28 November 2023

Topps Tiles Plc

Annual Financial Results

Third consecutive record year of sales, ‘1 in 5 by 2025’ market share goal delivered two years ahead of schedule

Topps Tiles Plc ("Topps Group", the “Company" or the “Group”), the UK's leading tile specialist, announces its unaudited consolidated annual financial results for the 52 weeks ended 30 September 2023.

Strategic and Operational Highlights

- Third consecutive record year of revenue for the Group
- ‘1 in 5 by 2025’ market share goal achieved two years early, with market share increasing to 22.1% from 19.8% in 2022 (restated)
- New Topps Group branding, underscoring the significant development and diversification of the Group over recent years
- Record sales in Topps Tiles, with sales per store up 30% compared to pre-pandemic levels, further improvements to world-class customer service scores, and successful expansion into new product categories
- Good progress in Topps Tiles’ gross margin, with quarter-on-quarter growth throughout the year (before rebates and other adjustments)
- Excellent progress in Pro Tiler online pure play businesses, with sales up c. 50% year on year and 8-9% profit margins delivered
- Parkside restructure complete and now profitable in the final quarter
- New Chair appointed and new Senior Independent Director Designate announced

Financial Highlights

	52 weeks ended 30 September 2023	52 weeks ended 1 October 2022	YoY
Adjusted Measures			
Topps Tiles like-for-like revenue year on year[1]	3.1%	9.4%	n/a
Adjusted profit before tax[2]	£12.5 million	£15.6 million	(19.9)%
Adjusted earnings per share[3]	4.49p	6.14p	(26.9)%
Adjusted net cash at period end[4]	£23.4 million	£16.2 million	+£7.2 million
Statutory Measures			
Group revenue	£262.7 million	£247.2 million	+6.3%
Gross profit	£139.2 million	£135.4 million	+2.8%
Gross margin %	53.0%	54.8%	(1.8)ppts
Profit before tax	£6.8 million	£10.9 million	(37.6)%
Basic earnings per share	1.63p	4.60p	(64.6)%
Final dividend per share	2.4p	2.6p	(7.7)%
Total dividend per share	3.6p	3.6p	Flat

Financial Summary

- Group revenue up 6.3% to £262.7 million
- Group gross profit up 2.8% to £139.2 million
- Group gross margin at 53.0%, with growth through the year driven by increasing margin in Topps Tiles
- Adjusted profit before tax of £12.5 million due to the impact of cost inflation
- Cash increased £7.2 million, due to strong operational cash flows and disciplined working capital management
- Strong balance sheet with £23.4 million net cash and £53.4 million headroom within committed borrowing facilities
- Final dividend of 2.4 pence per share, maintaining the full year dividend at 3.6 pence, reflecting confidence in the medium-term prospects of the business

Current Trading and Outlook

- Trading in the early weeks of the new financial year has reflected the well-documented challenges to discretionary consumer spending, especially RMI, including higher interest rates and prolonged high inflation, falling house prices and lower housing transactions
- Softer build into the seasonal peak trading period, with Group sales down 3.0% year on year in first eight weeks of the new financial year with like-for-like sales in Topps Tiles down 6.1% and strong growth continuing in Pro Tiler Tools
- Well-positioned to continue to take market share due to competitive advantages, including market-leading brands, world-class customer service, specialist expertise, strong balance sheet, growing cash position and ambitious growth strategy

Commenting on the results, Rob Parker, Chief Executive said:

"This has been a further year of strategic progress for the Group and we are delighted to have delivered a third consecutive year of record sales and to have achieved our '1 in 5' market share goal two years ahead of schedule. While profitability for the year reflects the impact of inflation on our cost base, particularly during the early months of the period, these pressures began to abate in the second half, with the smaller store estate and the cost reduction plan at Parkside providing further mitigation.

"As we enter our new financial year, it is clear that there has been a weakening of discretionary consumer spending. The business is well positioned to deal with this period, our established brands are market leading, we are competitively advantaged and we are confident that we will continue to take market share. When combined with a strong balance sheet, this will support the Group's ambitions over the medium term. Topps Group continues to develop and diversify and we remain excited by the opportunities ahead of us."

Notes

[1] *Topps Tiles like-for-like revenue is defined as sales from Topps Tiles stores that have been trading for more than 52 weeks and www.toppstiles.co.uk.*

[2] *Adjusted profit before tax excludes the impact of items which are either one-off in nature or fluctuate significantly from year to year. See the financial review section of this document for a reconciliation of adjusted profit before tax to statutory profit before tax.*

[3] *Adjusted earnings per share is adjusted for the items highlighted above, plus the impact of corporation tax. In 2022, adjusted earnings per share also excluded a £1.2 million deferred tax credit in respect of previous periods which is not expected to repeat.*

[4] *Adjusted net cash is defined as cash and cash equivalents, less bank loans, before unamortised issue costs as at the balance sheet date. It excludes lease liabilities under IFRS 16.*

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION

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Summary of performance and progress

2023 has been a further year of development and progress for the Group. In our 60th anniversary year, we were delighted to achieve a number of significant milestones as well as making substantial strategic and operational progress across the business. The Group has delivered a third consecutive year of record sales, and in doing so we achieved our market share goal, two years ahead of schedule.

This goal, which we set for the business in 2020 and refer to as '1 in 5 by 2025', was to take a 20% market share by 2025, up from 17% at that time. This year, we increased our market share by 2.3 percentage points, to 22.1% of the £1.2 billion market for tiles and related products in the UK, and therefore achieved our goal in just three years, rather than five.

Financial performance in 2023 was robust. Including a full year of performance from our Online Pure Play businesses, sales were up 6.3% year on year to a new record of £262.7 million (2022: £247.2 million), more than £40 million higher than 2019 (the last year before the pandemic). Gross profit was up 2.8% to £139.2 million, also a record for the Group. Gross margins were lower year on year as a result of business mix and FX movements, but trended upwards through the period as the most acute levels of product cost inflation abated. Adjusted operating expenses were 5.7% higher as a result of inflation and a full year of the cost base relating to Online Pure Play, partially offset with lower costs from fewer stores year on year and a cost reduction programme in Parkside. Adjusted profit before tax of £12.5 million was down year on year (2022: £15.6 million) reflecting the inflationary impacts on costs, and adjusted EPS was down from 6.14 pence last year to 4.49 pence. The Group's cash generation in the year was strong, with growth in cash of £7.2 million over the year, further increasing the strength of the Group's balance sheet. The full year dividend is being maintained at 3.6 pence per share, in line with our capital allocation policy, with the Board able to look through short term periods of macroeconomic weakness with confidence about the Group's medium-term prospects.

Topps Tiles, our largest brand, had a good year, generating like-for-like sales growth of 3.1% on the back of two exceptional years of growth. Total sales were £230.9 million (2022: £227.0 million), a record for the brand, and with average sales per store now up 30% compared to the pre-pandemic period of 2019. The business continued to extend its range of products and achieved world-class customer satisfaction scores whilst doing so. Gross margins improved sequentially over the course of the year, with each trading quarter recording higher gross margins (excluding rebates and other adjustments) than the last. Cost control has been strong over recent years, with virtually all operating cost inflation since 2019, including energy and labour costs, offset through efficiencies and the optimisation of our store network.

Pro Tiler Tools, acquired in March 2022, delivered excellent sales growth and strong profitability, and, alongside Tile Warehouse, recorded sales of £22.4 million in 2023 in our Online Pure Play channel, up from £9.3 million in the part-year period last year. We are continuing to pursue aggressive growth in this area of business and have launched two new business and increased the range of proprietary brands available to our trade customers in the last twelve months.

Parkside, our commercial business focused on architects and designers, delivered a reduced level of sales of £9.4 million (2022: £10.9 million). Following a period of losses, the business was restructured at the end of the third quarter, and moved back into profitability in quarter four. Parkside is now well set for future growth from a sound financial base.

Headwinds from last year, primarily supply chain difficulties (both logistics and availability of supply) and recruitment have now eased, with staff turnover substantially down year on year, stock availability at good levels and the cost of shipping now returning to pre-pandemic levels.

Having been developed and diversified significantly over recent years, the business now trades in three related sectors of the UK market for tiles and associated products - our omni-channel, market leading Topps Tiles business, our Online Pure Play tile and consumable operations (Pro Tiler Tools and Tile Warehouse), and our commercial market-focused offer (Parkside). To reflect this broader base and the strategic journey we are on to continue to grow our share of the total UK tile market, we believe the time is right to establish a new identity as Topps Group.

