

The Pebble Group



Half year results 2020

16 September 2020

The Pebble Group

Introduction

Half year results 2020

Chris Lee, CEO

Claire Thomson, CFO

The Pebble Group

Two differentiated businesses

	The Pebble Group	
Our focused businesses in the promotional products industry	<p>brand addition.</p> <p><i>Product and services</i></p>	 <p>facilisgroup</p> <p><i>Technology and services</i></p>
Target market	Large global brands	SME promotional product distributors "Partners"
Services	<ul style="list-style-type: none"> • Design of corporate ranges and bespoke product • Source from ethical suppliers • Deliver across the globe 	<ul style="list-style-type: none"> • SaaS technology to power efficiency and growth • Supply chain consolidation for buying dynamism • Community events and training
Revenue model	<ul style="list-style-type: none"> • Margin on products for services 	<ul style="list-style-type: none"> • Subscriptions for technology • Fees for supply chain management
Geographic hubs	  	 

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Highlights in H1 2020

The Group

- Swift action taken in response to impact of COVID-19 lockdown, managing the challenges and implementing cash conservation measures
- Balance sheet remains strong and financial liquidity position continues to be robust, with cash balances of £9.2m at 14 September 2020, including £7.7m drawdown from the Company's £10.0m committed revolving credit facility

Brand Addition

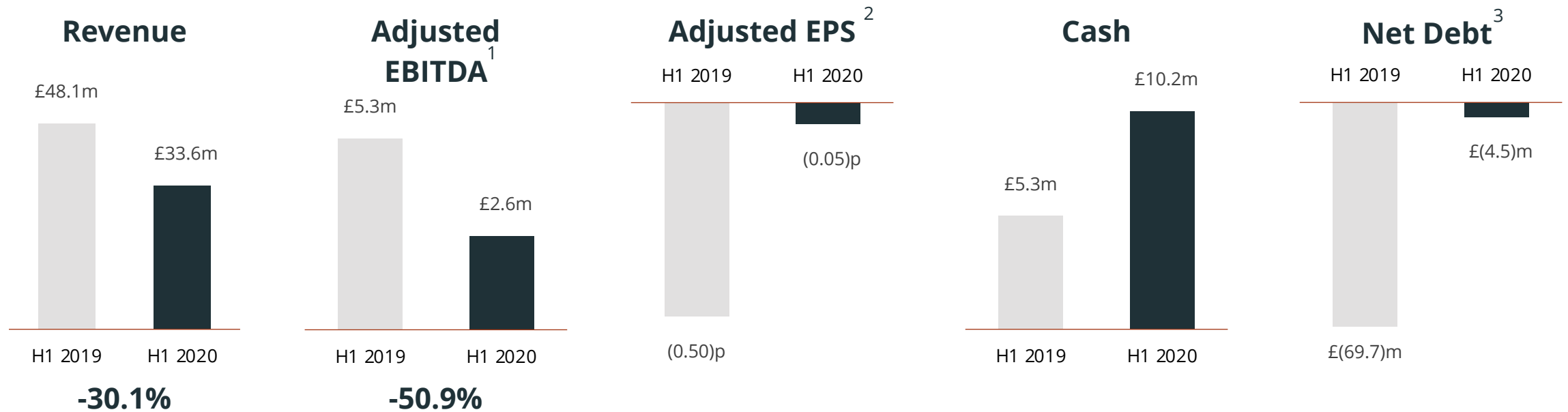
- Positive start to the year with two significant new client wins, but sales impacted by COVID-19 related lockdown restrictions
- Order trends began to recover from a low point in April 2020 and all clients have been retained
- A cost reduction programme was implemented in Q2 2020, protecting the business through a challenging period

Facilisgroup

- Strong performance in H1, achieving growth in revenue and adjusted EBITDA despite COVID-19
- Partner (customer) numbers increased to 164 by the end of H1 2020 with a further five contracted, awaiting implementation (31 December 2019: 149)
- Sales processed by Partners through Facilisgroup on a rolling 12-month basis broke through \$1.0bn (FY19: \$0.8bn) in the Period, a significant milestone for the business

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Highlights H1 2020, KPIs



¹ Adjusted EBITDA is defined as operating profit adjusted to add back depreciation of property, plant and equipment, amortisation, and exceptional items

