

**BrightHouse**

**BrightHouse Group Limited**

**Quarterly Report**

**for the thirteen weeks ended 29 June 2019**

**BrightHouse Group Limited**

5 Hercules Way

Leavesden Park

Watford WD25 7GS

United Kingdom

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### Operational Highlights for the First Quarter 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 ended 29 June 2019.

#### Key Summary

- Successful roll out of targeted cash loans proposition nationwide with strong demand from our customers and encouraging debt performance. 6,000 loans issued during the period with a contract portfolio of £8.2m
- RTO trading down on prior year due to impact of store closures, retail reorganisation and pricing pressure as a result of the FCA’s High-cost Credit Review
- Gross dues of £3.3m (First Quarter 2018-19: £4.7m), Net dues loss of £2.1m (First Quarter 2018-19: loss of £0.5m)
- Web only gross dues have increased 137% to £341k (First Quarter 2018-19: £144k)
- Customers signing up fully online increased to 2,500 (First Quarter 2018-19: 1,600)
- Cost of bad debt of £9.9m (First Quarter 2018-19: £8.0m) largely caused by the impact of the 30 store closures and the retail reorganisation in March 2019
- Operating expenses reduced by 18% to £29.5m for First Quarter 2019-20 compared to £35.9m for First Quarter 2018-19 showing the continued benefits of management’s ongoing programme to reduce the cost to serve
- EBITDA loss for the quarter of £2.7m (First Quarter 2018-19: loss of £3.1m)

The following table reconciles EBITDA to loss before tax for the First Quarter 2019-20 and the First Quarter 2018-19.

(in thousands of £)	For the First Quarter 2019-20	For the First Quarter 2018-19
Loss before tax	(9,707)	(10,474)
Financial income and expense	3,886	2,667
Depreciation of fixtures and equipment and amortisation of software	3,148	3,474
Exceptional items	366	1,210
Finance related costs	214	–
Impact of IFRS 16	(564)	–
EBITDA	(2,657)	(3,123)

### 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 2018-19” refers to the thirteen weeks ended 30 June 2018.

“First Quarter 2019-20” refers to the thirteen weeks ended 29 June 2019.

“First Quarter Report” refers to this report as of and for the thirteen weeks ended 29 June 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.

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

“the period” and “this period” refer to the First 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 Quarterly Report we refer to the thirteen weeks ended 29 June 2019 as “First Quarter 2019-20”, and the thirteen weeks ended 30 June 2018 as “First Quarter 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 ended 29 June 2019 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, 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 ended 29 June 2019

		<i>13 weeks ended 29 June 2019 (unaudited) £000</i>	<i>13 weeks ended 30 June 2018 (unaudited) £000</i>
	Notes		
<b>Revenue</b>	3	62,963	68,595
Cost of sales		(36,157)	(35,805)
<b>Gross profit</b>		26,806	32,790
Operating expenses		(32,626)	(40,597)
<b>Operating loss</b>		(5,820)	(7,807)
<b>Analysed by:</b>			
Depreciation of fixtures and equipment and amortisation of intangible assets		3,148	3,474
Exceptional items	2	366	1,210
Finance related costs		214	–
Impact of IFRS 16		(564)	–
Earnings before interest, tax, depreciation, amortisation and exceptional items		(2,656)	(3,123)
Other finance income	4	30	23
Other finance expense	4	(3,916)	(2,690)
<b>Loss before taxation</b>		(9,706)	(10,474)
Tax credit	5	23	795
<b>Loss for the period</b>		(9,683)	(9,679)

The results shown above all relate to continuing activities.