Topps Group retains the rich heritage of Topps Tiles, which has been serving UK consumers since 1963 and is the clear UK market-leading business in the domestic tile market, while also encapsulating our ambition and our strategy to build a diverse ranges of businesses, each with its own specialism within the market for tiles and closely associated products. The new identity underscores the greater breadth of opportunities for our key stakeholders, including colleagues, suppliers and shareholders. For colleagues, this includes a broader range of career opportunities; for suppliers, the greater scale of Group-wide sourcing arrangements; and for shareholders, the continued successful evolution and growth of the Group.

Purpose, goal and strategy

The core purpose of Topps Group is to inspire customers through our love of tiles. This gives us a very clear focus on our specialism in tiles and associated products, and encourages all our colleagues to be passionate about the products we sell. It also puts our customers at the heart of what we do and reminds us that all roles in the Group are either serving customers directly or supporting those colleagues that are.

As described above, this year the Group achieved its 2025 market share goal, two years ahead of schedule. We now account for 22.1% of the £1.2 billion market for tiles and associated products. However, we believe that there is much more that the Group can deliver, both in sales and profit.

The Group's strategy remains focused across three business areas – Omni-channel (Topps Tiles), Commercial (Parkside) and Online Pure Play (Pro Tiler and Tile Warehouse) – all of which are underpinned by the same three Group strategies of Leading Product, Leading People and Environmental Leadership.

Leading Product

Our expertise in the ranging, sourcing and procurement of tiles and associated products on a global basis is a core specialism of the Group and a significant driver of our competitive advantage. Our scale allows us to work directly with carefully selected manufacturing partners from all around the world to develop and produce differentiated products that are innovative, of high quality and, often, exclusive to Topps Group. These direct relationships set us apart from many of our competitors who tend to be more reliant on importers, and may not enjoy the cost advantage and creative input that direct supplier relationships give us.

This year we have seen a normalisation of many of the factors that have negatively impacted global supply chains in the past two years. Shipping costs and capacity are trending towards pre-pandemic levels, HGV driver availability has normalised, strikes impacting some ports have been resolved and the reduction in global gas prices and raw material costs has eased pressure on manufacturers. The two main impacts on Topps Group from this improving situation are first that we ended the year in the strongest position for stock availability since the pandemic, and second that we have been able to reduce our requirement for sub-contractors within our driver network.

We have remained flexible in our approach to developing new supplier relationships and reviving old ones in the year, particularly as we actively resourced product from geographies less impacted by inflationary and supply chain pressures. Partly as a result of this active management, our strategic supplier base accounted for a lower mix of purchases in 2023 at 66% (2022: 73%), although our ability to leverage long term relationships with suppliers and logistics partners has also remained key throughout this period.

We have also retained our focus on new product development, with 63 new product introductions in the year (2022: 34 new products). We protect the intellectual property and design assets we create through partner exclusivity and design registration. Overall, 77% of ranges in Topps Tiles are either exclusive or own brand (2022: 76%), which forms a key part of our competitive advantage. This year, in Topps Tiles, we have extended our product offering in areas such as luxury vinyl tiles; brought in a new range of everyday mid-priced products to sit alongside our Get the Look for Less ranges; extended our own brands such as Dex™, our tiling tools brand aimed at the general builder and DIY enthusiast; started rolling out new categories, such as shower panels and larger format tiles; and launched new branding for Everscape™, our outdoor tiles range. Tile Warehouse has continued to evolve its range and price points, and Pro Tiler Tools has extended its range of proprietary brands, including listing Kubala tools and the Weber adhesive brand. Through Parkside, we continue to supply an industry-leading breadth of range, including many exclusive products, into the Commercial sector.

Leading People

All of the businesses within Topps Group are supported by our Leading People strategy. Our product specialism requires both technical knowledge and inspirational selling, with customers ranging from architects to tradespeople and homeowners. This variety means that we require our colleagues to be able to work and communicate effectively across these customer groups, which requires high levels of capability and engagement. Our Leading People strategy retained its focus on four existing areas: recruitment & retention, colleague experience, capability and well-being, with the addition of a fifth area during the year to reflect a renewed focus on diversity, equity and inclusion through our 'One Topps' strategy.

We have made excellent progress on recruitment and retention over the course of the year, with colleague turnover down 7.9 percentage points year on year to 28.6%. Good progress has been made in reducing churn in key roles such as Topps Tiles store manager and assistant manager, as well as a reduction in the number of colleagues who leave within three months of joining the business, all as a result of a focus on improved recruitment and onboarding processes. Our colleague retention (the percentage of colleagues who stay with the business for a year or more) has increased from 77% in 2022 to 80% this year. Our positive culture, based on small teams with big ambitions, who have high levels of trust and celebrate success, is also a big part of working for Topps Group and a key reason why colleagues choose to stay with the business.

Our colleague experience is best measured by our My Voice survey. This year, 1,382 colleagues took part, the highest ever level of colleague participation, and an 85% response rate (up 6 percentage points against the last survey in 2021). Overall engagement was at 78% (2021: 80%, 2019 pre-pandemic: 75%) with particularly strong scores around our teams knowing what behaviours and tasks are expected of them, together with a very strong sense of being committed to our customers.

We invest in capability through a combination of formal training and on the job learning, often delivered through our learning experience platform, 'Thrive'. Highlights this year include the launch of our Selling Brilliantly campaign, where some of our most successful store colleagues share their own ideas about how to consistently deliver superb customer service through videos which have been watched thousands of times across the business. We are proud to promote internally wherever possible, and this year 70% of candidates appointed to management positions were internal promotions (2022: 65%).

Wellbeing continues to play a major role in our strategy, with a particular focus this year on mental health and financial health. This year, line managers have been trained on mental health awareness and our mental health first aiders continue to play a key role in the business. Our hardship fund and loans continue to support colleagues' financial health where necessary.

This year, we have launched a new important part of our Leading People strategy, focusing on diversity, equity and inclusion, called 'One Topps'. Starting with female colleagues and minority ethnic groups, we will hold focused listening groups to help us understand the lived experience of a wide range of colleagues.

Environmental Leadership

Leading our industry in terms of our environmental credentials is becoming ever more important. This is the third year that Environmental Leadership has been embedded in our Group strategy and we have continued to make good progress. Our strategy is based around two pillars – carbon reduction and circularity – underpinned by strong governance.

We remain committed to carbon neutrality in Scope 1 & 2 by 2030, which will be achieved through decarbonisation together with offsetting. Complete decarbonisation will require electrification of all vehicles and heating and therefore will require significant technological innovation, however, there is still much we can do in the interim, as described in detail in the Sustainability Report within the Annual Report and our TCFD disclosure.

This year, we have agreed a new 100% renewable electricity contract, installed 914 solar panels onto the roof of our main office and warehousing facilities in Leicester which should generate approximately 70% of the site's electricity needs, launched an energy aware campaign to promote energy saving practices among colleagues, and increased the electric/hybrid car mix in our company car fleet to 51% (2022: 24%). Further plans are in place for 2024 including a trial of HVO diesel replacement fuel in our transport fleet, examining opportunities for solar panels across some of our store network, and developing our Scope 3 reporting in conjunction with Normative, the acclaimed carbon consultancy.

Circularity is largely concerned with waste, recycling and product innovation. This year, we have exceeded our target to reduce the amount of tile waste generated across the business (through damage, store display changes and so on), delivering a year on year reduction of 12%, or 303 tonnes. We have also seen an increase in sales of tiles which have a 50% or greater recycled content by 21.8% year on year. This included the launch of Principle™, a tile which is made from a remarkable 91.3% of recycled industrial waste, among the highest levels globally, and the continued expansion of Regenr8™, our eco-adhesive, which contains up to 53% recycled content. We are also focused on pallet recovery and reducing packaging materials across the supply chain.

Underpinning these initiatives is a strong governance structure, with Rob Parker leading at a Board level and also chairing the Sustainability Council, a cross-functional committee tasked with innovating and implementing ideas which will support our environmental goals.

Omni-channel: Topps Tiles

Topps Tiles opened its first store in 1963 and, 60 years on, is the leading, omni-channel tile specialist in the UK, focused on the domestic RMI market, and still retaining significant opportunities for further profitable growth.

2023 saw another year of strong progress in Topps Tiles. Sales of £230.9 million were once again at record levels, £3.9 million higher than the previous record set in 2022, with like-for-like sales growth of 3.1%. Sales per store were 30% higher than the pre-pandemic period of 2019 as a result of the successful store rationalisation programme which saw customers transfer from closed stores, as well as market growth and self-help measures such as new product category launches.

The Topps Tiles brand has high levels of brand recognition and, with more than three times as many stores as the next specialist competitor, it enjoys a very strong national presence. This year, we conducted proprietary research through a third-party market research agency, to measure this recognition. On an unprompted basis, against our tile specialist competitors, Topps Tiles has around 25 times greater brand recognition. Even when prompted, Topps Tiles has approximately 2.4 times more brand awareness than the next tile competitor. The research also found that customers have more favourable sentiments about Topps Tiles if they have ever visited a store. Given our world class customer service, this was reassuring but not unexpected. This year, Topps Tiles' overall customer satisfaction scores increased again, up 1.6 percentage points year on year to 91.5%, meaning that 91.5% of the 16,000 customers who filled in a survey in the year gave Topps Tiles a 5* review. When combined with 4* reviews, the score increased to 98% of customers.

