

SuperdryPlc

("Superdry" or "the Company")

Interim results for the 26 weeks ended 26 October 2019

Reset underway with full price stance protecting margin and brand

	26 weeks ended 26 October 2019	26 weeks ended 27 October 2018	Change
Underlying¹ reporting (pre-IFRS16)			
Total Group revenue	£369.1m	£414.6m	(11.0)%
Gross margin	56.3%	56.4%	(0.1%)pt
Underlying profit before tax pre-IFRS 16 ³	£0.2m	£12.9m	(98.4)%
Underlying basic earnings per share pre-IFRS 16 ³	0.2p	11.9p	(98.3)%
Proposed interim ordinary dividend per share	2.0p	9.3p	(78.5)%
Net (debt) / cash position	£(9.3)m	£19.2m	
Statutory reporting (post-IFRS16)			
IFRS16 adjustment to profit before tax	£(2.5)m	-	
Other exceptional items excluded from underlying results	£(1.9)m	£13.5m	
(Loss) / profit before tax	£(4.2)m	£26.4m	
Statutory basic earnings per share	(7.9)p	24.7p	

Highlights:

- Revenue decline of 11.0% reflects an expected year of reset, as we address a number of legacy issues across the business. Retail sales decline moderated through first half, with Q2 store revenue stronger than Q1 as key initiatives were implemented.
- Focus on full price sales and reducing promotional activity drove a total underlying gross margin increase of 250bps, offset by 180bp foreign exchange headwind and stock accounting changes of 80bps.
- Following an internal accounting review, we have booked charges in the period of £3.1m relating to accounting estimates for inventory and £6.9m in relation to debt recoverability. In addition a prior year, non-cash adjustment to stock of £3.9m² has been recognised, reducing H219 profit.
- Underlying profit before tax pre-IFRS of £0.2m includes the expected benefit of £15.9m from lower depreciation and utilisation of the onerous lease provision and impact of one-off charges.
- Statutory profit before tax of £(4.2)m includes the first time adoption of IFRS16, reducing profit by £2.5m.
- Net debt position of £9.3m at the end of October 2019 reflects a strong benefit from the control of stock, which reduced by £28.9m year on year, offset by a repayment of overdue creditors brought into the year.
- Encouraging early start to Q3 peak trading with strongest online Black Friday day ever, but a substantial amount of peak trading period still to come.
- Progress in strengthening and stabilising our leadership team, securing key executives on permanent contracts, and promoting talent from within.

Julian Dunkerton, Founder and Chief Executive Officer, said:

"At this halfway point in our financial year, I am pleased with the progress we have made to comprehensively reset Superdry. We're doing this through our product and brand, our physical and digital retail operations and a renewed focus on the retailing basics. We are only eight months into a process that will take two to three years, but I have great confidence in the strength of our new executive leadership team. I am also pleased with the trajectory of performance we have seen from Q1 to Q2 and subsequently into our peak trading period, which gave us our biggest online trading day ever. However, we remain cautious about the challenging market conditions over the peak trading period".

Notes

- 1) Revenue numbers include a £1.3m adjustment relating to IFRS15 (Revenue), which was not included in the Pre-Close Trading update on 7 November.
- 2) See note 19 for further detail on the prior year restatement
- 3) See note 20 for the definition of these Alternative Performance Measures

Market Briefing

A presentation for analysts and investors will be held today starting at 09:30 at the London Stock Exchange. An audio and visual recording of the event will be available on our corporate website shortly afterwards.

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Notes to Editors

Superdry is a Global Brand, obsessed with design, quality and fit and committed to relentless innovation. We design affordable, premium quality clothing, accessories and footwear which are sold around the world. We have a unique purpose to help our consumers feel amazing through wearing our clothes. We have a clear strategy for delivering continued growth via a disruptive multi-channel approach combining Ecommerce, Wholesale and physical stores. We operate in 65 countries, including our development markets of North America and China and have over 4,800 colleagues globally.

Cautionary statement

This announcement contains certain forward-looking statements with respect to the financial condition and operational results of Superdry. These statements and forecasts involve risk, uncertainty and assumptions because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. These forward-looking statements are made only as at the date of this announcement. Nothing in this announcement should be construed as a profit forecast. Except as required by law, Superdry has no obligation to update the forward-looking statements or to correct any inaccuracies therein. The information contained within this announcement is deemed to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. Upon the publication of this announcement, this inside information is now considered to be in the public domain. The person responsible for this announcement on behalf of Superdry is Nick Gresham, Chief Financial Officer.

Chief Executive's Review

We have been implementing a comprehensive reset across the business in what remains a very challenging retail environment. Despite this backdrop we have delivered a solid financial performance in the first half, in line with expectations before the impact of accounting charges.

First half revenues declined 11.0%, reflecting a planned move to a full price stance, reducing the reliance on promotional sales activity and simultaneously protecting the margin and brand. This dual focus generated a 250bp increase in total underlying gross margin, offset by 180bp foreign exchange headwind, and stock accounting charges of 80bps.

Half-year underlying profit before tax pre-IFRS of £0.2m includes an expected £15.9m benefit from lower depreciation and release of an onerous lease provision and the impact of accounting charges. Statutory loss before tax was £(4.2)m, including the first-time adoption of IFRS16 reducing profit by £2.5m, versus profit of £26.4m for the prior year, reflecting a year of reset as we work through a number of legacy issues.

The Board remains confident of the long term prospects for the recovery of the business and therefore announces an interim dividend of 2.0 pence per share (1H19: 9.3 pence per share), calculated as approximately $\frac{1}{3}$ of our expected full year underlying dividend per share ('DPS').

Strategic Leadership

My first priority on returning to Superdry was to steady the business and return the culture to the one which drove its original success. A key part of that stabilisation process was the refreshing and restructuring of the executive and creative leadership of the business. With the Board's backing I have committed myself to the CEO role on a permanent basis until April 2021. Nick Gresham, our CFO, also committed to the business on a permanent basis during the summer, and his deep retail experience and financial governance expertise are real assets to Superdry. We have also made a number of internal promotions to the executive team from within our respected ranks of leaders and managers, recognising the commitment and talent that already exists within Superdry.

On the creative side I am thrilled with the work that Phil Dickinson and his design team are producing to refresh the Superdry brand. Combined with the Design Lab injections, we will have a constant flow of new product, driving excitement and expectation among our customers.

This process is ongoing, with more key appointments to come, including our new General Counsel and Retail Director who will join us in the first quarter of 2020.