² Adjusted earnings per share is calculated as operating profit before amortisation of acquired intangibles and exceptional items less net finance costs and tax divided by, for H1 2020, the weighted average number of shares in issue. This has been applied retrospectively to the number of shares in issue at 30 June 2019

³ For H1 2020, debt relates to operating leases for Group properties included on the balance sheet in accordance with IFRS16

H1 2020 income statement

Financial statements

£'m Unaudited	H1 2020	H1 2019 (restated)	FY 2019	Notes
Revenue	33.6	48.1	107.2	<ul style="list-style-type: none"> Reduction relates solely to Brand Addition and is a direct impact of COVID-19. Facilisgroup revenues increased 11% over the period
Gross profit	13.6	17.4	40.1	
Gross profit %	40.6%	36.1%	37.4%	<ul style="list-style-type: none"> Increase as Facilisgroup represents a larger proportion of the Group. Underlying Brand Addition margin uplift of 0.6 p.p.t.
People & overhead	(10.3)	(11.7)	(24.3)	<ul style="list-style-type: none"> Includes £1.5m savings: £0.9m Furlough, £0.4m temporary salary reductions, £0.2m reduced discretionary spend
Adjusted EBITDA pre-Head Office	3.3	5.7	15.8	
Head office costs	(0.7)	(0.4)	(0.6)	<ul style="list-style-type: none"> Incremental costs of PLC administration
Adjusted EBITDA	2.6	5.3	15.2	<ul style="list-style-type: none"> Reduction of £2.7m: Brand Addition £2.9m, incremental H.O. costs of £0.3m offset by growth in Facilisgroup £0.5m
Adjusted EBITDA %	7.6%	11.0%	14.2%	
Depreciation and amortisation	(1.4)	(1.1)	(2.2)	<ul style="list-style-type: none"> Excludes amortisation of acquired intangibles
Adjusted operating profit	1.2	4.2	13.0	
Adjusted operating profit %	3.6%	8.7%	12.1%	

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H1 2020 Segmental analysis

Financial statements

Brand Addition

£'m Unaudited	H1 2020	H1 2019	FY 2019
Revenue	28.5	43.6	97.9
Gross profit	8.6	12.8	30.8
Gross profit %	30.0%	29.4%	31.4%
Adjusted EBITDA	0.4	3.3	10.7
Adjusted EBITDA %	1.3%	7.5%	10.9%

Commentary

- 35% reduction as COVID-19 impacted demand for product and services
- 0.6 p.p.t uplift in Gross profit due to sales mix
- Blue-chip client base supports the stock and debtors in working capital, leading to a strong balance sheet with no COVID-19 impact on collections throughout the period

Facilisgroup

£'m Unaudited	H1 2020	H1 2019	FY 2019
Revenue	5.1	4.6	9.3
Gross profit	5.1	4.6	9.3
Gross profit %	100%	100%	100%
Adjusted EBITDA	2.9	2.4	5.1
Adjusted EBITDA %	57.8%	53.3%	54.8%

Commentary

- Strong performance with 11% growth against predicted FY industry contraction of 35%
- Subscription and services business model leads to 100% gross margins and continued +50% EBITDA margins. Aim to maintain these as growth continues
- Minimal working capital with no material impact on collections as a result of COVID-19

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H1 2020 Cash flow

Financial statements

£'m Unaudited	H1 2020	H1 2019	FY 2019	Notes
Adjusted EBITDA	2.6	5.3	15.2	
Movement in working capital	(7.7)	(0.7)	1.1	<ul style="list-style-type: none"> H1 2019 benefitted from £4.0m of debtor receipts collected ahead of terms plus £4.4m non trading deferred consideration relating to Facilisgroup
Capital expenditure	(1.3)	(1.0)	(2.1)	<ul style="list-style-type: none"> BA £0.7m, Facilis £0.6m of which 3rd party £0.6m, internal £0.7m
Leases	(0.8)	(0.6)	(1.2)	<ul style="list-style-type: none"> Increase from leases capitalised in the period
Adjusted operating cash flow	(7.2)	3.0	13.0	<ul style="list-style-type: none"> Outflow in line with usual seasonal peak and expectations
Taxes paid	(0.2)	(1.0)	(2.5)	<ul style="list-style-type: none"> Includes benefit of government deferral schemes, FY ETR expected to be ~25%
Net finance costs	8.3	0.6	9.0	<ul style="list-style-type: none"> Utilised facilities and interest payments in respect of leases
Acquisitions and financing	-	(1.4)	(1.3)	<ul style="list-style-type: none"> Facilis acquisition payments
Exceptional items	-	(4.1)	(17.3)	<ul style="list-style-type: none"> H1 2019: £4.1m Facilisgroup deferred consideration FY 2019: £13.4m Facilisgroup deferred consideration, £3.9m IPO costs
Exchange gain	0.5	0.1	(0.2)	<ul style="list-style-type: none"> Translation of overseas subsidiaries including intangible assets in Facilisgroup
Net cash flow	1.4	(2.8)	0.7	