## Group statement of comprehensive income

for the thirteen weeks ended 29 June 2019

	<i>13 weeks ended 29 June 2019 (unaudited) £000</i>	<i>13 weeks ended 30 June 2018 (unaudited) £000</i>
<b>Loss for the period</b>	(9,683)	(9,679)
Other comprehensive income for the period net of tax	–	–
<b>Total comprehensive income for the period net of tax</b>	(9,683)	(9,679)

## Group statement of financial position

as of 29 June 2019

	Notes	29 June 2019 (unaudited) £000	30 June 2018 (unaudited) £000
<b><i>Non-current assets</i></b>			
Property, plant and equipment	6	117,470	107,653
Intangible assets	7	14,862	18,762
Trade and other receivables	10	8,716	10,870
Deferred tax assets	8	13,712	13,971
		<u>154,760</u>	<u>151,256</u>
<b><i>Current assets</i></b>			
Inventories	9	9,590	17,261
Trade and other receivables	10	41,831	43,167
Cash and cash equivalents	11	15,252	22,619
Corporation tax debtor		1,072	–
		<u>67,775</u>	<u>83,047</u>
<b><i>Total assets</i></b>		<u>222,505</u>	<u>234,303</u>
<b><i>Current liabilities</i></b>			
Trade and other payables	12	18,101	41,523
Financial liabilities	13	18,158	–
Other provisions	14	18,562	12,265
Current tax payable		780	815
Leased liabilities		2,984	–
		<u>58,585</u>	<u>54,603</u>
<b><i>Non-current liabilities</i></b>			
Financial liabilities	13	128,919	118,055
Lease liabilities		29,817	–
<b><i>Total Liabilities</i></b>		<u>217,321</u>	<u>172,658</u>
		<u>5,184</u>	<u>61,645</u>
<b><i>Equity attributable to equity holders of the parent</i></b>			
Share capital	15	1,294	1,294
Share premium		72,598	72,598
Capital redemption reserve		57	57
Capital contribution reserve		39,274	39,274
Retained earnings		(108,039)	(51,578)
<b><i>Total equity</i></b>		<u>5,184</u>	<u>61,645</u>

## Group statement of changes in equity

as of and for the thirteen weeks ended 29 June 2019

	<i>Share capital (unaudited) £000</i>	<i>Share Premium (unaudited) £000</i>	<i>Capital redemption reserve (unaudited) £000</i>	<i>Capital contribution reserve (unaudited) £000</i>	<i>Retained earnings (unaudited) £000</i>	<i>Total Equity (unaudited) £000</i>
As of 1 April 2018	1,294	72,598	57	39,274	(41,899)	71,324
Loss for the period	–	–	–	–	(9,679)	(9,679)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As of 30 June 2018	1,294	72,598	57	39,274	(51,578)	61,645
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
As of 1 April 2019	1,294	72,598	57	39,274	(91,586)	21,637
Loss for the period	–	–	–	–	(9,683)	(9,683)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As of 29 June 2019	1,294	72,598	57	39,274	(108,039)	5,184
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## Group statement of cash flows