Our customer mix continues to be one of professional trade customers and homeowners. We have been actively growing our sales to trade customers in recent years and last year 59.6% of sales were to trade customers (2022: 58.9%). The relationship between the two groups is very close – often a professional installer will use a Topps Tiles store as an extension of their own workspace, visiting the store with the customer or referring them directly to us. A key strength of the Topps operating model is that both customer groups can use the different elements of the brand in different ways.

For homeowners, the omni-channel nature of the Topps Tiles offer is key. Our award-winning website plays a key role in their purchasing journey, with customers using the website for initial research, inspiration, or to transact. Almost all homeowners also interact with our stores at some stage, for advice, customer service, to transact or to collect their orders at the most convenient time for them. Online sales made up 19% of tile sales to homeowners in the year, comparable to other retailers in our industry, and we continue to invest in our digital platforms. This year, we have improved site speed, redesigned the samples purchasing journey, implemented guest check out, added new payment methods and many other improvements.

For trade customers, we offer differentiated pricing, bulk deals, a loyalty scheme and increasing numbers of proprietary brands, but most importantly, the convenience of over 300 local stores, enabling traders to form strong relationships with colleagues, built on trust and high levels of technical advice and service. In recent years we have also established a trade contracts team to manage higher value sales to our larger customers. This part of the business allows for a further route into the Commercial tile market, in addition to our Parkside business.

At the end of the year, the Topps Tiles store estate consisted of 303 stores (2022: 304 stores), following one closure in the year and three relocations. The flexibility of this estate remains key, and the average unexpired lease term to the next break opportunity is just 2.9 years (2022: 2.8 years), or 2.8 years excluding strategically important stores (2022: 2.6 years). Following a reduction in store numbers in recent years, the management of lease exits and assignments has been a key focus area. At year end, there were just five closed Topps Tiles stores remaining in the estate, with a further two leases with expiry dates before the end of the first half of 2024. Another key aspect of estate management has been the re-negotiation of leases during their term to generate value, which has been very successful in a number of instances, securing our tenure in profitable sites whilst generating upside through reduced rent.

We continue to invest in the Topps Tiles store estate and have converted another eight stores to our 'Superstore' format this year, taking the total to 41. These stores offer the widest breadth of product and high-quality amenities and are performing well following what was a relatively modest investment. Our 14 clearance stores continue to provide even greater value to customers, whilst providing an operational outlet for discontinued lines. Our 248 core stores continue to deliver excellent products and service to both homeowner and trade customers and we will continue to invest in our store network to support our future plans and new product roll out in 2024.

Topps Tiles has had another strong year, delivering another year of record sales, a further increase in world-class customer satisfaction scores and seeing further improvements in our digital offering and our physical store estate.

Commercial: Parkside

Parkside is a specialist tile distributor, aimed at architects, designers and contractors in the commercial market. Becoming part of Topps Group in 2017, it is now a top-five competitor within the sector.

After five sequential years of sales growth, sales in Parkside in 2023 of £9.4 million were down 13.8% year on year, with the market remaining substantially smaller when compared to the pre-pandemic period. Given a weaker period of trading in the first half, and the lack of an expected near-term market recovery, a business improvement plan was implemented in the third quarter of the year. As a result, approximately 35% of the cost base of the business was removed, largely through a reduction in headcount of about 45%. The focus was on retaining the sales whilst driving efficiency.

As a result of this restructure, no material clients have been lost and the business was profitable in each of the final three months of the financial year. Parkside has now been right-sized and is positively focused on delivering consistent profitable growth in this large and attractive market, which is almost the same size as the residential RMI market. The ambition for Parkside is to utilise the scale and expertise of the Group to create a business delivering at least £20 million of profitable sales in the commercial tile market.

Online Pure Play: Pro Tiler brands and Tile Warehouse

Our Online Pure Play business now consists of six brands. Five of them (www.protilertools.co.uk, www.premiumtiletrim.co.uk, www.northantstools.co.uk, www.warmfloorstore.co.uk, www.flooringmaterials.co.uk) are trade-focused, digital-only consumables and tools brands, operated by the Pro Tiler management team. Tile Warehouse is a homeowner-oriented, value-focused, digital-only tiles business, offering a complementary positioning to Topps Tiles. In total, Online Pure Play delivered sales of £22.4 million, up from £9.3 million in the post-acquisition period of 2022. Sales were up 52% year on year when compared to the previous twelve-month period, including the period before the acquisition of Pro Tiler Limited.

Since the acquisition of 60% of the equity in Pro Tiler Limited in March 2022, the business has delivered an excellent performance, and Pro Tiler Tools is now well established as the market leading player in this sector. This year, sales and profit growth has been strong, driven by continuous improvement to all aspects of the offer, including listing more trade-focused brands such as Raimondi, Kubala Tools and Weber, an enhanced service proposition including extended opening hours, and delivering more growth through larger customers. Pro Tiler is an excellent fit with Topps Group, with a shared ethos around product knowledge twinned with high levels of customer service. The business is highly respected by trade customers, with over 5,000 reviews online, and an average score of 4.8 / 5. It also delivers good financial returns, with net margins of 8-9% already being achieved despite gross margins of around 30%. The remaining 40% of the shares in Pro Tiler Limited will be acquired following the end of the earn-out period in March 2024.

In addition, this year, two further brands have been launched under the leadership of the Pro Tiler team. Warm Floor Store is a specialist underfloor heating business and Flooring Materials supplies professional floor fitters with everything needed to fit a variety of floor coverings, including vinyl, lino, carpet, tile and wood. Both are in their early stages but represent an opportunity to leverage a core digital skill set and trade focused service proposition to different markets. In all, the Pro Tiler brands represent at least a £30 million sales opportunity for the Group.

Tile Warehouse has been operating for just over a year and provides an entry into the £100 million online pure play tile market. It offers a core range of quality tiles at very competitive price points, utilising the Group's scale, supplier relationships, financial strength and digital expertise. Progress in the first year has been slower than planned, reflecting the impact of a variety of technical issues and offer refinements. Following recent changes to the management team, the business has been refocused, and we expect stronger progress to be made in 2024. We continue to believe that the brand offers the prospect of £15 million of annual sales in the medium term.

Key Performance Indicators ("KPIs")

The Board monitors a number of financial and non-financial metrics and KPIs both for the Group and by individual store. This information is reviewed and updated as the Directors feel appropriate. This year, an additional non-financial KPI has been included, the square meters of tiles sold in Topps Tiles. This metric essentially measures the volume performance of our key product and is regarded by the Board as a key metric.

	52 weeks to 30 September 2023	**52 weeks to 1 October 2022**	**YoY**
Financial KPIs			
Group revenue growth year on year	6.3%	8.4%	n/a
Topps Tiles like-for-like sales growth year on year*	3.1%	9.4%	n/a
Group gross margin %	53.0%	54.8%	(1.8)ppts
Adjusted profit before tax*	£12.5m	£15.6m	(19.9)%
Adjusted earnings per share*	4.49 pence	6.14 pence	(26.9)%
Adjusted net cash*	£23.4m	£16.2m	+£7.2m
Inventory days	107	126	(19) days
Non-financial KPIs			
Square metres of tiles sold in Topps Tiles (thousand)	4,569	4,804	(4.9)%
Topps Tiles customer overall satisfaction score	91.5%	89.9%	+1.6ppts
Colleague turnover	28.6%	36.5%	(7.9)ppts
Carbon emissions per store (tonnes per annum)	16.9	15.6	+8.3%
Number of Topps Tiles stores at year end	303	304	(1)

* as defined in the Financial Review

Notes: Customer overall satisfaction scores are calculated from the responses we receive through our TileTalk customer feedback programme. Overall satisfaction (OSAT) is the percentage of customers that score us 5 in the scale of 1 – 5, where 1 is highly dissatisfied, and 5 is highly satisfied. Energy carbon emissions have been compiled in conjunction with our electricity and gas suppliers. This is based on the actual energy consumed multiplied by Environment Agency approved emissions factors. Vehicle emissions have been calculated by our in-house transport team based on mileage covered multiplied by manufacturer quoted emission statistics. Carbon emissions per store for 2022 vary slightly from the result previously reported (15.5) as we are now reporting CO_2e rather than CO_2, as per SECR requirements.