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H1 2020 Balance sheet

Financial statements

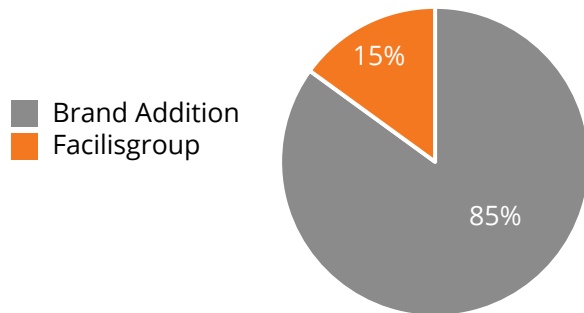
£'m Unaudited	H1 2020	H1 2019	FY 2019	Notes
Non current assets	57.5	56.7	56.4	<ul style="list-style-type: none"> Includes goodwill from acquisitions £36.1m, £10.2m customer relationships, £4.9m software Stock underwritten by BA contracted clients Quality 'Blue Chip' customer base
Inventories	12.4	10.6	8.0	
Trade & other receivables	18.9	21.5	25.5	
Cash & cash equivalents	10.3	5.3	8.9	
Current asset	41.6	37.4	42.4	
Total assets	99.1	94.1	98.8	
Borrowings	-	66.8	-	<ul style="list-style-type: none"> Group became debt free on Admission to AIM
Lease liability	5.4	5.0	5.5	<ul style="list-style-type: none"> Leasehold properties held on balance sheet under IFRS 16
Deferred tax liability	1.9	1.9	1.8	
Non current liabilities	7.3	73.7	7.3	
Borrowings	8.4	2.3	-	<ul style="list-style-type: none"> Includes £7.7m drawn on committed Facility (H1 2019 £2.3m)
Lease liability	1.0	0.9	0.8	<ul style="list-style-type: none"> Leasehold properties held on balance sheet under IFRS 16
Trade and other payables	17.6	24.6	27.6	
Current tax liability	0.9	0.2	0.2	
Current liabilities	27.9	28.0	28.6	
Total liabilities	35.2	101.7	35.9	
Net assets/ (liabilities)	63.9	(7.6)	62.9	

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H1 2020 Operational review

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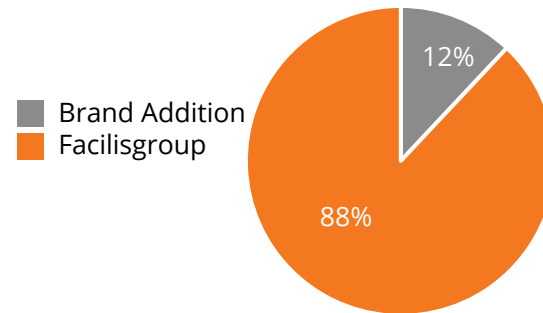
Revenue by business



Commentary

- Brand Addition
£28.5m (2019: £43.6m)
Product & services revenue
- Facilisgroup
£5.1m (2019: £4.6m)
Technology and services revenue

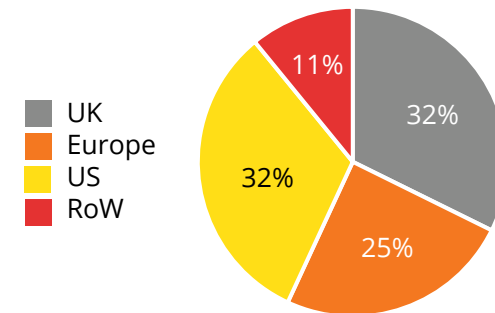
Adjusted EBITDA by business



Commentary

- Brand Addition
£0.4m (2019: £3.3m)
Savings implemented in Q2 2020
- Facilisgroup
£2.9m (2019: £2.4m)
Excellent returns continue at 58%
(2019: 53%)