for the thirteen weeks ended 29 June 2019

		<i>13 weeks ended 29 June 2019 (unaudited)</i>	<i>13 weeks ended 30 June 2018 (unaudited)</i>
	<i>Notes</i>	<i>£000</i>	<i>£000</i>
<b><i>Cash flows from operating activities</i></b>			
Loss for the period		(9,683)	(9,679)
Adjustments for:			
Sales proceeds from sales of rental assets		582	612
Depreciation		23,967	23,047
Amortisation of intangible assets		2,443	2,642
Loss on disposal of leased assets		414	–
Financial income		(30)	(23)
Financial expense		3,916	2,713
Profit on rental assets sold to customers		(351)	(360)
Rental assets written off as obsolete or not recoverable from defaulting customers		6,970	5,800
Purchase of rental assets		(17,671)	(23,646)
Taxation		(23)	(795)
		<hr/>	<hr/>
<b><i>Operating cash inflow before changes in working capital</i></b>		10,534	311
		<hr/>	<hr/>
Increase in trade and other receivables		(1,036)	(241)
Increase in inventories		(1,008)	(3,763)
(Decrease) / increase in trade and other payables		(9,280)	9,288
(Decrease) / increase in provisions		(4,296)	(1,309)
		<hr/>	<hr/>
<b><i>Cash generated from operations</i></b>		(5,086)	4,286
Tax reclaimed		204	–
		<hr/>	<hr/>
<b><i>Net cash flow from operating activities</i></b>		(4,882)	4,286
		<hr/>	<hr/>
<b><i>Cash flows from investing activities</i></b>			
Interest received		12	23
Purchase of property, plant and equipment		(124)	(561)
Payments to acquire intangible assets		(740)	(1,090)
		<hr/>	<hr/>
<b><i>Net cash flow from investing activities</i></b>		(852)	(1,628)
		<hr/>	<hr/>
<b><i>Cash flows from financing activities</i></b>			
Proceeds of new loans		10,400	–
Interest paid		(483)	–
Repayment of term loans		(2,500)	–
		<hr/>	<hr/>
<b><i>Net cash flow from financing activities</i></b>		7,417	–
		<hr/>	<hr/>
<b><i>Net increase in cash and cash equivalents</i></b>		1,683	2,658
Cash and cash equivalents at the beginning of the period		13,569	19,961
		<hr/>	<hr/>
Cash and cash equivalents at the end of the period	11	15,252	22,619
		<hr/> <hr/>	<hr/> <hr/>

## Notes to the Group financial statements

as of and for the thirteen weeks ended 29 June 2019

### 1. Accounting policies and basis of preparation

This Quarterly report contains condensed consolidated financial information of BrightHouse Group Limited for the thirteen weeks ended 29 June 2019. 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 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

	<i>13 weeks ended 29 June 2019 (unaudited) £000</i>	<i>13 weeks ended 30 June 2018 (unaudited) £000</i>
Vacant and onerous lease provision	366	20
Restructuring provision	–	1,190
	<u>366</u>	<u>1,210</u>

#### **Vacant and onerous lease provision**

During the First Quarter 2019-20 incremental costs of £366,000 were incurred relating to servicing vacant properties.

### 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.

## Notes to the Group financial statements

as of and for the thirteen weeks ended 29 June 2019

### 4. Finance income and expense

Recognised in the income statement

	<i>13 weeks ended 29 June 2019 (unaudited) £000</i>	<i>13 weeks ended 30 June 2018 (unaudited) £000</i>
Interest income	12	10
Unwinding of discount on VAT incurred in advance (note 10)	18	13
	<hr/>	<hr/>
Finance income	30	23
	<hr/> <hr/>	<hr/> <hr/>

	<i>13 weeks ended 29 June 2019 (unaudited) £000</i>	<i>13 weeks ended 30 June 2018 (unaudited) £000</i>
Interest expense	3,916	2,690
	<hr/>	<hr/>
Finance expense	3,916	2,690
	<hr/> <hr/>	<hr/> <hr/>

### 5. Taxation

Tax on loss on ordinary activities

Recognised in the income statement

	<i>13 weeks ended 29 June 2019 (unaudited) £000</i>	<i>13 weeks ended 30 June 2018 (unaudited) £000</i>
<i>Current tax:</i>		
Corporation tax charge overseas	–	12
	<hr/>	<hr/>
Total current tax	–	12
	<hr/>	<hr/>
<i>Deferred tax:</i>		
Deferred tax credit	–	(807)
	<hr/>	<hr/>
Total taxation in income statement	–	(795)
	<hr/> <hr/>	<hr/> <hr/>