FINANCIAL REVIEW

The 2023 financial year covers the 52 weeks to 30 September 2023. The previous financial year covers the 52 weeks to 1 October 2022. Overall, the year saw strong sales growth including a meaningful contribution from the newer businesses within Topps Group, profits reflecting the impact of inflationary pressures, good cash generation and the maintenance of a very robust balance sheet.

Adjusted Measures

The Group's management uses adjusted performance measures, to plan for, control and assess the performance of the Group.

Adjusted profit before tax differs from the statutory profit before tax as it excludes the effect of one-off or fluctuating items, allowing stakeholders to understand results across years in a more consistent manner. In line with the prior year, we have included the business-as-usual impact of IFRS 16 in adjusted profit but continue to adjust for any impairment charges or impairment reversals of right of use assets, derecognition of lease liabilities where we have exited a store, and one-off gains and losses through sub-lets. In the period 2022 – 2024 we will also exclude the cost relating to the purchase of the remaining 40% of shares in Pro Tiler Limited which we expect to make from March 2024, which under IFRS 3 is treated as a remuneration expense, rather than a cost relating to the acquisition of the relevant shares. This cost is significantly higher year on year, both because it relates to a full year period in 2023 compared to a part year period in 2022, and because the performance of the Pro Tiler Tools business has continued to improve over time. We have also excluded costs relating to the store closure programme which ended in 2022, as well as restructuring costs.

An analysis of movements from adjusted profit before tax to statutory profit before tax is presented below:

	2023 £m	***2022 £m***
Adjusted profit before tax	***12.5***	***15.6***
Property		
- *Vacant property and closure costs*	*(1.1)*	*(1.7)*
- *Store impairments and lease exit gains and losses*	*0.2*	*(0.7)*
	(0.9)	***(2.4)***
Business Development		
- *Pro Tiler Tools deal costs*	*-*	*(0.2)*
- *Pro Tiler Tools share purchase expense*	*(4.1)*	*(1.6)*
- *Tile Warehouse set up costs*	*-*	*(0.5)*
- *Restructuring and other one-off costs*	*(0.7)*	*-*
	(4.8)	***(2.3)***
Statutory profit before tax	***6.8***	***10.9***

Adjusted earnings per share is adjusted for the items listed above, as well as the impact of corporation tax. In 2022, adjusted earnings per share also excluded a £1.2 million deferred tax credit in respect of previous periods which is not expected to repeat. Further information is given in the earnings per share note to the accounts.

STATEMENT OF PROFIT OR LOSS

Revenue

Total revenue for the 52-week period increased by 6.3% to £262.7 million (2022: £247.2 million). Revenue consolidated into the Group accounts by business area was as follows:

£m	**2023**	**2022**	**Variance**
Topps Tiles	230.9	227.0	+1.7%
Parkside	9.4	10.9	(13.8)%
Online Pure Play*	22.4	9.3	+141%
Group	**262.7**	**247.2**	**+6.3%**

*Online Pure Play includes Pro Tiler Tools and its associated brands, which were acquired in March 2022, and Tile Warehouse, which was launched in May 2022.

Topps Tiles like-for-like sales were 3.1% higher than the prior year, which consisted of a 4.3% increase in the first half of the financial year and a 1.9% increase in the second half.

Total revenue in Topps Tiles was up 1.7% year on year to £230.9 million, a record for the brand. There was one store closure and three relocations in the year and the brand finished the trading period with 303 trading stores (2022: 304 stores). On average, Topps Tiles traded from 304 stores over the year (2022: 310 stores).

In the commercial market, sales to our clients through Parkside were down 13.8% year on year to £9.4 million. The Group consolidated a full year of sales from Pro Tiler Tools following its acquisition in March 2022, as well as a full year of trading from Tile Warehouse, leading to revenue from Online Pure Play of £22.4 million, compared to a part year period in 2022. When compared to the previous twelve-month period, including the period before acquisition, sales in Online Pure Play were up 52% year on year, a very strong result.

Gross Margin and Gross Profit

Group gross profits increased 2.8%, or £3.8 million to £139.2 million, including a £0.9 million increase relating to Topps Tiles and a £2.9 million increase relating Parkside, Pro Tiler Tools and Tile Warehouse. Group gross margin as a percentage of sales decreased 1.8 percentage points year on year to 53.0%, with improvement throughout the year as inflation pressures abated (H1 gross margin: 52.8%, H2 gross margin 53.3%).

The change in gross margin on an annual basis was due to three main factors. 1.2 percentage points of the overall fall of 1.8 percentage points was due to changing business mix, specifically the growth in Online Pure Play, which operates at a structurally lower gross margin than the rest of the Group. In addition, there was a 0.8 percentage point fall due to mark-to-market movements on unrealised foreign currency transactions and retranslation of monetary items, and a gain of 0.2 percentage points due to other factors, including improvements in the gross margins in the individual brands.

The mark-to-market and retranslation movements in the year were driven by the revaluation of our forward currency contracts, under which we contract to buy foreign currency in advance of our requirements. As the pound recovered from its lows against the dollar and euro in late September 2022, these contracts are revalued, resulting in a significant non-cash charge in the year. In addition, monetary items such as foreign currency and trade payables are revalued based on the exchange rates in place at the end of the trading period.

Gross margin within the Topps Tiles brand grew year on year and, as expected, improved with each trading quarter showing higher gross margins (excluding rebates, FX and other adjustments) than the last. The margin in Topps Tiles has been impacted by higher shipping and product costs in recent years, however these pressures have now abated or in some cases reversed, leading to an improvement in gross margins over the financial year.

Operating Expenses

Operating expenses were £128.1 million compared to £120.6 million in 2022. Excluding adjusting items, which were explained above, operating expenses increased from £116.0 million in 2022 to £122.6 million in 2023.

The £6.6 million increase in adjusted operating expenses is explained by the following key items:

	£ million
2022 adjusted operating expenses	**116.0**
Cost inflation	5.5
Store space	(1.3)
Parkside cost reduction	(1.0)
Online Pure Play	3.1
Other	0.3
2023 adjusted operating expenses	**122.6**

Cost inflation relates to a wide range of the cost base, including increases to people, energy, property, IT, insurance and other central costs. Store space refers to savings from operating an average of 304 stores in 2023 compared to 310 in 2022. Parkside cost reduction includes the business restructure carried out in the year and Online Pure Play reflects the cost base of the business being included for a full year, compared to approximately six months in 2022 in the period following the acquisition of Pro Tiler Tools and the launch of Tile Warehouse.

The Group has maintained a strong focus on cost management over recent years, and has managed to offset virtually all of the inflationary pressures since 2019, including payroll and energy inflation, through a combination of the profitable store closure programme and other self-help measures, as shown below. The bridge combines operating expenses and interest due to the transition from IAS 17 to IFRS 16 reporting over this period. In 2019, operating expenses relating to Parkside were excluded from adjusted profit, so the table below restates 2019 operating expenses to include the cost base of Parkside at that time.

	£ million
2019 adjusted opex and interest (Topps Tiles and Group costs only)	**117.0**
2019 Parkside opex	4.2
2019 restated (Topps Tiles, Parkside and Group costs)	**121.2**
2019 restatement due to SaaS accounting changes	0.3
Inflation 2019 – 2023	13.3
Net savings including store closures and efficiency programmes	(13.1)
2023 adjusted opex and interest (ex change in Parkside and Online Pure Play)	**121.7**
Change in Parkside and Online Pure Play cost base 2019 to 2023	5.0
2023 adjusted opex and interest (Group)	**126.7**

Finance income and costs

Total net finance costs were £4.3 million (2022: £3.9 million), consisting of interest receivable on credit balances of £0.3 million (2022: £0.1 million), interest income from finance lease receivables of £0.1 million (2022: £0.1 million), interest payable on lease liabilities of £4.2 million (2022: £3.6 million), discount unwind costs of £0.2 million (2022: £nil) and amortisation of banking fees relating to the revolving credit facility of £0.3 million (2022: £0.4 million).

Profit before tax

Excluding the items detailed in the Adjusted Measures section above, adjusted profit before tax was £12.5 million (2022: £15.6 million. The Group adjusted profit before tax margin was 4.8% (2022: 6.3%) as a result of the lower gross margins and higher adjusted operating expenses described above.

On a statutory basis, profit before tax was £6.8 million (2022: £10.9m), with the year on year decline particularly impacted by the accounting treatment of the Pro Tiler Limited share purchase expense under IFRS 3.

Tax

On an adjusted basis, the effective rate of corporation tax for the period was 24.9% (2022: 21.8%), driven by the increase in the UK Corporation Tax rate from 19% to 25% from 1 April 2023.