Revenue by geography



Commentary

- Similar geographical split remains consistent with FY 2019

Operational reviews

H1 2020 highlights and H2 2020 updates



Technology

Supply chain

Community



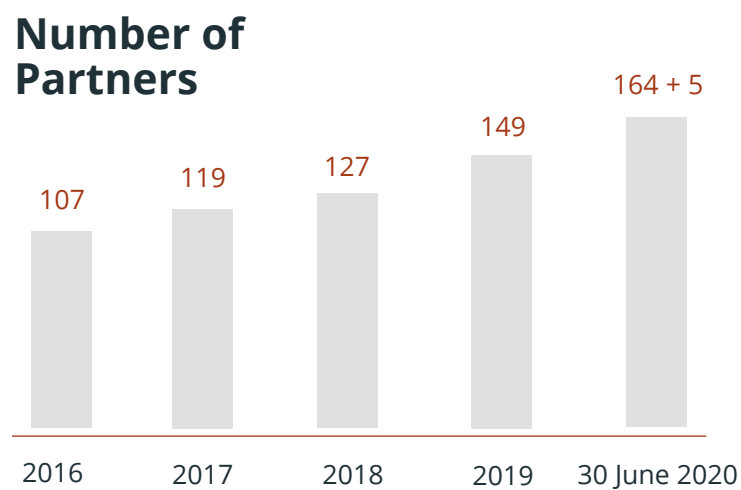
Technology and services to SME distributors

H1 2020 highlights

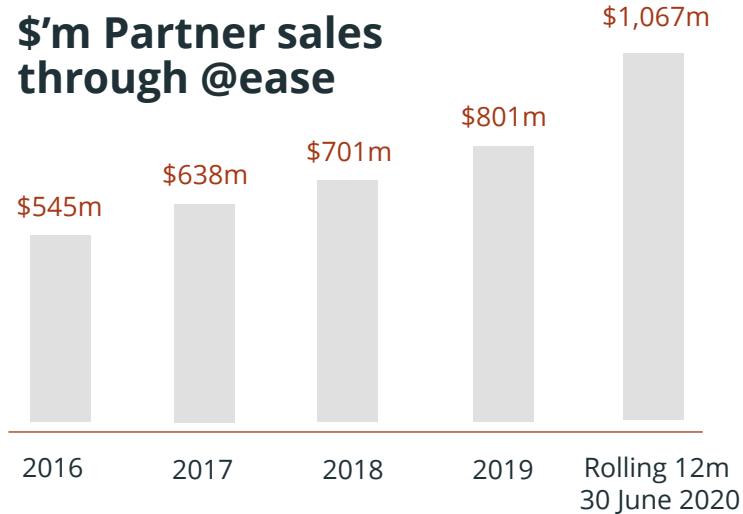
Facilisgroup



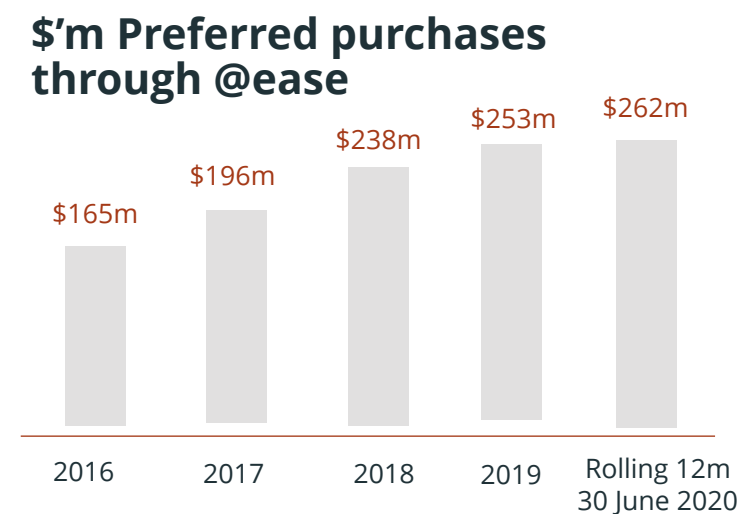
Number of Partners



\$'m Partner sales through @ease



\$'m Preferred purchases through @ease



- 164 Partners implemented at 30 June 2020 with a further 5 awaiting implementation
- New Partner growth continues to accelerate with the quality maintained. c.100% Partner retention through 2020
- Quickly reverted to remote implementations – 11 completed YTD 2020
- Building the pipeline through Q3 2020