## Notes to the Group financial statements

as of and for the thirteen weeks ended 29 June 2019

### 6. Property, plant and equipment

	<i>Rental assets (unaudited) £000</i>	<i>Fixtures and equipment (unaudited) £000</i>	<i>Leased assets (unaudited) £000</i>	<i>Total (unaudited) £000</i>
Cost:				
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
As of 1 April 2019	197,656	65,319	–	262,975
Asset created as a result of IFRS16	–	–	27,208	27,208
Additions	17,671	124	–	17,795
Disposals	(32,096)	–	(414)	(32,510)
As of 29 June 2019	183,231	65,443	26,794	275,468
Depreciation:				
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
As of 1 April 2019	100,275	58,651	–	158,926
Depreciation charge for the period	20,355	704	2,908	23,967
Disposals	(24,896)	–	–	(24,896)
As of 29 June 2019	95,734	59,355	2,908	157,997
Net book value:				
As of 29 June 2019	87,497	6,087	23,886	117,470
As of 1 April 2019	97,381	6,668	27,208	131,257
As of 30 June 2018	100,538	7,115	–	107,653
As of 1 April 2018	105,160	10,194	–	115,354

## Notes to the Group financial statements

as of and for the thirteen weeks ended 29 June 2019

### 7. Intangible assets

	<i>Software (unaudited) £000</i>	<i>Goodwill (unaudited) £000</i>	<i>Total (unaudited) £000</i>
<b>Cost:</b>			
As of 1 April 2018	80,872	74,978	155,850
Additions	1,090	–	1,090
	<hr/>	<hr/>	<hr/>
As of 30 June 2018	81,962	74,978	156,940
	<hr/>	<hr/>	<hr/>
As of 1 April 2019	87,641	74,978	162,619
Additions	740	–	740
	<hr/>	<hr/>	<hr/>
As of 29 June 2019	88,381	74,978	163,359
	<hr/>	<hr/>	<hr/>
<b>Amortisation:</b>			
As of 1 April 2018	60,558	74,978	135,536
Amortisation charge for the period	2,642	–	2,642
	<hr/>	<hr/>	<hr/>
As of 30 June 2018	63,200	74,978	138,178
	<hr/>	<hr/>	<hr/>
As of 1 April 2019	71,076	74,978	146,054
Amortisation charge for the period	2,443	–	2,443
	<hr/>	<hr/>	<hr/>
As of 29 June 2019	73,519	74,978	148,497
	<hr/>	<hr/>	<hr/>
<b>Net book value:</b>			
As of 29 June 2019	14,862	–	14,862
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
As of 1 April 2019	16,565	–	16,565
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
As of 30 June 2018	18,762	–	18,762
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
As of 1 April 2018	20,314	–	20,314
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

#### 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 29 June 2019

### 8. Deferred tax assets

	<i>29 June 2019</i> <i>(unaudited)</i> £000	<i>30 June 2018</i> <i>(unaudited)</i> £000
Assets:		
Tax losses recognised	7,516	7,977
Other property, plant and equipment	6,046	5,809
Capital contributions on lease incentives	150	185
	<hr/>	<hr/>
Total tax assets	13,712	13,971
	<hr/> <hr/>	<hr/> <hr/>

### 9. Inventories

	<i>29 June 2019</i> <i>(unaudited)</i> £000	<i>30 June 2018</i> <i>(unaudited)</i> £000
Goods held for resale at cost	9,590	17,261
	<hr/> <hr/>	<hr/> <hr/>

During the period assets acquired for resale amounting to £17,671,000 (2018 – £23,646,000) 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

	<i>29 June 2019</i> <i>(unaudited)</i> £000	<i>30 June 2018</i> <i>(unaudited)</i> £000
Current:		
Trade receivables	1,358	2,120
Customer loans receivable	4,342	–
Amounts owed from ultimate parent undertaking	4,246	3,388
Other trade receivables and prepayments	14,503	17,005
Other non-trade receivables	195	358
VAT incurred in advance of recovery from customers	17,188	19,936
Other taxes and social security	–	360
	<hr/>	<hr/>
	41,831	43,167
	<hr/> <hr/>	<hr/> <hr/>
Non-current:		
VAT incurred in advance of recovery from customers	7,729	9,689
Other trade receivables and prepayments	9,87	1,181
	<hr/>	<hr/>
	8,716	10,870
	<hr/> <hr/>	<hr/> <hr/>