The effective rate of corporation tax for the period on a statutory basis was 42.5% (2022: 16.0%). The statutory rate of tax is substantially higher than previous years because the Pro Tiler Limited share purchase expense is not treated as an allowable expense from a tax perspective, instead it is treated as an acquisition of shares. This position will normalise following the completion of the share purchase following March 2024. The tax expense in the prior year included a one-off deferred tax credit of £1.2 million which is excluded from adjusted earnings per share metrics.

Earnings per share

Adjusted earnings per share were 4.49 pence (2022: 6.14 pence). Basic earnings per share were 1.63 pence (2022: 4.60 pence). Diluted earnings per share were 1.61 pence (2022: 4.55 pence).

Dividend

In 2022, the Board outlined a new Capital Allocation and Dividend policy. In the Policy, the Board indicated that it expected to increase the dividend by 2023 to 67% of the adjusted earnings per share generated in the year. The policy was designed to have some flexibility and, in particular, the Board indicated that it did not intend to reduce the dividend year on year due to short term performance or macroeconomic issues, even if that meant increasing the payout ratio in some years. As such, this year the Board is proposing a final dividend of 2.4 pence, bringing the full year dividend to 3.6 pence, in line with last year and representing 80% of adjusted earnings per share.

The shares will trade ex-dividend on 21 December 2023 and, subject to approval from shareholders at the Annual General Meeting in January 2024, the dividend will be payable on 2 February 2024.

STATEMENT OF FINANCIAL POSITION

Capital Expenditure

Capital expenditure in the period amounted to £4.2 million (2021: £3.2 million), an increase of £1.0 million year on year.

Key investments were as follows:

- Topps Tiles stores – including 3 relocations, store improvements, merchandising and maintenance – £3.5 million
- LED store improvement programme £0.4 million
- Group IT developments £0.3 million

The Board expects capital expenditure in the year ahead to be between £6 million and £8 million. This compares to an average of £8.1 million in the four years before the pandemic (2016 to 2019) and is broadly in line with depreciation and amortisation of property, plant and equipment and intangible assets, respectively. This amount will cover our core investment plans – any acquisitions that the Group may consider as part of its growth plans would be additional to this guidance.

Inventory

Inventory at the period end was £36.4 million (2022: £38.6 million) representing 107 inventory days (2022: 126 inventory days). The significant reduction in inventory days is driven by both a reduction in inventory days and absolute inventory value relating to Topps Tiles, and the increase in business mix relating to Pro Tiler Tools (which has a materially lower number of inventory days due to its operating model).

Cash Flow Statement

The Group's cash balance increased in the period by £7.2 million from £16.2 million at the start of the financial year to £23.4 million at the year end. The table below analyses the Group's adjusted cash flow:

	2023	**2022**
	£m	**£m**
Cash generated by operations, including interest and capital elements of leases, before WC movements	18.9	18.5
Changes in working capital	3.4	(11.0)
Capital expenditure	(4.2)	(3.2)
Disposals	-	0.2
Interest	0.1	(0.3)
Tax	(3.3)	(3.5)
Other	(0.2)	0.1
Free cash flow	**14.7**	**0.8**
Acquisition of Pro Tiler Limited, net of cash and debt acquired	-	(4.4)
Dividends	(7.5)	(8.0)
Change in adjusted net cash	**7.2**	**(11.6)**
Adjusted net cash at start of period	**16.2**	**27.8**
Adjusted net cash at end of period	**23.4**	**16.2**

The business continues to generate good levels of cash from operations, including a working capital inflow in the year of £3.4 million driven by a reduction in inventory, a slight reduction in receivables and a minor increase in payables. With £4.2 million of capital expenditure, well under the level of depreciation and amortisation of plant, property and equipment and intangible assets, respectively, the business generated free cash flow in the year of £14.7 million. Even after an increased level of dividend payments year on year, overall cash balances increased by £7.2 million to £23.4 million by year end.

Looking forward, 2024 is forecast to include a working capital inflow due to the year end date falling before the end of September, worth approximately £7.0 million, however the purchase of the remaining 40% of shares in Pro Tiler Limited will also be made in the new financial year, largely offsetting this inflow.

Return on Capital Employed

The Group's return on capital employed, including the impact of leases, decreased from 17.3% in 2022 to 15.7% in 2023, due to a 14.1% year on year reduction in adjusted operating profit. Strong cash generation led to a reduction in lease adjusted capital employed of 15.7%, or £18.2 million over the financial year, including a £7.2 million increase in adjusted net cash, a £2.6 million reduction in total equity, and a £8.4 million reduction in lease liabilities year on year. The Group defines return on capital employed as the annual adjusted operating profit divided by the average capital employed (net assets plus net debt, including lease liabilities).

Banking Facilities

The Group maintains a very robust balance sheet, providing resilience and allowing investment in growth opportunities. A £30.0 million revolving credit facility is in place which is committed to October 2026 with an extension option for a further year (2022: £30.0 million facility agreed following year end, committed to October 2025). At the year end, none of this facility was drawn (2022: £nil drawn). Based on net cash excluding lease liabilities of £23.4 million, the Group has £53.4 million of headroom to its banking facilities at the period end (2022: £46.2 million headroom to the new facility).

Forward Guidance

Cost pressures will continue to impact the profitability of the business in 2024. Overall, we expect around £5.0 million of inflationary pressures year on year across our overhead base, primarily employment costs including the impact of increases in the National Living Wage, property costs and other expenses. Utility costs are now expected to fall modestly based on the new annual contracts signed by the Group.

The Group's profits in 2024 will continue to show a degree of seasonality based on a number of factors including the impact of the holiday pay accrual together with higher energy costs in the autumn and winter months, which will reduce the proportion of annual profits made in the first half of the year.

As mentioned above, the Board expects capital expenditure of between £6 million and £8 million in 2024. 2024 will include a cash inflow relating to the timing of year end and an outflow relating to the purchase of the remaining shares in Pro Tiler Limited, also as described above.

Current Trading and Outlook

Trading in the early weeks of the new financial year has reflected the well-documented challenges to discretionary consumer spending, especially RMI, including higher interest rates and prolonged high inflation, falling house prices and lower housing transactions. In particular, since the end of the summer, the market has been subdued, with a softer build into the usual seasonal peak trading period, as noted in a variety of corporate and macroeconomic reporting. Group sales in the first eight weeks are down 3.0% year on year, including like-for-like sales in Topps Tiles down 6.1% and strong growth continuing in Pro Tiler Tools.

Topps Group has delivered consistent growth in market share over recent years, from a combined share of 17% in 2019 as reported at the launch of the '1 in 5 by 2025' goal, to 22.1% in 2023. This growth has been achieved as a result of the competitive advantages enjoyed by the Group, including market-leading brands, world-class customer service, specialist expertise, a strong balance sheet including a growing cash position, and an ambitious growth strategy. The Group remains well positioned to continue to take market share in all market conditions due to these factors.

Rob Parker

Chief Executive Officer

Stephen Hopson

Chief Financial Officer

28 November 2023

Unaudited Consolidated Statement of Profit or Loss

FOR THE 52 WEEKS ENDED 30 SEPTEMBER 2023

	Notes	**52 weeks ended 30 September 2023 £'000**	52 weeks ended 1 October 2022 £'000
Group revenue	3	**262,714**	247,241
Cost of sales		**(123,466)**	(111,818)
Gross profit		**139,248**	135,423
Distribution and selling costs*		**(93,800)**	(89,746)
Other operating expenses		**(6,846)**	(5,953)
Administrative costs		**(21,493)**	(19,827)
Marketing and online costs		**(6,582)**	(5,495)
Other income*		**579**	430
Group operating profit		**11,106**	14,832
Finance income	6	**408**	123
Finance costs	6	**(4,699)**	(4,010)
Profit before taxation	4	**6,815**	10,945
Taxation	7	**(2,896)**	(1,754)
Profit for the period		**3,919**	9,191
Profit is attributable to:			
Owners of Topps Tiles Plc		**3,206**	9,005
Non-controlling interests		**713**	186
		3,919	9,191

All results relate to continuing operations of the Group.

*Other income has been reclassified from Distribution and selling costs see note 12 for more details.