Product and Design

We are making strong progress in transitioning back to our heritage as a design-led business. We are improving the product, with an increasing impact from our re-energised creative teams on the new ranges. Given the design lead times, only a small proportion of our Autumn/Winter 2019 range has been edited, and our renewed design philosophy will be substantially implemented by Autumn/Winter 2020. We remain on track to increase the new seasonal option count by over 50% by AW20, and we are stabilising our foundation business of core classics, adding specifically targeted collections and premium products that will drive consumer engagement and keep refreshing the brand.

We have strengthened our brand identity across four style choices, with nine potential consumer types. We are working through the legacy options in the business and, as above, by Autumn/Winter 2020 all new product will be designed and marketed specifically to these consumer profiles.

Superdry is accelerating its sustainability goals so that they will be achieved in 2030 rather than 2040 as previously planned. By that date, all cotton apparel will be Organic Cotton compared with 10% of product for Spring/Summer 2020.

Sales Channels

Across our stores we are resetting the consumer journey, returning fixtures and fittings and repopulating with 25% more options being added, improving the product density and customer choice. The first phase of this programme is now complete across the entire estate, with store stock up +3% year on year, beginning to reverse a 14% decline in the prior year. Our stores will return to a two-season model, populated every six months with core range product, overlaid with seasonal ranges and premium products.

A reduction in promotional activity in full price stores has delivered an improvement in gross margin of 230bps.

Promotional sales will now only be used for clearance across three specific periods – two end of season sales and Black Friday – while pricing will remain constant on never-out-of-stock and core product until the end of a season.

Our programme of rent renegotiation has delivered some early success, with an average 30% reduction across the first six stores that we have addressed.

In ecommerce, we have doubled the number of options available online, helping to clear aged stock, along with a full price stance to protect margin and brand. Across our own sites we delivered a number of payment and customer experience innovations ahead of the peak trading season, including refreshed home and category pages, and the introduction of a fit analytics tool. We have also implemented in-store fulfilment of ecommerce orders from 20 of our stores so far - after three weeks we have processed over 10k orders in this way, representing c.5% of online orders. This allows the same item to be available to both physical and online customers, providing an additional route to clear aged and broken lines. A reduction in promotional activity on full price owned sites has delivered an improvement in gross margin of 250bps. An increased use of third-party sites – Zalando, Next and ShopDirect - ensure that our product is available to a new customer base.

The reduction in promotional activity protects our brand globally and also helps with the rebuilding of our relationships with wholesale partners. A constant flow of product – with new capsule injections from September 2019 – and the continued digitisation of customer interactions through our B2B platform expansion further strengthens these relationships. We are looking ahead to the forward sales of the improved Autumn/ Winter range, which starts in January 2020. We are reviewing all loss-making accounts, and we have taken action to exit unprofitable US wholesale contracts. In the period there were a net 13 new franchise store openings.

Operations

Similar to our core markets, our international business faced significant challenges in FY19, and we are making steady progress in reviewing and resetting our operations in our US and China markets.

In the US, we are focusing on restructuring our retail estate through a landlord-funded, owned retail estate model, and in the short-term are increasing fixture densities and option counts to enhance the customer experience, in line with our UK and EU store network. We are reviewing all loss-making wholesale accounts, and have taken action to exit unprofitable key accounts, with the benefits starting to be seen in H2.

In China, we continue to review the growth opportunity of a franchise based operation. We have made good progress in resetting the joint venture operations with early wins secured in switching to local manufacturing, reducing lead times from 10 to 2 months, in turn improving margins and reducing our carbon footprint. We have significantly enhanced our graphics package offering, tailoring product for Chinese consumer preferences around design, fit and weight. Several loss making stores have been exited or downsized, and the remainder of the estate is under review. We have identified significant savings opportunities across the cost base, and are now leveraging Superdry's design, marketing and branding capabilities to drive additional synergies. Despite these green shoots, there remains a substantial restructuring of the business required to capitalise on the market opportunity, and the Board is closely monitoring developments.

We began to embed a number of logistics efficiencies in H120, closing two of the four US warehouses and the third to close by July 2020, as well as reducing our air freight by more than half. Our global infrastructure allowed us to despatch over 500k packages from our distribution centres on Black Friday over the promotional period without disruption, while reducing cost per unit by 20%. The introduction of paperless returns will mean efficiencies for both customers and our distribution centres in terms of tracking, processing and replacing or refunding items.

Tight control of the purchase of stock and the sell through of options previously not listed for sale has resulted in the reduction of £28.9m (13%) of stock versus the same period in the prior year. Net debt at the end of the period was £(9.3)m, but has improved to a position of net cash of £12.3m at the end of November 2019.

Following an internal accounting review, we have booked one-off charges in the period of £3.1m relating to accounting estimates for inventory, which is a non-cash item and £6.9m in relation to debt recoverability from specific large foreign accounts and receivables due from our China JV. In addition a prior year, non-cash, adjustment to stock of £3.9m has been recognised, reducing H219 profit.

Brand and Marketing

During the period we have made good progress in reigniting the brand DNA, through increased consumer engagement, principally through an enhanced and better targeted social media strategy. We have increased our marketing department headcount and skillset across our collections, channels and territories; implemented

a more intelligent use of our brand and production marketing budget to reach new customers; and reduced agency usage, building in-house expertise to keep control of the brand narrative and creative process.

For the AW19 SDRY campaign we adopted a different approach, working with leading influencers to support the campaign, who had a combined reach of 2.5+ million Instagram followers.

The social media and YouTube-focussed advertising approach for AW19 (My Way campaign in UK, Germany and France), has driven a three-fold increase in ecommerce traffic from social and associated sales through these platforms.

Summary

We have achieved a great deal in the first half of the year. We have been clear that a comprehensive turnaround will take two to three years, but we are making good progress strengthening the brand and the design of our product and by improving the ways in which we access our markets, target the consumer and engage our customers. We have made great progress in building the right executive and creative leadership and look forward to welcoming further key appointments in early 2020. There will be a constant flow of new and innovative product and designs, delivered through a rapidly evolving ecommerce and wholesale operation. With all of this being supported by an energised and dynamic marketing strategy, I have every confidence that Superdry is now on the right path to sustainable, profitable growth and prosperity.

I would like to thank all my colleagues for their efforts and continued dedication.

Outlook

There remains considerable risk over the peak trading period, against a highly promotional and competitive high street. This is against a backdrop of continuing macroeconomic uncertainty, particularly from the UK election and Brexit, and so whilst we have started Q3 with encouraging trading, we remain cautious on the outlook for the full year.