- \$1.1bn sales through @ease platform with growth from new Partners and a surge from PPE of c.\$200m
- PPE will become a larger part of the product mix in promotional items but the H1 2020 peak is not expected to be repeated

- A lower proportion of purchases through Preferred Suppliers due to the PPE effect. This is expected to normalize from Q4 2020
- Partner benefits through Preferred Suppliers include rebates, competitive pricing, marketing support
- Supplier benefits include efficient access to a large part of their target market

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H2 2020 update

Facilisgroup



Update

- Remain on track with original expectation to grow revenues, increase EBITDA, retain c.100% of its Partners (customers), and accelerate new Partner growth over FY19
- Current Partner numbers 167 plus 6 awaiting implementation (2019: 149)
- The value of our Company-Partner-Supplier community model continues to be demonstrated through the COVID-19 disruption;
 - Entrepreneurial ability of Partners to switch into PPE
 - Sharing of PPE best practice & sourcing routes
 - Physical event switched to digital. Named REBOUND 2020 this included 22 learning sessions attended by 85% of our Partners

Points of focus

Three clear points of focus in 2020 and beyond:

1. Responsibly increase our Partner numbers
2. Develop additional income streams, that augment the benefits available to our existing Partners and Suppliers
3. Develop our technology and strong industry relationships to offer an adaptation of our existing services to industry entrepreneurs in the early stage of their business development

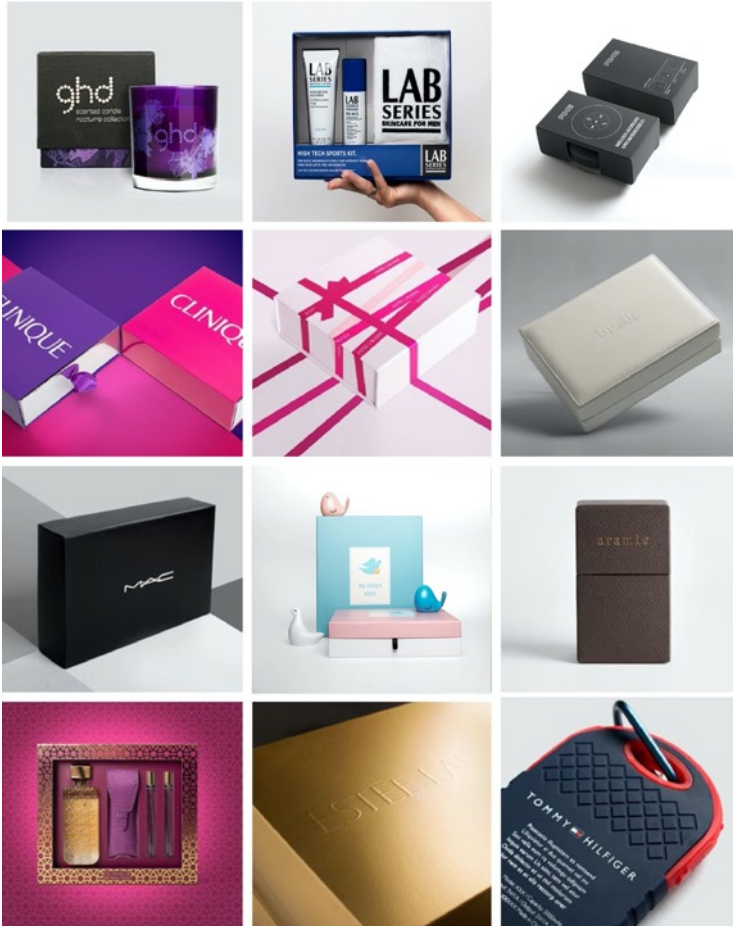
On track with original expectations

In development for 2021 launch

Scoping process

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Consumer promotions



Creative Services.



Supply Chain Compliance.



Webshop Platforms.

brand addition.



Sourcing & Quality Control.