Earnings per ordinary share:	Notes	**52 weeks ended 30 September 2023 £'000**	52 weeks ended 1 October 2022 £'000
- Basic	9	**1.63p**	4.60p
- Diluted	9	**1.61p**	4.55p

Unaudited Consolidated Statement of Comprehensive Income

FOR THE 52 WEEKS ENDED 30 SEPTEMBER 2023

	52 weeks ended 30 September 2023 £'000	52 weeks ended 1 October 2022 £'000
Profit for the period	**3,919**	9,191
Total comprehensive income for the period is attributable to:		
Owners of Topps Tiles Plc	**3,206**	9,005
Non-controlling interests	**713**	186
	3,919	9,191

Unaudited Consolidated Statement of Financial Position

AS AT 30 SEPTEMBER 2023

	Notes	**2023 £'000**	2022 £'000
Non-current assets			
Goodwill		**2,101**	2,101
Intangible assets		**4,755**	5,423
Property, plant and equipment		**19,306**	20,888
Deferred tax assets		**68**	114
Right-of-use assets		**80,921**	88,545
Other financial assets		**1,847**	1,947
		108,998	119,018
Current assets			
Inventories		**36,351**	38,605
Other financial assets		**327**	542
Trade and other receivables		**5,284**	5,901
Derivative financial instruments		**74**	518
Cash and cash equivalents	10	**23,368**	16,241
		65,404	61,807
Total assets		**174,402**	180,825
Current liabilities			
Bank loans	11	**-**	-
Trade and other payables		**(45,066)**	(43,650)
Lease liabilities		**(15,649)**	(18,187)
Current tax liabilities		**(368)**	(1,152)
Provisions		**(5,865)**	(352)
		(66,948)	(63,341)
Net current liabilities		**(1,544)**	(1,534)
Non-current liabilities			
Lease liabilities		**(78,853)**	(84,741)
Provisions		**(2,213)**	(3,694)
Total liabilities		**(148,014)**	(151,776)
Net assets		**26,388**	29,049
Equity			
Share capital		**6,556**	6,556
Share premium		**2,636**	2,636
Own shares		**(112)**	(415)
Merger reserve		**(399)**	(399)
Share-based payment reserve		**6,035**	5,162
Capital redemption reserve		**20,359**	20,359
Accumulated losses		**(11,869)**	(7,319)
Capital and reserves attributable to owners of Topps Tiles Plc		**23,206**	26,580
Non-controlling interests		**3,182**	2,469
Total equity		**26,388**	29,049

Unaudited Consolidated Statement of Changes in Equity

FOR THE 52 WEEKS ENDED 30 SEPTEMBER 2023

	Share capital £'000	Share premium £'000	Own shares £'000	Merger reserve £'000	Share-based payment reserve £'000	Capital redemption reserve £'000	Accumulated losses £'000	Non-controlling interest £'000	Total equity £'000
Balance at 2 October 2021 as originally presented	**6,555**	**2,625**	**(1,216)**	**(399)**	**4,642**	**20,359**	**(6,992)**	**-**	**25,574**
Correction of error (net of tax)	-	-	-	-	-	-	(618)	-	(618)
Restated balance at 2 October 2021[1]	**6,555**	**2,625**	**(1,216)**	**(399)**	**4,642**	**20,359**	**(7,610)**	**-**	**24,956**
Profit and total comprehensive income for the period	-	-	-	-	-	-	9,005	186	9,191
Dividends	-	-	-	-	-	-	(8,015)	-	(8,015)
Issue of share capital	1	11	-	-	-	-	-	-	12
Own shares purchased in the period	-	-	(207)	-	-	-	-	-	(207)
Own shares issued in the period	-	-	1,008	-	-	-	(699)	-	309
Credit to equity for equity-settled share-based payments	-	-	-	-	520	-	-	-	520
Acquisition of non-controlling interest on business combination	-	-	-	-	-	-	-	2,283	2,283
Balance at 1 October 2022	**6,556**	**2,636**	**(415)**	**(399)**	**5,162**	**20,359**	**(7,319)**	**2,469**	**29,049**
Profit and total comprehensive income for the period	-	-	-	-	-	-	3,206	713	3,919
Dividends	-	-	-	-	-	-	(7,462)	-	(7,462)
Own shares issued in the period	-	-	303	-	-	-	(303)	-	-
Credit to equity for equity-settled share-based payments	-	-	-	-	873	-	-	-	873
Current tax on share-based payment transactions	-	-	-	-	-	-	1	-	1
Deferred tax on share-based payment transactions	-	-	-	-	-	-	8	-	8
Balance at 30 September 2023	**6,556**	**2,636**	**(112)**	**(399)**	**6,035**	**20,359**	**(11,869)**	**3,182**	**26,388**

1 During the prior year, management has re-evaluated the impact of the IFRIC guidance released during the prior year relating to accounting for cloud-based SaaS arrangements. This guidance was incorrectly applied in prior years, resulting in costs associated with a cloud-based SaaS being capitalised and not expensed as incurred in the consolidated statement of profit or loss. As at 2 October 2021, Accumulated Losses were understated by £618k.

Unaudited Consolidated Cash Flow Statement

FOR THE 52 WEEKS ENDED 30 SEPTEMBER 2023

	Notes	**52 weeks ended 30 September 2023 £'000**	52 weeks ended 1 October 2022 £'000
Cash flow from operating activities			
Profit for the period		**3,919**	9,191
Taxation	**7**	**2,896**	1,754
Finance costs	**6**	**4,699**	4,010
Finance income	**6**	**(408)**	(123)
Group operating profit		**11,106**	14,832
Adjustments for:			
Depreciation of property, plant and equipment		**5,024**	5,609
Depreciation of right-of-use assets		**18,157**	18,212
Amortisation of intangible assets		**767**	500
Loss on disposal of property, plant and equipment		**224**	394
Gain on sublease		**(240)**	(88)
Impairment of property, plant and equipment		**91**	240
Impairment of right-of-use assets		**346**	1,473
Gain on lease disposal		**(100)**	(1,544)
Share option charge		**873**	520
Increase in earn out liability provision		**3,946**	1,581
Change in other provisions		**564**	-
Non-cash loss/(gain) on derivative contracts		**444**	(455)
(Increase)/decrease in trade and other receivables		**761**	(1,080)
(Increase)/decrease in inventories		**1,525**	(4,362)
Increase/(decrease) in payables		**1,079**	(5,603)
Cash generated from operations		**44,567**	30,229
Interest paid		**(161)**	(354)
Interest received on operational cash balances		**305**	58
Interest element of lease liabilities paid	**14**	**(4,176)**	(3,626)
Taxation paid		**(3,301)**	(3,453)
Net cash generated from operating activities		**37,234**	22,854
Investing activities			
Interest received on sublease assets		**58**	65
Receipt of capital element of sublease assets		**555**	493
Purchase of property, plant and equipment		**(4,017)**	(3,090)
Direct costs relating to right-of-use assets		**(133)**	-
Purchase of intangibles		**(99)**	(115)
Proceeds on disposal of property, plant and equipment		**25**	183
Acquisition of subsidiary, net of cash acquired		**-**	(3,968)
Net cash used in investment activities		**(3,611)**	(6,432)
Financing activities			
Payment of capital element of lease liabilities		**(18,841)**	(19,601)
Dividends paid		**(7,462)**	(8,015)
Financing arrangement fees	**11**	**(200)**	-
Proceeds from issue of share capital		**-**	12
Purchase of own shares		**-**	(207)
Receipt on disposal of own shares		**7**	309
Repayment of bank loans	**11**	**-**	(468)
Net cash used in financing activities		**(26,496)**	(27,970)
Net decrease in cash and cash equivalents		**7,127**	(11,548)
Cash and cash equivalents at beginning of period		**16,241**	27,789
Cash and cash equivalents at end of period	**10**	**23,368**	16,241

Notes to the Unaudited Financial Statements

FOR THE 52 WEEKS ENDED 30 SEPTEMBER 2023

1 GENERAL INFORMATION

Topps Tiles Plc is a public limited company, limited by shares, incorporated and domiciled in the United Kingdom and registered in England under the Companies Act 2006.

The consolidated financial statements are unaudited and do not constitute statutory accounts of the Company within the meaning of Section 434(3) of the companies Act 2006. Statutory accounts for the year ended 1 October 2022 have been delivered to the Registrar of Companies. The audit report for those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under 498(2) or (3) of the Companies Act 2006.

Statutory accounts for the 52-week period ended 30 September 2023 will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates.

ADOPTION OF NEW AND REVISED STANDARDS

In the current period there were no new or revised standards and interpretations adopted that have a material impact on the financial statements. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

STANDARDS ADOPTED IN CURRENT PERIOD

The following new and revised standards and interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements.

IAS 16 Property, Plant and Equipment (Amendment): Proceeds Before Intended Use

IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendment): Onerous Contracts – Cost of Fulfilling a Contract

IFRS 3 Business Combinations (Amendment): Reference to the Conceptual Framework

Annual Improvements to IFRSs (2018 – 2020 cycle)

2 ACCOUNTING POLICIES

The principal accounting policies adopted are set out below.