With regards to guidance for the full year, we anticipate:

- H2 revenues to decline low single digits, leading to mid-single digit full year declines. This will be a sequential improvement on H1, particularly ecommerce, as product, marketing and consumer demand accumulates.
- H2 underlying gross margin in line with H1. Limited drag expected from retail/wholesale mix, but with 3rd party ecommerce continuing to dilute ecommerce and retail gross margins
- S&GA cost savings expected in H2 from store renegotiations, logistics and other central cost efficiencies, creating headroom for investments in design, marketing and ecommerce, in line with our longer-term strategy.
- We expect forecast estimates for FY20 to reflect the one-off charges taken in H1 20 totalling £10m.
- Continued tight control on capital expenditure and working capital supports increase in FY20 closing cash.

Financial Review

Our financial performance during the first half of the year saw a Group revenue decline of 11.0%, reflecting an expected year of reset, and the need to address a number of legacy issues across the business. Trading performance has been impacted by the challenging trading conditions on the high street and the transition back to a full price stance after sustained discounting in the prior year.

This contributed to the 117.8% decrease in underlying (loss)/profit before tax year-on-year to £(2.3m), after the benefit of £9.9m due to the utilisation of the onerous lease provision and reduced depreciation following the impairment in Q4 FY19. (Loss)/profit before tax decreased by 115.9% to £(4.2)m, predominately as a result of trading performance.

These interim results include an adjustment for an error associated with inventory accounting in the prior year, which was identified during the course of 1H20. We have identified an isolated error totalling £3.9m at 27 April 2019. This arose in the second half of FY19 and hence the 1H19 comparative condensed Group balance sheet and condensed Group statement of comprehensive income have not been restated. A restated full year comparative condensed Group statement of comprehensive income and condensed Group balance sheet as at 27 April 2019 will be provided at the year ended 25 April 2020. See note 19 for more information on the prior year restatement.

IFRS 16 has been adopted by the Group from 28 April 2019, and replaces IAS 17 Leases and its related interpretations. It has been adopted using the modified retrospective transition approach, therefore neither the 52 weeks ended 27th April 2019 nor the 26 weeks ended 27 October 2018 have been restated, and continue to be shown under IAS 17.

Group profit or loss

	Unaudited 1H20 £m	Unaudited 1H19 £m	% change
Revenue: Retail	215.1	242.8	(11.4)%
Wholesale	154.0	171.8	(10.4)%
Group revenue	369.1	414.6	(11.0)%
Gross profit	207.8	233.7	(11.1)%
Gross profit margin %	56.3%	56.4%	(10)bps
Selling and distribution costs	(165.5)	(180.8)	8.5%
Central costs	(46.3)	(43.2)	(7.2)%
Other gains and losses	5.3	5.2	1.9%
Underlying operating profit ¹	1.3	14.9	(91.3)%
Underlying operating margin ¹	0.4%	3.6%	(320)bps
Net finance (expense)/income	(3.6)	-	(100.0)%
Share of loss of joint venture	-	(2.0)	100.0%
Underlying (loss)/profit before tax ¹	(2.3)	12.9	(117.8)%
Exceptional and other items:			
Fair value movement on forward contracts	(0.6)	14.9	(104.0)%
IFRS 2 charge – Founder Share Plan	0.1	(1.4)	107.1%
Exceptional items	(1.4)	-	(100.0)%
Total non-underlying adjustments	(1.9)	13.5	(114.1)%
(Loss)/profit before tax	(4.2)	26.4	(115.9)%
Tax expense	(2.3)	(6.2)	62.9%
(Loss)/profit for the period	(6.5)	20.2	(132.2)%

¹ See note 20 for definitions and reconciliations of these APMs.

Group revenue decreased by £45.5m to £369.1m. The decrease of 11.0% against the same period last year, was driven by declines across all of our channels. The Wholesale sales decrease of 10.4% reflects the impact of a previous retail strategy of heavy discounting and lower quality product, as well as a change to align deliveries of forward order product to the requirements of our Wholesale customers, rather than our reporting calendar.

Retail division revenues decreased to £215.1m in 1H20 (1H19: £242.8m), with declines in both Ecommerce revenue of (10.7)% and store revenue of (11.7)%.

Within Retail, Ecommerce revenues declined 10.7% in the first half of the year. This was driven by the return to a full price trading stance on our owned sites, as we lapped non-comparable periods of promotional activity in the prior year. The declines were partially offset by improved performance on third party sites, and the addition of new sites under lower margin agreements.

Like for like declines in store revenue continued, as we work through legacy stock, with performance improving sequentially in Q2 as injection product began to land in stores. This follows the continuation of difficult trading conditions.

Gross profit decreased by 11.1% to £207.8m, representing a gross profit margin of 56.3%, a decrease of 10bps on the previous year. This is a combination of an improvement in full price sales mix in our retail channels to 70% (from 52% in H1 19), offset by wholesale trading pressures and stock accounting adjustments. Further analysis on the segment-specific drivers of gross profit change have been considered in the below sections.

Selling and distribution costs include costs associated with the storage and delivery of product, the operation of retail stores and fulfilment costs of Ecommerce and Wholesale orders. These have reduced 8.5% compared to the prior year as a result of lower depreciation and utilisation of the onerous lease provision.

The largest component of costs relate to operating stores and logistics costs. Retail store cost decreases of 9.7% were driven by the benefit of the utilisation of the onerous lease provision £4.5m, partially offset by the annualisation of FY19 openings and inflationary impacts on payroll costs.

Distribution costs reduced by 3.0% due to lower volumes of promotional Ecommerce sales, and the benefit of closing two of the four US warehouses at the end of the half.

Central costs increased 7.2% year-on-year to £46.3m. Year on year, costs increased due to specific bad debts relating to large foreign wholesale franchisees (£6.1m), and investment into marketing in line with our strategy. The 1H19 cost included a foreign exchange drag of £4.9m; there was no equivalent cost in 1H20 therefore there is an effective benefit compared to the prior period.

Depreciation on plant, property and equipment decreased by 33.7% to £12.2m, benefitting from the exceptional store impairment in Q4 FY19 (£5.4m yoy impact) and the continued lower run rate of capital expenditure. Additional depreciation of £27.3m has been charged in H1 20 in respect of IFRS 16.

Other gains and losses (excluding the unrealised fair value gain on forward contracts) were £5.3m (1H19: £5.2m), an increase of 1.9%.

Underlying (loss)/profit before tax for the period was £(2.3)m (1H19: £12.9m profit), a decrease of 117.8% year-on-year. Reported (loss)/profit before tax for the period was £(4.2)m (1H19: £26.4m profit), a decrease of 115.9% year-on-year.

Retail division (including Ecommerce)

Information regarding the Group's continuing operating segments is reported below. Ecommerce is not identified separately as an operating segment due to increasing levels of cross-over between physical store sales, amplified by the recent introduction of Ecommerce orders being fulfilled from stores.

