 million (2017 – £0.4 million) which represents cash held by the Group on behalf of customers; this cash is held in a separate and ring-fenced bank account.

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 First Quarter 2018 and the First Quarter 2017:

(in millions of £)	For the First Quarter 2018-19	For the First Quarter 2017-18
Capital expenditure on information technology hardware	0.4	-
Capital expenditure on software development[1]	1.1	3.6
Others[2]	0.2	0.2
Total capital expenditure	**1.7**	**3.8**

(1) Includes expenditure relating to the ERP ecommerce project 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 First Quarter 2018-19 decreased by £2.1 million to £1.7 million compared to the First Quarter 2017-18. We have continued to invest in our fully transactional website throughout the quarter.

Off-Balance Sheet Arrangements

We do not currently have any off-balance sheet financing arrangements other than operating leases for stores, vehicles and office equipment. As of 30 June 2018, the value of our Contract Portfolio, which is unrecognised and maintained off-balance sheet until instalment payments are due, was £380.1 million compared to £401.8 million at 1 July 2017 which represents a 5% reduction. This is compared to a 20% reduction in the 12 months to 1 July 2017 which illustrates the stabilisation of the effect of the terminations lag as discussed above. The Contract Portfolio was supported by hire purchase assets, recognised on our balance sheet, underpinning our Contract Portfolio, having a net book value of £100.5 million as of 30 June 2018.

Key Contacts and Calendar

Key Contacts

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Finance Calendar

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