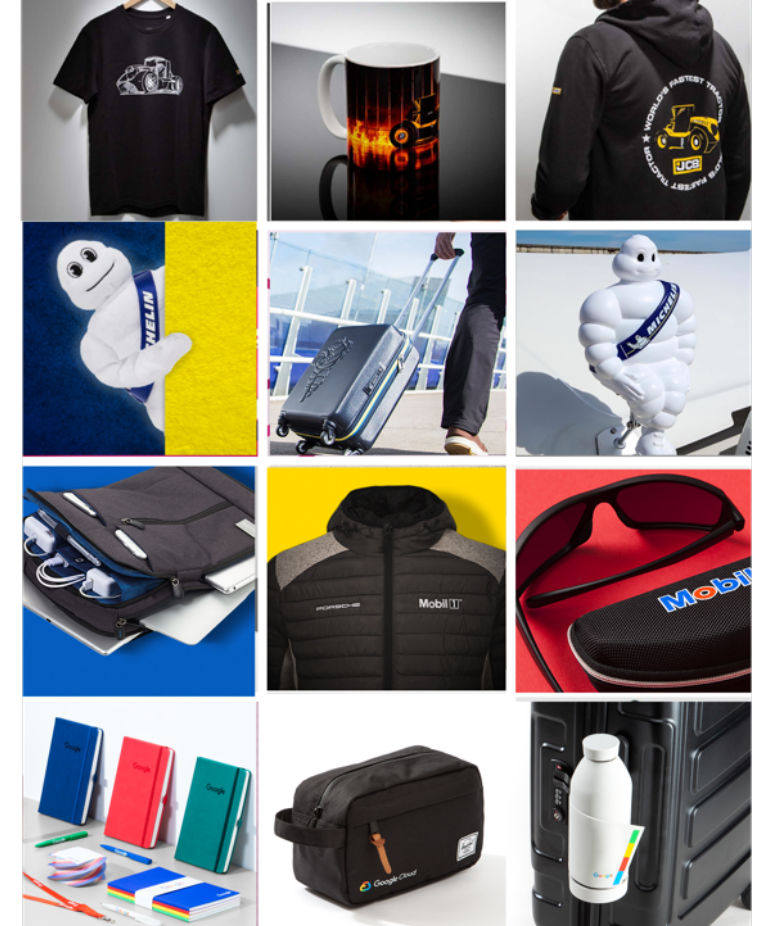
International Delivery.



Global Account Management.

Product and services to large corporates

Corporate Programmes



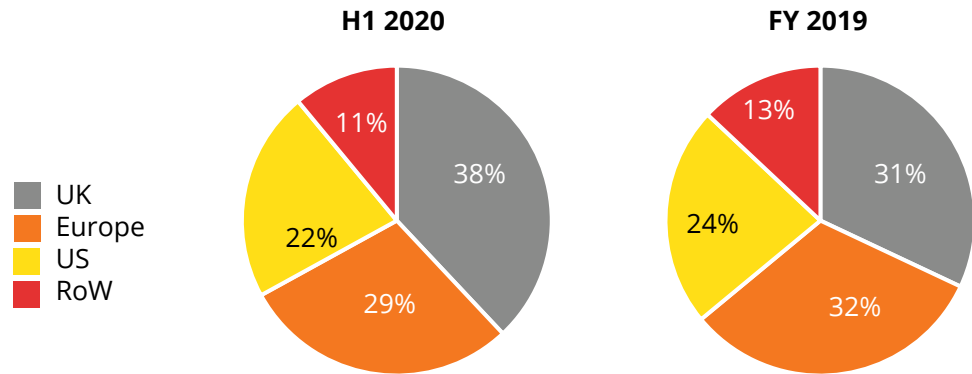
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H1 2020 highlights

Brand Addition

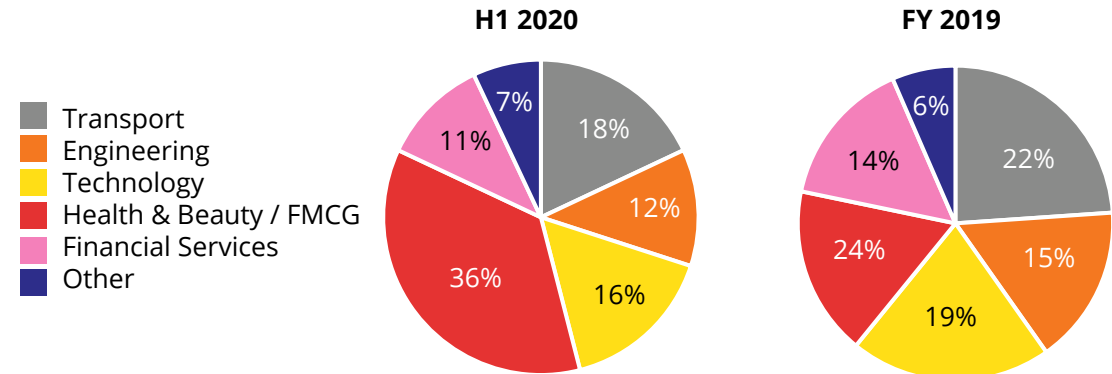
brand addition.