	Unaudited 1H20 £m	*Restated Unaudited 1H19 £m	Change
External revenues - Stores	157.3	178.1	(11.7)%
External revenues - Ecommerce	57.8	64.7	(10.7)%
<i>% of Group Revenue - Stores</i>	42.6%	43.0%	(40)bps
<i>% of Group Revenue - Ecommerce</i>	15.7%	15.6%	(10)bps

Retail Underlying operating profit <i>Retail Underlying operating profit margin</i>	5.5 2.6%	5.8 2.4%	5.2% 20bps
Retail Operating profit <i>Retail Operating profit margin</i>	5.1 2.4%	15.9 6.5%	(67.9)% (410)bps

*As of 2H19, Ecommerce revenue is reported net of online returns processed in stores whereas previously those online returns had been reported in store revenues. As such, the 1H19 channel split has been restated to make it comparable with the current period.

The retail division revenue declined marginally to £215.1m in 1H20 (1H19: £242.8m), with declines in both Ecommerce revenue of (10.7)% and store revenue of (11.7)%.

Ecommerce performance was impacted by owned Ecommerce site revenue, which declined as we transition back to a full price proposition. This was partially offset by stronger performance on third party sites as we benefited from improved product placement and the addition of new low margin sites.

During the last 12 months there was negligible change in the Group's retail space, growing on average 0.1% over the period. There was one relocation and two upsizes, offset by four closures in the half year. At the end of 1H20 there are 245 owned stores (1H19: 249 owned stores).

Ecommerce margins declined 250bps, with the margin benefit from reduced promotion on our owned sites, more than offset by a mix effect of lower margin third party sites, further exacerbated by the introduction of new low margin models with key UK partners.

Retail underlying operating margins of 2.6% (1H19: 2.4%) were 20bps higher than the previous year, primarily as a result of the transition to IFRS 16. Excluding IFRS 16 adjustments, underlying operating margins were lower than 1H19, driven by the continued operating deleverage, driven by the decline in like-for-like retail store sales as we transition back to full price trading in our retail business.

Wholesale division

Wholesale division	Unaudited 1H20 £m	Unaudited 1H19 £m	Change
External revenues <i>% of Group Revenue</i>	154.0 41.7%	171.8 41.4%	(10.4)% 30bps
Wholesale Underlying operating profit <i>Wholesale Underlying operating profit margin</i>	42.0 27.3%	52.3 30.4%	(19.7)% (310)bps
Wholesale Operating profit <i>Wholesale Operating profit margin</i>	41.8 27.1%	57.1 33.2%	(26.8)% (610)bps

Revenues within the Wholesale division decreased by 10.4% year-on-year, delivering revenue of £154.0m in 1H20 (1H19: £171.8m) with declines in most of our key markets. Performance was impacted by lower forward order sales following sustained discounting in the retail channel in FY19. Weak in season orders were offset by targeted promotional activity.

The underlying operating profit was £42.0m, a 19.7% decline year-on-year on 1H19 (£52.3m) as consequence of these trading shortfalls. Underlying operating margin declined by 310bps to 27.3%, primarily due to the exit of low margin key accounts in the US, which was more than offset by the 250bp drag from foreign exchange movement year-on-year. There were also additional marketing costs and one-off costs of closing US warehouses.

Exceptional and other items

Exceptional and other items are detailed in note 6.

Exceptional and other items primarily relate to the half-yearly mark-to-market movements of forward foreign exchange contracts, being a £0.6m charge, and restructuring, strategic change and other costs totalling £1.4m. The mark-to-market charge is mainly as a result of movements in the EUR/US dollar rate from 1.14 to 1.11 in

the equivalent periods, and significant volatility in sterling over the period. The cost-saving restructuring programme was initially discussed in the Group Annual Report FY19, with the costs in the period relating to the ongoing transition of the management team. As detailed in note 20, there is also a £0.1m gain within exceptional and other items in relation to the IFRS 2 charge for the Founder Share Plan.

Finance costs and income

Net finance costs amounted to £3.6m (1H19: finance costs of £nil), of which £2.9m related to IFRS 16. A revolving credit facility was agreed in January 2019, therefore there are new interest costs associated with the utilisation of this.

(Loss)/profit before tax

After exceptional and other items, Group (loss)/profit before tax at £(4.2)m (1H19: £26.4m profit) was 115.9% lower than the prior year.

Taxation

The Group's underlying income tax expense for 1H20 is £2.4m (H1 FY19: £3.2m). Excluding prior year items of £2.4m and other discrete tax charges of £0.5m, the residual underlying income tax credit of £0.5m represents an underlying effective tax rate of 19.8% compared to 25.0% in 1H19 and 29.0% in FY19. The difference between the 1H20 Group underlying tax rate of 19.8% and the UK statutory rate of 19.0% is primarily attributable to the tax impact of implementing IFRS 16 in the period. Without the implementation of IFRS 16 the Group ETR would be 24.8% which is driven by higher tax rates in overseas jurisdictions, depreciation and amortisation on non-qualifying assets and non-deductible expenses.

(Loss)/profit for the period

After exceptional and other items, Group (loss)/profit for the period at £(6.5)m (1H19: £20.2m profit) was 132.2% lower than the prior year.

Impact of IFRS 16

IFRS 16 has been adopted by the Group from 28 April 2019, and replaces IAS 17 Leases and its related interpretations. The modified retrospective 2B transition approach was used, and as such the prior year numbers have not been restated. The impact of this change compared to accounting under IAS 17 is as follows:

Group profit or loss

	1H20 Pre-IFRS 16 £m	IFRS 16 Impact £m	1H20 Post-IFRS 16 £m
Sales	369.1	-	369.1
Gross margin	207.8	-	207.8
Rental charge	(40.6)	33.7	(6.9)
Net depreciation	(21.8)	(27.3)	(49.1)
Other costs	(160.4)	-	(160.4)
Onerous lease utilisation	10.5	(6.0)	4.5
Store impairment release	5.4	-	5.4
Underlying operating profit	0.9	0.4	1.3
FX and interest	(0.7)	(2.9)	(3.6)
Underlying (loss)/profit before tax	0.2	(2.5)	(2.3)
Exceptional items	(1.9)	-	(1.9)
(Loss)/profit before tax	(1.7)	(2.5)	(4.2)

Group balance sheet

	October 2019 Pre-IFRS 16 £m	IFRS 16 Impact £m	October 2019 Post-IFRS 16 £m
Non-current assets	151.2	254.6	405.8
Current assets	380.2	0.2	380.4
Total assets	531.4	254.8	786.2
Other liabilities	(166.7)	(339.0)	(505.7)
Onerous lease provision	(69.4)	42.4	(27.0)
Lease incentives	(42.4)	41.6	(0.8)
Deferred liability	-	(1.7)	(1.7)
Total liabilities	(278.5)	(256.7)	(535.2)
Net assets	252.9	(1.9)	251.0
Other reserves	254.6	0.6	255.2

(Loss)/profit before tax	(1.7)	(2.5)	(4.2)
Total equity	252.9	(1.9)	251.0

(Loss)/earnings per share

Underlying basic loss per share was (5.7)p (1H19: basic earnings per share 11.9p). Reported basic loss per share was (7.9)p (1H19: basic earnings per share 24.7p), calculated using the basic weighted average number of ordinary shares outstanding for the period of 81,998,661 (1H19: 81,758,151).