## Notes to the Group financial statements

as of and for the thirteen weeks ended 29 June 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 £7,729,000 (2018 – £9,689,000) 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 £1,311,000 (2018 – £1,274,000) 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:

	<i>29 June 2019</i> <i>(unaudited)</i> £000	<i>30 June 2018</i> <i>(unaudited)</i> £000
1-7 days	66	85
8-14 days	71	83
15-45 days	250	289
45-90 days	10	9
	<u>397</u>	<u>466</u>

#### Movements in bad debt provision

	<i>29 June 2019</i> <i>(unaudited)</i> £000	<i>30 June 2018</i> <i>(unaudited)</i> £000
At beginning of period	1,335	1,345
Amounts written off as uncollectable	(4,264)	(4,163)
Increase in bad debt provision	4,240	4,092
	<u>1,311</u>	<u>1,274</u>

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 29 June 2019

### 11. Cash and cash equivalents

	<i>29 June 2019</i> <i>(unaudited)</i> £000	<i>30 June 2018</i> <i>(unaudited)</i> £000
Cash and cash equivalents per balance sheet and cash flow statement	15,252	22,619

Cash and cash equivalents comprise cash at bank and in hand. Included within cash and cash equivalents is restricted cash of £4.6 million (2018 – £4.8 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

	<i>29 June 2019</i> <i>(unaudited)</i> £000	<i>30 June 2018</i> <i>(unaudited)</i> £000
Trade payables	4,079	15,203
Other taxes and social security	1,147	2,703
Other non-trade payables	200	332
Accrued expenses	11,225	21,927
Accrued interest	1,450	1,358
	<u>18,101</u>	<u>41,523</u>

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

	<i>29 June 2019</i> <i>(unaudited)</i> £000	<i>30 June 2018</i> <i>(unaudited)</i> £000
Current liabilities:		
Revolving credit facility	18,158	–
	<u>18,158</u>	<u>–</u>

## Notes to the Group financial statements

as of and for the thirteen weeks ended 29 June 2019

### 13. Financial liabilities (continued)

	<i>29 June 2019</i> <i>(unaudited)</i> £000	<i>30 June 2018</i> <i>(unaudited)</i> £000
Non-current liabilities:		
Senior secured notes 2023	128,919	118,055
	<u>128,919</u>	<u>118,055</u>

#### Terms and debt repayment schedule

##### Revolving credit facility

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

##### Senior secured notes 2023

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

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

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

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

## Notes to the Group financial statements

as of and for the thirteen weeks ended 29 June 2019

### 14. Other provisions

	<i>Dilapidation provision</i>	<i>Affordability Action Plan</i>	<i>Affordability Claims</i>	<i>Restructuring</i>	<i>Onerous lease provision</i>	<i>Historical staff purchase scheme</i>	<i>Total provision</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
As of 1 April 2018	3,317	815	6,340	140	2,962	–	13,574
Charged to the income statement	–	–	–	1,191	19	–	1,210
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
As of 1 April 2019	3,042	–	11,386	1,244	6,386	800	22,858
Charged to the income statement	–	–	–	–	366	–	366
Utilised during the period	(158)	–	(2,353)	(1,175)	(976)	–	(4,662)
As of 29 June 2019	2,884	–	9,033	69	5,776	800	18,562

#### **Dilapidation provision**

£158,000 has been utilised during the period for work completed on a number of stores.

#### **Affordability action plan**

The affordability action plan was formally closed by the FCA in the previous financial year.

#### **Affordability claims**

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 £2,353,000 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. 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 2019, most of these actions were completed during the quarter.

#### **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.

## Notes to the Group financial statements

as of and for the thirteen weeks ended 29 June 2019

### 14. Other provisions (continued)

#### Historical staff purchase scheme

In the prior year we closed our staff purchase scheme and as a result we provided for £800,000 of estimated costs that may be incurred in relation to the scheme.