A) BASIS OF ACCOUNTING

The financial statements of Topps Tiles Plc have been prepared in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006 and the disclosure guidance and transparency rules sourcebook of the United Kingdom's Financial Conduct Authority. On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted international accounting standards, with future changes being subject to endorsement by the UK Endorsement Board.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

B) GOING CONCERN

When considering the going concern assertion, the Board reviews several factors including a review of risks and uncertainties, the ability of the Group to meet its banking covenants and operate within its banking facilities based on current financial plans, along with a detailed review of more pessimistic trading scenarios that are deemed severe but plausible. The two downside scenarios modelled include a moderate decline in sales and a more severe decline in sales, which result in much lower sales and gross profit than the base scenario, resulting in worse profit and cash outcomes. The more severe downside scenario modelled this year was based on a prolonged period of macroeconomic stress in the UK, lasting for more than one year, with sales in FY24 falling 20% year-on-year in our main brand, Topps Tiles, as well as a two percentage point year-on-year decline in gross margins in FY24. The more severe downside scenario assumes the Topps Tiles business recovers back to FY23 levels of sales and gross margins by FY26. This scenario also assumes that variable costs would reduce in line with sales and also includes mitigating cost reduction actions, which would be taken if such a downturn occurred.

The Group has already taken a number of actions to strengthen its liquidity over the recent years, and the scenarios start from a position of relative strength. The going concern review also outlined a range of other mitigating actions that could be taken in a severe but plausible trading scenario. These included, but were not limited to, savings on store employee costs, savings on central support costs, reduced marketing activity, a reduction of capital expenditure, management of working capital and suspension of the dividend. The Group's cash headroom and covenant compliance was reviewed against current lending facilities in both the base case and the severe but plausible downside scenarios. The current lending facility, of £30.0 million, was refinanced in October 2022 and expires at the earliest in October 2026.

In all scenarios, the Board has concluded that there is sufficient available liquidity, with no utilisation of the current lending facility, and sufficient covenant headroom for the Group to continue to meet all of its financial commitments as they fall due for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, the Board continues to adopt the going concern basis in preparing the financial statements.

C) REVENUE RECOGNITION

Revenue is measured at the transaction price received or receivable and represents amounts receivable for goods in the normal course of business, net of discounts, VAT and other sales-related taxes.

Revenue from the sale of goods is recognised on the collection or delivery of goods, when all the following conditions are satisfied:

- the Group has satisfied its performance obligations to external customers, being the date goods are collected from store or received by the customers; and
- the customer has obtained control of the goods being transferred.

These conditions are met, predominantly, at the point of sale. The exceptions to this are for: goods ordered in advance of collection, where revenue is recognised at the point that the goods are collected; sales of goods that result in award credits for customers (see below); and web sales, where revenue is recognised at the point of delivery.

Sales of goods that result in award credits for customers, under the Company's Trader Loyalty Scheme, are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods supplied and the award credits granted. The consideration allocated to the award credits is measured by reference to their fair value being the amount for which the award credits could be sold separately. Such consideration is not recognised as revenue at the time of the initial sale transaction, but is deferred and recognised as revenue when the award credits are redeemed and the Company's performance obligations have been satisfied.

The level of sales returns is closely monitored by management, and as such, the Group holds a refund liability in the Consolidated Statement of Financial Position to provide for the expected level of returns. The expected level of returns is an estimate based on historic returns data, expressed as a percentage of sales, limited by an average total sales value for the number of days available to return goods, stated in the Company's return policies. The sales value of the expected returns is recognised within Accruals, with the cost value of the goods expected to be returned recognised as a current asset within Inventories.

All elements of revenue that are considered variable, such as customer rebate arrangements and the Trader Loyalty Scheme, are recognised as revenue to the extent they are highly probable not to reverse.

D) TAXATION

The tax expense represents the sum of current tax and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The group measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted at the balance sheet date. Deferred tax is charged or credited in the statement of profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3 GROUP REVENUE

An analysis of Group revenue is as follows:

	52 weeks ended 30 September 2023 £'000	52 weeks ended 1 October 2022 £'000
Revenue from the sale of goods	**262,714**	247,241
Total revenue	**262,714**	247,241

The Group trades in three related sectors which are Omni-Channel, Commercial and Online Pure Play. The Board receives monthly financial information at this level and uses this information to monitor performance, allocate resources and make operational decisions. These sectors are considered to meet the aggregation criteria as set out in IFRS 8 since the nature of the products, customer base and distribution methods are consistent with each other and the have similar economic characteristics. The Group sells Tiles and Tile associated products in each of these sectors, predominantly to UK-based retail, trade and commercial customers and offers a range of delivery and collection options for orders.

Revenue can be split by the following geographical regions:

	52 weeks ended 30 September 2023 £'000	52 weeks ended 1 October 2022 £'000
UK	**262,315**	246,866
EU	**267**	240
Rest of World	**132**	135
Total	**262,714**	247,241

Revenue can be split into the following business areas:

	52 weeks ended 30 September 2023 £'000	52 weeks ended 1 October 2022 £'000
Topps Tiles	**230,905**	227,069
Parkside	**9,369**	10,874
Online Pure Play	**22,440**	9,298
Total	**262,714**	247,241

The Group's revenue is driven by the consolidation of individual small value transactions and as a result, Group revenue is not reliant on a major customer or group of customers.

4 PROFIT BEFORE TAXATION

Profit before taxation for the period has been arrived at after charging/(crediting):

	Notes	52 weeks ended 30 September 2023 £'000	52 weeks ended 1 October 2022 £'000
Depreciation of property, plant and equipment		**5,024**	5,609
Depreciation of right-of-use assets		**18,157**	18,212
Operating lease costs not within the scope of IFRS 16 – low value and short term rentals		**3,235**	2,201
Impairment charge of property, plant and equipment		**91**	240
Impairment charge of right-of-use assets		**346**	1,473
Loss on disposal of property, plant and equipment and intangibles		**224**	394
Amortisation of intangibles		**767**	500
Staff costs	5	**61,052**	57,096
Exchange losses/(gains) recognised in profit or loss		**970**	(1,060)
Cost of inventories recognised as an expense		**119,103**	108,622
Write-down of inventories to net realisable value		**3,393**	4,254

In the reporting of financial information the Group uses certain measures that are not required under IFRS, the generally accepted accounting principles ('GAAP') under which the Group reports.

Adjusted profit before tax excludes the effect of one-off or fluctuating items, allowing stakeholders to understand results across years in a more consistent manner. The Group's management uses Adjusted profit before tax as a key performance indicator and a measure by which the Chief Operating Decision Maker, collectively the Board, to plan for, control and assess the performance of the Group.

The reconciliation of Adjusted Profit Before Tax to Statutory Profit Before Tax is as follows:

	52 weeks ended 30 September 2023 £'000	52 weeks ended 1 October 2022 £'000
Adjusted Profit Before Tax	**12,514**	15,597
Property		
Vacant property and closure costs	**(1,098)**	(1,657)
Right-of-use asset impairment and lease exit gains and losses	**192**	(650)
Business development		
Pro Tiler Tools deal costs	**(5)**	(242)
Pro Tiler Tools share purchase expense	**(4,054)**	(1,581)
Tile Warehouse set up costs	**(11)**	(522)
Restructuring and other one-off costs	**(723)**	-
Statutory Profit Before Tax	**6,815**	10,945

Property related costs includes impairment charges or impairment reversals of right of use assets, derecognition of lease liabilities where we have exited a store, one-off gains and losses through sub-lets as well as costs relating to the store closure programme which ended in 2022.

Business development costs includes charges relating to the acquisition of Pro Tiler, including the cost associated with the purchase of the remaining 40% of shares which we expect to make from March 2024. Other costs include charges incurred in the set-up of Tile Warehouse and as well as restructuring costs. Restructuring costs relate to board approved decisions such as business closures or major organisational changes.

Analysis of the auditors' remuneration is provided below:

	52 weeks ended 30 September 2023 £'000	52 weeks ended 1 October 2022 £'000
Fees payable to the Company's auditors with respect to the Company's annual accounts	**155**	111
Fees payable to the Company's auditors and their associates for other audit services to the Group:		
Audit of the Company's subsidiaries pursuant to legislation	**221**	262
Total audit fees	**376**	373
Total non-audit fees	**-**	-
Total fees payable to the Company's auditors	**376**	373

5 STAFF COSTS

The average monthly number of persons employed by the Group in the UK during the accounting period (including Executive Directors) was:

	52 weeks ended 30 September 2023 Number employed	52 weeks ended 1 October 2022 Number employed
Selling and distribution	**1,388**	1,390
Administration	**360**	361
	1,748	1,751

The average monthly number of persons (full-time equivalents) employed by the Group in the UK during the accounting period (including Executive Directors) was:

	52 weeks ended 30 September 2023 Number employed	52 weeks ended 1 October 2022 Number employed
Selling and distribution	**1,303**	1,311
Administration	**354**	355
	1,657	1,666

	2023 £'000	2022 £'000
Their aggregate remuneration comprised:		
Wages and salaries (including LTIP)	**55,261**	51,585
Social security costs	**4,654**	4,472
Other pension costs	**1,137**	1,039
	61,052	57,096

The total charge for Share Based Payments recognised during the year was £0.9m (2022: £0.5m).