Diluted loss per share is (7.9)p (1H19: diluted earnings per share 24.7p) based on a diluted weighted average of 82,260,984 shares (1H19: 81,869,130 shares).

Dividends

We announce today an interim dividend of 2.0 pence per share (1H19: 9.3 pence per share). The interim dividend will utilise an estimated £1.6m of shareholders' funds. The interim dividend will be paid on 24 January 2020 to shareholders on the register at the close of business on 20 December 2019.

Cash flow, investments and working capital

We are in a net debt position at the half-year of £(9.3m) (1H19: net cash position of £19.2m).

The first half-year is customarily a period of working capital investment as inventories are built in advance of the peak trading period within the third quarter. In the current year the Group utilised cash of £7.2m (1H19: cash utilised of £21.4m) in its operations.

The Group has an uncommitted bank facility of £20m (reduced from £40m in the prior year). The maximum drawdown on this facility in the period was £15.4m (1H19: £26.6m).

In January 2019, the Group signed a 3 year, £70m revolving credit facility to accommodate peak working capital requirements. The maximum drawdown on this facility in the period was £30m, which was also the position at year end, however this facility was undrawn at the date of announcement as we enter our peak trading season.

Capital investment		1H20	1H19
		£m	£m
Store portfolio	New stores	-	1.9
	Existing stores	1.5	2.1
	Franchise stores	1.1	0.9
		2.6	4.9
Infrastructure	IT (including software development)	4.3	5.2
	Distribution	1.3	2.0
	Head office	0.2	2.2
		5.8	9.4
Total capital investment		8.4	14.3
Capital creditor		(1.8)	(0.2)
		6.6	14.1
Cash outflow	Tangible assets	2.9	9.3
	Intangible assets	3.7	4.8
		6.6	14.1

Property, plant and equipment and intangible assets (excluding the impact of IFRS 16) totalled £115.0m, decreasing by £10.6m (8.4%) since the financial year end, as a result of depreciation and amortisation being higher than the level of capital additions. Capital expenditure has reduced significantly in the first half of the year as a result of reduced investment in the store portfolio given the current economic climate and a similar level of investment in infrastructure.

Due to the challenging trading conditions and higher level of working capital currently held, we have continued our disciplined approach to capital expenditure in the year and now expect full year spend to be between £20m and £25m.

Working Capital	1H20	1H19	Movement
	£m	£m	%
Inventories	193.0	221.9	(13.0)%
Trade and similar receivables ¹	130.5	139.1	(6.2)%
Trade and similar payables ²	(112.6)	(134.0)	(16.0)%

Total working capital	210.9	227.0	(7.1)%
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Notes:

1. Trade and similar receivables exclude items not considered to be working capital being derivatives, cash contributions and rent deposits.
2. Trade and similar payables exclude items not considered to be working capital being derivatives, lease incentives and other taxes payable.

Investment in inventories, trade and similar receivables and trade and similar payables reduced year-on-year by £16.1m to £210.9m (1H19: £227.0m), a decrease of 7.1% versus 1H19 as compared to the increase of 28.6% in the preceding 12 months from 1H18 to 1H19. The decrease in inventories of 13.0% is in part due to a more disciplined forward season buy, as part of an ongoing plan to reduce our stock holding levels to 15m units by the end of Financial Year 2020.

Trade and similar receivables have decreased by 6.2% to £130.5m (1H19: £139.1m), in part due to a decline in wholesale sales. In addition, we saw the impact of specific bad debt relating to previous season sales to large foreign franchisees.

Trade and similar payables decreased by 16.0% to £112.6m (1H19: £134.0m). This decline is largely due to substantially improved payment practices compared to prior period ends.

Going concern

The Board reports that, having reviewed current performance and forecasts, it has a reasonable expectation that the Group has adequate resources to continue operations for the foreseeable future. This is further supported by our existing uncommitted facilities and the £70m revolving credit facility that was secured in January 2019. For this reason the Group has continued to adopt the 'going concern' basis in preparing the financial information.

As disclosed in the Group Annual Report FY19, a sustained downturn as a result of the new strategy not turning the business around, and a failure to renew the revolving credit facility in January 2022, would threaten the viability of the business over the four-year viability period.

Principal risks and uncertainties

The principal risks and uncertainties were outlined in the Group Annual Report FY19 (pages 24-31). These have been reviewed and amended to ensure they are reflective of our existing risk profile and will be assessed on an ongoing basis.

The Group considers the following risks to be most relevant to Superdry:

Nature of risk
Damage may occur to the Superdry Brand or the Brand may lose its resonance.
Superdry's ability to achieve success depends on setting a commercial product strategy that is aligned to brand position, market dynamics and consumer aspiration.
Brexit potentially introduces significant risks to the retail sector. For example, reduction in consumer spending, increased delays on goods crossing borders, increased direct and indirect costs, and shortage in labour especially in distribution centres.
Compromise to our key technological / physical assets would significantly impede our ability to trade, particularly during the peak trading period from November to January. Key assets include: Ecommerce platform, Distribution Centres, Critical IT Systems and Head Office.
Elevated stock levels represent a risk in terms of shortfall in cash flow and additional storage costs.
Retail store performance represents a risk and in line with market trends, the ongoing consumer preference shift towards digital shopping channels has seen declining consumer visits to stores and declining profitability in the physical retail environment.
Wholesale performance is at risk from a number of factors, including grey market distribution, an inability to meet the critical path and failing to deliver on time and in full to customers.
Ecommerce performance represents a significant growth opportunity, however, represents a risk in terms of delivery of short / medium and long term business objectives. We will be unable to achieve these objectives if the consumer is moving faster than we can adapt and that our Ecommerce platforms trail in the wake of competition.
Failure to deliver on our growth aspirations in the Group's key future development markets, in particular, China and USA.

Our financial results could be impacted by changes in exchange rates. In addition, given the size of our wholesale partners and associated order book, overdue debt will always represent a risk for the business. Financial results are also at risk if the controls that operate within key financial systems are not operating effectively.