### 15. Share capital

<i>Allotted, called up and fully paid</i>	<i>29 June 2019</i>		<i>30 June 2018</i>	
	<i>No.</i>	<i>£000</i>	<i>No.</i>	<i>£000</i>
A Ordinary shares of £0.001 each	1,291,642,507	1,294	1,291,642,507	1,294

The A ordinary shares carry 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.

#### 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 reserve**

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 29 June 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.

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 69.9% – 99.9% based upon the customer’s individual credit score, the product taken and the length of the agreement.

## Key Performance Indicators

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

	<b>As of and for the thirteen weeks ended 29 June 2019</b>	<b>As of and for the thirteen weeks ended 30 June 2018</b>
<b>Customers and agreements</b>		
Total customers (thousands) <sup>(1)</sup> .....	187.0	200.4
Total Gross Dues (in millions of £) <sup>(2)</sup> .....	3.28	4.73
Closing Dues base (in millions of £) <sup>(2)</sup> .....	22.57	25.40
Average number of contracts per customer <sup>(3)</sup> .....	2.45	2.55
Average revenue per customer per month <sup>(4)</sup> .....	£120.90	£126.70
<b>Stores</b>		
Number of stores .....	245	280
<b>RTO Contract Portfolio</b> (in millions of £) <sup>(5)</sup> .....	<b>316.8</b>	<b>380.1</b>

- (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.
- (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 customers***

Revenue is driven by the number of customers and their average spend with BrightHouse. Customer numbers decreased by 6.7% from 200,400 as at 30 June 2018 to 187,000 as at 29 June 2019. This reduction is attributed to the fall in sign-ups driven by the store closures, retail reorganisations and price pressure as a result of the FCA's High-cost Credit Review. Customers signing up fully online increased from 1,600 in the First Quarter 2018-19 to 2,500 in the First Quarter 2019-20.

### ***Total Gross Dues***

Total Gross Dues decreased by 30.5% to £3.3 million for the First Quarter 2019-20 from £4.7 million for the First Quarter 2018-19. This is mainly due to lower gross dues from existing customer add-on sales which reduced by 26.1% from £3.53 million in First Quarter 2018-19 to £2.61 million in First Quarter 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. Web only gross dues have increased by 137% to £0.34 million for the First Quarter 2019-20 from £0.14 million for the First Quarter 2018-19.

### ***Closing Dues base***

The Closing Dues base decreased by 11.1% to £22.57 million as at 29 June 2019 from £25.40 million as at 30 June 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 Quarter 2019-20.

### ***Average number of contracts per customer***

Average number of contracts per customer decreased from 2.55 as at 30 June 2018 to 2.45 as at 29 June 2019.

### ***Number of stores***

As of 29 June 2019, we had a total of 245 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.

### ***RTO Contract Portfolio***

The value of our Rent-to-Own ("RTO") Contract Portfolio as at 29 June 2019 was £316.8 million compared to £380.1 million as at 30 June 2018. This decrease is due to the fall in customer numbers and shorter terms.

## **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. For rent-to-own, they implemented a ban on the sale of extended warranties at the point of sale in February 2019 and a Price Cap and Price Benchmarking from 1 April 2019 for all new products and from 1 July 2019 for existing products. Their focus on comprehensive affordability checks continues. We seek 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.

A further regulatory challenge is the FCA's search for increased availability and awareness of lower cost options and non-credit alternatives. We are fully aware of the role of the FCA as our regulator and its expectations, the external perception of us as a business and the way in which we need to operate in the future if we are to be both commercially successful and face no further FCA intervention.

## Discussion and Analysis of Our Consolidated Results of Operations

### *Results of operations for the First Quarter 2019-20 compared with the First Quarter 2018-19*

The following table sets forth certain information with respect to our consolidated results of operations for the First Quarter 2019-20 and the First 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 First	For the First	Change	
	Quarter 2019-20	Quarter 2018-19	Amount	%
	(unaudited)			
Revenue.....	62,963	68,595	(5,632)	(8.2%)
Gross profit.....	26,806	32,790	(5,984)	(18.2%)
Gross profit margin .....	42.6%	47.8%	(5.2%)	
Operating expenses excluding exceptionals .....	(32,260)	(39,387)	7,127	18.1%
EBITDA .....	(2,656)	(3,123)	467	14.9%
Exceptionals .....	(366)	(1,210)	844	69.8%
Loss for the period.....	(9,683)	(9,679)	4	-

#### *Revenue*

Our revenue decreased by £5.6 million to £63.0 million from £68.6 million. This decrease was primarily due to the fall in customer numbers and contract portfolio value as documented below.