6 FINANCE INCOME AND FINANCE COSTS

	52 weeks ended 30 September 2023 £'000	52 weeks ended 1 October 2022 £'000
Finance income		
Bank interest receivable	**350**	58
Interest income from finance lease receivables	**58**	65
	408	123
Finance costs		
Interest on bank loans and overdrafts	**(523)**	(384)
Interest payable on lease liabilities	**(4,176)**	(3,626)
	(4,699)	(4,010)

No finance costs have been capitalised in the period, or the prior period.

7 TAXATION

	52 weeks ended 30 September 2023 £'000	52 weeks ended 1 October 2022 £'000
Current tax – charge for the period	**2,768**	2,577
Current tax - adjustment in respect of prior periods	**74**	-
Deferred tax – (credit)/charge for the period	**(64)**	360
Deferred tax - adjustment in respect of prior periods	**118**	(1,183)
Total tax charge	**2,896**	1,754

The charge for the period can be reconciled to the profit per the statement of profit or loss as follows:

	52 weeks ended 30 September 2023 £'000	52 weeks ended 1 October 2022 £'000
Continuing operations:		
Profit before taxation	**6,815**	10,945
Tax at the UK corporation tax rate of 22.0% (2022: 19.0%)	**1,499**	2,080
Expenses that are not deductible in determining taxable profit	**1,165**	8
Other movements	**-**	391
Fixed asset differences (non-deductible expenses)	**24**	657
Remeasurement of deferred tax for changes in tax rates	**16**	-
Non-taxable income	**-**	(199)
Adjustment in respect of prior periods	**74**	(1,183)
Adjustments to tax charge in respect of prior periods – deferred tax	**118**	-
Tax expense for the period	**2,896**	1,754

In the period, the Group has recognised a corporation tax credit directly to equity of £1,000 (2022: £nil) and a deferred tax credit to equity of £8,000 (2022: nil) in relation to the Group's share option schemes.

The adjustment of £1,183,000 in respect of prior periods in the prior year, arises from the correction of errors and adjustments arising from the finalisation of tax computations.

The Group continue to fully provide within current tax liabilities and other creditors for a historic tax claim relating to EU loss relief in relation to the closed Dutch business of £1,017,000 (2022: £988,000).

The applicable UK Corporation tax rate to end of March 2023 was 19%, with 25% being applicable from 1st April 2023. The blended statutory rate for the period is 22%.

8 DIVIDENDS

Amounts recognised as distributions to equity holders in the period:

	52 weeks ended 30 September 2023 £'000	52 weeks ended 1 October 2022 £'000
Final dividend for the period ended 1 October 2022 of £0.026 (2021: £0.031) per share	**5,104**	6,057
Interim dividend for the period ended 30 September 2023 of £0.012 (2022: £0.01) per share	**2,358**	1,958
Total dividend paid in the period	**7,462**	8,015
Proposed final dividend for the period ended 30 September 2023 of £0.024 (2022: £0.026) per share	**4,716**	5,093

The proposed final dividend for the period ended 30 September 2023 is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

9 EARNINGS PER SHARE

The calculation of earnings per share is based on the earnings for the financial period attributable to equity shareholders and the weighted average number of ordinary shares.

	52 weeks ended 30 September 2023	52 weeks ended 1 October 2022
Weighted average number of issued shares for basic earnings per share	**196,681,818**	196,681,007
Weighted average impact of treasury shares for basic earnings per share	**(381,300)**	(1,099,370)
Total weighted average number of shares for basic earnings per share	**196,300,518**	195,581,637
Weighted average number of shares under option	**2,973,070**	2,165,790
For diluted earnings per share	**199,273,588**	197,747,427

	52 weeks ended 30 September 2023 £'000	52 weeks ended 1 October 2022 £'000
Profit after tax for the period attributable to the parent	**3,206**	9,005
Adjusting items	**5,599**	3,005

Adjusted profit after tax for the period attributable to the parent	**8,805**	12,010
Earnings per ordinary share - basic	**1.63p**	4.60p
Earnings per ordinary share – diluted	**1.61p**	4.55p
Earnings per ordinary share – adjusted*	**4.49p**	6.14p

* Adjusted earning per share is an adjusted performance measure used by the Group's management to plan for, control and assess the performance of the Group.

The calculation of the basic and diluted earnings per share used the denominators as shown above for both basic and diluted earnings per share. The number of potentially exercisable shares is 2,973,070 (2022: 2,165,790).

Adjusted earnings per share were calculated after adjusting for the post-tax impact of the following items: vacant property and closure costs of £943,000 (2022: £1,402,000), right-of-use asset impairment and lease exit gains and losses of £150,000 gain (2022: £540,000 loss), Pro Tiler Tools deal costs of £5,000 (2022: £242,000), Pro Tiler Tools share purchase expense of £4,053,000 (2022: £1,581,000), Tile Warehouse set up costs of £11,000 (2022: £423,000), restructuring and other one-off costs of £618,000 (2022: £nil) and a deferred tax charge in respect of previous periods of £119,000 (2022: £1,183,000 credit).

10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits net of bank overdrafts, where there is a right of offset, with an original maturity of three months or less. The carrying amount of these assets approximates their fair value. A breakdown of significant bank and cash balances by currency is as follows:

	2023 £'000	2022 £'000
Sterling	**23,028**	15,543
US dollar	**327**	391
Euro	**13**	307
Total cash and cash equivalents	**23,368**	16,241

Cash and cash equivalents are in the scope of the expected credit loss model under IFRS 9, however balances are held with recognised financial institutions and therefore the expected impairment loss is considered to be minimal.

11 BANK LOANS

	2023 £'000	2022 £'000
Bank loans (all sterling)	**-**	-

	2023 £'000	2022 £'000
The borrowings are repayable as follows:		
On demand or within one year	**-**	-
	-	-
Less: total unamortised issue costs	**(200)**	-
	(200)	-

The Directors consider that the carrying amount of the bank loan at 30 September 2023 and 1 October 2022 approximates to its fair value since the amounts relate to floating rate debt.

The following is a reconciliation of changes in financial liabilities to movement in cash from financing activities:

	Lease liabilities £'000	**Current borrowings £'000**	**Non-current borrowings £'000**	**Unamortised issue costs £'000**
As at 2 October 2021	**111,338**	**-**	**-**	**(106)**
Repayment of lease liabilities	(23,253)	-	-	-
Non-cash movement - lease additions and disposals	9,062	-	-	-
Non-cash movement - leases acquired with business combination	2,155			
Interest accrued on lease liabilities	3,626	-	-	-
Debt acquired through company acquisition	-	(468)	-	-
Repayment of debt	-	468	-	-
Amortisation of issue costs	-	-	-	106
As at 1 October 2022	**102,928**	**-**	**-**	**-**
Repayment of lease liabilities	(23,017)	-	-	-
Non-cash movement - Lease additions and disposals	10,415	-	-	-
Interest accrued on lease liabilities	4,176	-	-	-
Amortisation of issue costs	-	-	-	100
As at 30 September 2023	**94,502**	**-**	**-**	**100**

At 30 September 2023, the Group had a revolving credit facility of £30.0 million, expiring in October 2026 with an option to extend for a further one year. As at the financial period end, £nil of this was drawn (2022: £nil), leaving £30.0 million of undrawn committed banking facilities. The loan facility contains financial covenants which are tested on a bi-annual basis. The Group did not breach any covenants in the period.

12 OTHER INCOME

During the period the Group has reclassified income received as a lessor set out in the table above from Distribution and Selling Costs into Other Income on the face of the Consolidated Statement of Profit or Loss. There is an increase in Distribution and Selling Costs of £579,000 (2022 £430,000) and a corresponding entry into Other Income of £579,000 (2022 £430,000). There is no net impact on the 2023 or 2022 operating profit as presented however the updated presentation more clearly discloses the income received where the Group acts as a lessor from both operating and finance leases.

There is no impact on the Consolidated Statement of Financial Position or the Consolidated Cashflow Statement.

13 RELATED PARTY TRANSACTIONS

MS Galleon AG is a related party by virtue of their 29.8% shareholding (58,569,649 ordinary shares) in the Group's issued share capital (2022: 29.9% shareholding of 58,569,649 ordinary shares).

At 30 September 2023 MS Galleon AG is the owner of Cersanit, a supplier of ceramic tiles with whom the Group made purchases of £1,302,861 during the year which is 1.1% of cost of goods sold (2022: purchases of £1,253,296 during year which is 1.1% of cost of goods sold).

An amount of £278,815 was outstanding with Cersanit at 30 September 2023 (2022: £113,718).

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note, in accordance with the exemption available under IAS 24.