We need to recruit, develop and retain the calibre of leadership that will enable us to achieve our strategic goals.

There is a risk our information security is breached causing data and / or systems compromise. This could impact our ability to trade, lead to regulatory scrutiny and fines and cause damage to the brand, e.g. loss of customer trust.

Responsibility statement of the Directors in respect of the condensed consolidated interim financial information

On 11 December 2019 the Board of Directors of Superdry Plc approved this statement.

The Directors confirm that to the best of their knowledge:

- The condensed financial information has been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the EU; and
- The interim management report includes a fair review of the information required by:
 - a) DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first 26 weeks of the financial year and their impact on the condensed financial information, and a description of the principal risks and uncertainties for the remaining 26 weeks of the financial year;
 - b) DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first 26 weeks of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last Annual Report that could do so.

The Directors of Superdry Plc are listed on the Board section of the Group website:

www.corporate.superdry.com

On behalf of the Board of Directors:

Julian Dunkerton
Chief Executive Officer
11 December 2019

Nick Gresham
Chief Financial Officer
11 December 2019

Cautionary statement

This report contains certain forward-looking statements with respect to the financial condition, results of the operations, and businesses of Superdry Plc. These statements and forecasts involve risk, uncertainty and assumptions because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. These forward-looking statements are made only as at the date of this announcement. Except as required by law, Superdry Plc has no obligation to update the forward-looking statements or to correct any inaccuracies therein.

The information contained within this announcement is deemed to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. Upon the publication of this announcement, this inside information is now considered to be in the public domain.

**Condensed Group Statement of Comprehensive Income for the 26 weeks ended 26
October 2019 (unaudited)**

		Underlying October 2019	Exceptional and other items (note 6)	Total October 2019	Underlying October 2018	Exceptional and other items (note 6)	Total October 2018
	Note	£m	£m	£m	£m	£m	£m
Revenue	5	369.1	-	369.1	414.6	-	414.6
Cost of sales		(161.3)	-	(161.3)	(180.9)	-	(180.9)
Gross profit		207.8	-	207.8	233.7	-	233.7
Selling, general and administrative expenses		(211.8)	(1.3)	(213.1)	(224.0)	(1.4)	(225.4)
Other gains and losses (net)		5.3	(0.6)	4.7	5.2	14.9	20.1
Operating profit/(loss)		1.3	(1.9)	(0.6)	14.9	13.5	28.4
Net finance (expense)		(3.6)	-	(3.6)	-	-	-
Share of loss of joint venture	7	-	-	-	(2.0)	-	(2.0)
(Loss)/profit before tax		(2.3)	(1.9)	(4.2)	12.9	13.5	26.4
Tax expense	8	(2.4)	0.1	(2.3)	(3.2)	(3.0)	(6.2)
(Loss)/profit for the period		(4.7)	(1.8)	(6.5)	9.7	10.5	20.2
Attributable to:							
Owners of the company		(4.7)	(1.8)	(6.5)	9.7	10.5	20.2
		(4.7)	(1.8)	(6.5)	9.7	10.5	20.2
Other comprehensive(loss)/income net of tax:							
Items that may be subsequently reclassified to profit or loss		-	-	-	-	-	-
Currency translation differences		1.1	-	1.1	0.2	-	0.2
Total comprehensive (expense)/income for the period		(3.6)	(1.8)	(5.4)	9.9	10.5	20.4
Attributable to:							
Owners of the company		(3.6)	-	(3.6)	-	-	-
		(3.6)	(1.8)	(5.4)	(3.6)	(1.8)	(5.4)
				(5.4)			20.4
				(5.4)			20.4
Earnings per share							
Basic	15	(5.7)	-	(5.7)	11.9	-	11.9
Diluted	15	(5.7)	-	(5.7)	11.8	-	11.8

Condensed Group Balance Sheet as at 26 October 2019

	Note	Unaudited October 2019 £m	Unaudited October 2018 £m	Restated Audited April 2019 £m
ASSETS				
Non-current assets				
Property, plant and equipment	11	65.6	121.4	74.1
Right of use assets	2, 11	257.2	-	-
Intangible assets	12	49.4	59.0	51.5
Investment in joint venture	7	-	4.2	-
Long-term loan to joint venture		-	3.3	-
Deferred income tax assets		33.6	36.0	32.8
Derivative financial instruments		-	-	1.3
Total non-current assets		405.8	223.9	159.7
Current assets				
Inventories		193.0	221.9	186.9
Trade and other receivables		141.1	151.6	122.4
Current tax debtor		10.8	-	0.3
Derivative financial instruments		1.5	-	0.4
Assets classified as held for sale		2.4	-	2.4
Cash and cash equivalents	17	31.6	19.2	35.9
Total current assets		380.4	392.7	348.3
LIABILITIES				
Current liabilities				
Borrowings	17	40.9	-	-
Trade and other payables		115.3	146.1	127.3
Provisions for other liabilities and charges		5.7	-	18.1
Current tax liabilities		4.2	1.6	-
Derivative financial instruments	18	0.3	7.8	1.4
Lease liabilities	2	73.8	-	-
Total current liabilities		240.2	155.5	146.8
Non-current liabilities				
Trade and other payables		1.9	43.2	39.3
Provisions for other liabilities and charges		21.3	4.7	61.6
Deferred tax liabilities		0.8	0.9	0.8
Derivative financial instruments	18	3.4	2.9	2.0
Deferred liabilities	2	1.7	-	-
Lease liabilities	2	265.9	-	-
Total non-current liabilities		295.0	51.7	103.7
Net assets		251.0	409.4	257.5
EQUITY				
Share capital	14	4.1	4.1	4.1
Share premium		149.1	149.1	149.1
Translation reserve		(1.9)	(1.4)	(3.0)
Merger reserve		(302.5)	(302.5)	(302.5)
Retained earnings		402.2	560.1	409.8
Equity attributable to the owners of the company		251.0	409.4	257.5
Total equity		251.0	409.4	257.5

(note 19)

**Condensed Group Cash Flow Statement for the 26 weeks ended 26 October 2019
(unaudited)**

		October 2019 £m	October 2018 £m
Cash generated from operating activities	9	4.0	(10.8)
Interest paid		(0.7)	-
Tax paid		(10.5)	(10.6)
Net cash (used in)/generated from operations		(7.2)	(21.4)
Cash flow from investing activities			
Purchase of property, plant and equipment		(2.9)	(9.3)
Purchase of intangible assets		(3.7)	(4.8)
Net cash used in investing activities		(6.6)	(14.1)
Cash flow from financing activities			
Issue of share capital	14	-	0.1
Dividend payments	10	(1.8)	(17.9)
Draw down on borrowings		30.0	-
Repayment of leases – principal amount		(31.1)	-
Repayment of leases – interest amount		(2.9)	-
Net cash used in financing activities		(5.8)	(17.8)
Net decrease in cash and cash equivalents	17	(19.6)	(53.3)
Cash and cash equivalents at beginning of period	17	35.9	75.8
Exchange gains/(losses) on cash and cash equivalents	17	4.4	(3.3)
Net cash and cash equivalents at end of period	17	20.7	19.2
Of which: Cash and cash equivalents		31.6	19.2
Of which: Overdraft		(10.9)	-