#### *Gross profit*

Gross profit reduced by £6.0 million to £26.8 million from £32.8 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 42.6% for the First Quarter 2019-20 compared to 47.8% for the First Quarter 2018-19.

#### *Net operating expenses before exceptional items*

Our operating expenses decreased by £7.1 million during the year to £32.3 million (51.2% of revenue) from £39.4 million (57.4% of revenue) primarily due to the reduced store base driving payroll and property cost savings.

#### *EBITDA*

Our EBITDA loss for the quarter is (£2.7) million compared to (£3.1) million in the previous period. This is the result of the reduction in revenue and gross profit margin discussed above.

#### *Exceptionals*

The charge in this period represents costs of maintaining, marketing and exiting closed stores.

#### *Loss for the period*

Our loss for the First Quarter 2019-20 is in line with the First Quarter 2018-19 at £9.7 million. This is the result of the factors described above.

## Cash Flows

<b>(in thousands of £)</b>	<b>For the First Quarter 2019-20</b>	<b>For the First Quarter 2018-19</b>
Cash and cash equivalents at beginning of period.....	13,569	19,961
Net cash flow from operating activities.....	(4,882)	4,286
Net cash from investing activities .....	(852)	(1,628)
Net cash flow from financing activities.....	7,417	-
Net increase in cash and cash equivalents .....	1,683	2,658
<b>Cash and cash equivalents at end of period .....</b>	<b>15,252</b>	<b>22,619</b>

### *Net cash flow from operating activities*

Net cash flow from operating activities decreased from an inflow of £4.3 million in the First Quarter 2018-19 to an outflow of (£4.9) million in the First Quarter 2019-20 due to reduced earnings due to lower dues base, lower rental asset purchases, and a working capital outflow reflecting shorter credit terms from key suppliers.

### *Net cash flow from investing activities*

Net cash used in investing activities increased by £0.8 million to an outflow of £0.9 million for the First Quarter 2019-20 from an outflow of £1.6 million for the First 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.

### *Restricted cash*

Included within cash and cash equivalents is restricted cash of £4.6 million (2018 – £4.8 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 First Quarter 2019-20 and the First Quarter 2018-19:

<b>(in millions of £)</b>	<b>For the First Quarter 2019-20</b>	<b>For the First Quarter 2018-19</b>
Capital expenditure on information technology hardware .....	0.1	0.4
Capital expenditure on software development <sup>(1)</sup> .....	0.7	1.1
Others <sup>(2)</sup> .....	-	0.2
<b>Total capital expenditure .....</b>	<b>0.8</b>	<b>1.7</b>

- (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 First Quarter 2019-20 decreased by £0.9 million to £0.8 million compared to the First 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 29 June 2019, the value of our Contract Portfolio, which is unrecognised and maintained off-balance sheet until instalment payments are due, was £316.8 million compared to £380.1 million at 30 June 2018 which represents a 16.7% reduction. The Contract Portfolio was supported by hire purchase assets, recognised on our balance sheet, underpinning our Contract Portfolio, having a net book value of £87.5 million as of 29 June 2019.

### **Key Contacts and Calendar**

#### ***Key Contacts***

David Harwood – Company Secretary

Email: [investor.relations@brighthouse.co.uk](mailto:investor.relations@brighthouse.co.uk)

Website: <http://www.brighthousegroup.co.uk/>

Telephone: +44 (0) 1923 488222

#### ***Finance Calendar***

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