Revenue by geography



- Some movement in revenue by geography versus prior periods without any expectation of long-term change due COVID-19
- Full-service offices in the US, Europe and Asia can support blue-chip client base on a global basis, differentiating Brand Addition from much of the competition
- Invested in new warehousing capabilities through the period in preparation of new client wins and Brexit

Revenue by sector



- Increased proportion in Health & Beauty / FMCG sector reflects the strength in the period of our Consumer Promotions division
- Well diversified sectors that are expected to emerge positively from COVID-19

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H2 2020 update

Brand Addition

brand addition.

Update

- Brand Addition Corporate Programmes sales (c.70% FY2019) severely impacted in the period by lockdowns is beginning to recover
- Brand Addition Consumer Promotions sales (c.30% FY 2019) much less affected
- Cost reduction programme was implemented in Q2, saving £1.5m in H1 2020. Similar savings expected in H2
- The vast majority of investment in overhead is in our people and people related cost. Currently evaluating our sales outlook with the aim of balancing the people investment with sales expectations

Points of focus

- Close cost management, aligning sales activity/potential and people investment
- Driving sales demand with existing and new clients, targeting an early return to 2019 levels then beyond, through this view of the sales outlook;

Target market	Our clients are large businesses We supply services and product to support their marketing activity		
Product use	Driving retail sales	Brand awareness and stakeholder engagement	Marking conferences and Events
BA sales division	Consumer Promotions	Corporate Programmes	
Outlook	On track	Recovering	Post H2 2021

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ESG and stakeholder engagement

Our Group invests into a series of initiatives and activities to ensure a positive long-term impact on its stakeholders and its environments. Contracting with some of the best-known brands in the world, the robustness and depth of our commitment to ESG is regularly tested and a material reason why these businesses initially contract with and then remain long-term clients.

Below we share some of the stakeholder engagement actions in 2020 following the challenges placed on The Pebble Group by COVID-19

The Pebble Group

- **People**
 - Board meetings held virtually and fully attended
 - Regular, positive interaction between NED and ED outside of Board meetings
 - Board pay reduced by 40% for six months to end of September 2020
 - No bonus scheme for 2020
- **Investors**
 - Regular RNS announcements on business performance and developments
 - Available for discussions with individual investors on request

Brand Addition

- **People**
 - Full office team working from home without business interruption
 - Global business updates via email and webinar throughout the period
 - Regularly connecting at a business, site, function and individual level
 - 0% pay reduction for the lower salary team members
 - Pay reductions of 15% across the wider team and 25% by senior management for 6 months to end September 2020
- **Clients**
 - Continued excellent client retention record
 - Two major clients implemented for launch in H2 2020
 - Implemented new warehousing operation in Germany to support new business and Brexit planning

Facilisgroup

- **People**
 - Full office team working from home without business interruption
 - Bi-weekly business updates
 - Remote implementations designed and delivered
 - Continued investment in strengthening the team to support growth
 - No pay reductions
- **Partners**
 - Continued excellent Partner retention record
 - Annual event replaced by virtual event REBOUND 2020 – well attended
 - Partner groups created to share ideas and challenges

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Outlook

Group

- Whilst uncertainties remain, based on current trends, the Board feels positive about the trajectory of the recovery at Brand Addition, and the strength of Facilisgroup

Brand Addition

- Total orders invoiced or received during the year to 31 August amounted to £53.4m, compared with £71.3m in the same period in the prior year (FY 2019: £97.9m). Order intake in H2 is averaging c. 60% of prior year levels – this level is expected to persist for the remainder of FY 2020
- The Board expects the re-emergence of sales demand through 2021, and a return towards 2019 levels is being targeted

Facilisgroup

- On track with original market expectation to grow revenues, increase EBITDA, retain c.100% of its Partners (customers) and accelerate new Partner growth over FY19
- The Board is very pleased with the performance of Facilisgroup in the year to date and is increasingly confident in the prospects for this business