Condensed Group Statement of Changes in Equity for the 26 weeks ended 27 October 2018 (unaudited)

	Attributable to the owners of the company						Total £m
	Share capital £m	Share premium £m	Translation reserve £m	Merger reserve £m	Retained earnings £m	Other £m	
Balance at 28 April 2018	4.1	149.0	(1.6)	(302.5)	559.5	-	408.5
Comprehensive income							
Profit for the period	-	-	-	-	20.2	-	20.2
Other comprehensive income							
Currency translation differences	-	-	0.2	-	-	-	0.2
Total other comprehensive income	-	-	0.2	-	-	-	0.2
Total comprehensive income for the period	-	-	0.2	-	20.2	-	20.4
Transactions with owners							
Employee share award scheme	-	-	-	-	1.5	-	1.5
Shares issued	14	0.1	-	-	-	-	0.1
Dividend payments	10	-	-	-	(17.9)	-	(17.9)
IFRS 9 and 15 adjustments	-	-	-	-	(3.2)	-	(3.2)
Total transactions with owners	-	0.1	-	-	(19.6)	-	(19.5)
Balance at 27 October 2018	4.1	149.1	(1.4)	(302.5)	560.1	-	409.4

Condensed Group Statement of Changes in Equity for 27 April 2019 (audited)

Note	Attributable to the owners of the company						
	Share capital £m	Share premium £m	Translation reserve £m	Merger reserve £m	Retained earnings £m	Other £m	Total £m
Balance at 28 April 2018	4.1	149.0	(1.6)	(302.5)	559.5	-	408.5
IFRS 9 and 15 adjustments	-	-	-	-	(5.5)	-	(5.5)
Restated balance at 28 April 2018	4.1	149.0	(1.6)	(302.5)	554.0	-	403.0
Comprehensive income							
Restated loss for the period	19	-	-	-	(101.7)	-	(101.7)
Other comprehensive income							
Currency translation differences		-	(1.4)	-	-	-	(1.4)
Total other comprehensive income		-	(1.4)	-	-	-	(1.4)
Total comprehensive income for the period		-	(1.4)	-	(101.7)	-	(103.1)
Transactions with owners							
Employee share award schemes	14	-	-	-	3.5	-	3.5
Shares issued		0.1	-	-	-	-	0.1
Dividend payments	10	-	-	-	(46.0)	-	(46.0)
Total transactions with owners		0.1	-	-	(42.5)	-	(42.4)
Restated balance at 27 April 2019	4.1	149.1	(3.0)	(302.5)	409.8	-	257.5

Explanatory Notes to the Interim Financial Information (unaudited)

1. Basis of preparation

Superdry Plc is a company domiciled in the United Kingdom. The condensed interim financial information ("interim financial information") of Superdry Plc for the 26 weeks ended 26 October 2019 ("October 2019") comprise the company and its subsidiaries (together referred to as "the Group"). The prior comparative period is for the 26 weeks ended 27 October 2018 ("October 2018").

This interim financial information does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. The Group statutory financial statements for the 52 weeks ended 27 April 2019 ("April 2019") are available upon request from the company's registered office at Superdry Plc, Unit 60, The Runnings, Cheltenham, Gloucestershire, GL51 9NW or www.corporate.superdry.com.

This interim financial information has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU and the requirements of the Disclosures and Transparency Rules. They do not include all of the information required for full annual financial statements and should be read in conjunction with the Group financial statements as at and for the 52 weeks ended 27 April 2019, which have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. This interim financial information was approved by the Board of Directors on 11 December 2019.

The comparative figures for April 2019 are extracted from the Group's statutory accounts for that financial year. Those accounts have been reported on by the company's auditors and delivered to the registrar of companies. The report of the auditors (i) was unqualified; (ii) did not draw attention to any matters by way of emphasis; and (iii) did not contain statements under section 498(2) or (3) of the Companies Act 2006. These sections address whether proper accounting records have been kept, whether the Group's accounts are in agreement with these records and whether the auditors have obtained all the information and explanations necessary for the purposes of the audit.

The financial information in this document is unaudited, but has been reviewed by the auditors in accordance with the Auditing Practices Board guidance on Review of Interim Financial Information.

This interim financial information has been prepared under the going concern basis. As discussed in the Finance Review, the Board has a reasonable expectation that the Group has adequate resources to continue operations for the foreseeable future. This is further supported by the existing uncommitted facilities and the £70m revolving credit facility that was secured in January 2019.

As disclosed in the Group Annual Report FY19, a sustained downturn as a result of the new strategy not turning the business around, and a failure to renew the revolving credit facility in January 2022, would threaten the viability of the business over the four-year viability period.

2. Significant accounting policies

The accounting policies adopted are consistent with those of the previous financial period (see pages 113 to 125 of the Group Annual Report FY19) except as described below.

Taxation

Taxes on income in the interim period are accrued using the tax rate that would be applicable to expected total annual earnings.

New accounting standards adopted in the period – IFRS 16

IFRS 16 became effective for periods starting on or after 1 January 2019 and replaces the standard IAS 17 *Leases* and related interpretations. The Group adopted IFRS 16 with effect from 28 April 2019 using the modified retrospective 2B transition approach. Therefore, under the specific transitional provisions in the standard, neither the 52 weeks ended 27 April 2019 nor the 26 weeks ended 27 October 2018 have been restated and continue to be shown under IAS 17 with the cumulative adjustment shown in current year reserves. IFRS 16 requires entities to apply a single lease accounting model, with lessees recognising right of use assets and lease liabilities on the balance sheet for all applicable leases except for certain short-term and low value leases.

The Group's leased portfolio comprises various store and head office properties and motor vehicles.

Approach to transition

The Group's leased portfolio comprises various store and head office properties and motor vehicles. IFRS 16 *Leases* outlines how to recognise, measure, present and disclose leases. The Group has elected to use the transition approach set out in IFRS 16.C8(b)(ii).

The Group has elected to use the transition approach set out in IFRS 16.C8(b)(ii). As a result, lease liabilities were measured at transition at the present value of the remaining lease payments discounted at the incremental borrowing rate of each lease as at the date of initial application. The right of use assets are measured at transition at an amount equal to the lease liability, adjusted for prepaid and accrued lease payments recognised in the Group balance sheet immediately before the date of initial application.

Practical expedients and exemptions

On transition to IFRS 16, the Group elected to apply the following practical expedients on a lease by lease basis:

- (i) accounting for leases with a lease term ending within 12 months of the date of initial application in the same way as short-term leases, and including the cost of such leases in the disclosure of the short-term lease expense;
- (ii) applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- (iii) the exclusion of initial direct costs for the measurement of the right of use asset at the date of initial application;
- (iv) using the assessment of whether a lease is onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets as the basis of the impairment on transition of right of use assets, rather than performing an impairment review under IAS 36 Impairment of Assets; and
- (v) the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

Accounting policy

Initial recognition - Lease liabilities

At transition, lease liabilities are measured at the present value of the remaining lease payments, which are then discounted at the Group's incremental borrowing rate. Lease payments included within this comprise the following:

- fixed lease payments (including in substance fixed payments), less any capital contributions and lease incentives receivable;
- variable lease payments that depend on an index or rate; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

Any lease payments that relate to turnover rent or service charges are excluded from the scope of IFRS 16. These will therefore continue to be recognised selling, general and administrative expenses in the condensed Group statement of comprehensive income.

Other considerations

Variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability and are initially measured using the amount at the commencement date. When these variable amounts become known, these subsequent amounts not included in the liability will be recognised in the profit or loss in the period in which the event or condition that triggers payment occurs.

Extension and termination options are included in a number of property leases across the Group. The Group has assessed commercial factors to determine the lease term for some lease contracts in which it is a lessee that include renewal options and break clauses. The Group has reviewed whether it is reasonably certain to exercise such options; the impact of this decision will affect the amount of the lease liability and in turn the associated right of use asset.

Initial recognition - Right of use assets

The right of use assets are then formed based on the initial measurement of the corresponding liability, which is then adjusted for the following:

- any lease payments made before the commencement of the lease (including lease premiums);
- any initial direct costs;
- any restoration costs; and
- any residual lease incentives balances previously recognised.

On transition to IFRS 16, this right of use asset has then been assessed for impairment. As identified above, a practical expedient has been taken over this point, by relying on a previous assessment of whether a lease is onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets

Subsequent measurement of lease liabilities and right of use assets

The lease liability unwinds over the lease term, increasing the carrying amount to reflect interest on the lease liability (calculated using the effective interest method) and reducing the carrying amount to reflect the lease payments made. The right of use assets are measured at cost less accumulated depreciation and impairment losses.

Under IAS 17

In the comparative period, the Group classified leases that substantially transferred all risks and rewards of ownership as a finance lease. All other leases were classified as an operating lease. When a lease is deemed an operating lease, payments were recognised in the profit or loss on a straight-line basis over the term of the lease.

Lease incentives (e.g. rent free periods) are recognised as part of the measurement of the right of use assets whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expenses on a straight line basis. Lease premiums that were previously recognised as intangible assets has been reclassified from here to form part of the right of use asset.

Impact of IFRS 16 for the 26 weeks to 26 October 2019

Condensed Group balance sheet

	April 2019 Pre-IFRS 16 £m	IFRS 16 Impact £m	April 2019 Post-IFRS 16 £m
Non-current assets	159.7	280.8	440.5
Current assets	351.9	0.3	352.2
Total assets	511.6	281.1	792.7
Other liabilities	(124.4)	(373.8)	(498.2)

Onerous lease provision	(78.5)	48.4	(30.1)
Lease incentives	(47.2)	45.7	(1.5)
Fair value market rent liability	(0.8)	0.8	-
Deferred liability	-	(2.0)	(2.0)
Total liabilities	250.9	(280.9)	(531.8)
Net assets	260.7	0.2	260.9
Total equity	260.7	0.2	260.9

The below shows the reconciliation between the 27 April 2019 operating lease note commitment and the lease liability recognised as at 26 October 2019:

		£m
Operating lease commitment note as at 27 April 2019		424.4
Exclude:	Service charge and turnover rent element	(64.1)
	Practical expedients taken	(4.6)
Adjust:	Impact of discounting	(19.5)
	Alignment of lease dates	28.9
	Alignment of annual rent	11.6
	Other differences	(2.8)
Lease liability per IFRS 16 on transition		373.9

Except for certain specific leases where there is a reasonable possibility of the break option being exercised, the Group has determined that lease term runs until the lease end date. This is because of the requirement under IFRS 16 to be reasonably certain that options to break the lease will be taken. This differs to the assumption taken in the operating lease commitment note therefore there has been an alignment of lease dates. Similarly, there has been an alignment of rent where the specific requirements under IFRS 16 have resulted in a different annual rental charge to the operating lease commitments note.

Condensed Group statement of comprehensive income

	26 week period ended 26 October 2019
	£m
Pre- IFRS 16 items:	
Operating lease rental expense	38.1
Onerous lease utilisation	(6.0)
Amortisation of lease incentives	(4.1)
Amortisation of fair value market rent liabilities	(0.3)
IFRS 16 items:	
Depreciation of right of use assets and deferred liability	(27.3)
Interest expense on lease liabilities	(2.9)
Loss before tax from IFRS 16	(2.5)
Tax expense	-
Loss after tax from IFRS 16	(2.5)

Items in the condensed Group statement of comprehensive income not impacted by IFRS 16:

Lease expense relating to short-term assets	£4.9m
The expense of variable lease payments not included in the lease liabilities	£2.0m

Statement of changes in equity

The Group has implemented the modified 2B transition approach. Due to the restriction of the onerous lease provision used as impairment an amount of £0.5m has been taken against retained earnings.

Additionally, in line with IFRS 3 (Business Combinations) a fair value market rent liability was previously recognised to align US market value with rental payments, which was being released over the life of the lease. However, following the implementation of IFRS 16, where possible this was required to be deducted from the right of use asset. Due to the restriction of this amount (where the right of use asset was otherwise taken to nil), £0.6m was taken to retained earnings.

Deferred tax on the transition to IFRS 16 totals £0.9m.

The above instances outlined above give a total retained earnings increase of £0.2m.

Cash flow

The only impact on the cash flow is the re-categorisation of some items on the face of the condensed Group cash flow statement. These include: repayment of principal and interest lease liability amounts and depreciation of right of use asset.

Lessor accounting

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right of use asset arising from the head lease, not with reference to the underlying asset. The original lease liability continues to be recognised in accordance with the accounting model and the Group will recognise a net investment in the sublease and evaluate this for impairment. The net investment in the sub-lease is £0.4m.

Other new standards

Other new standards and interpretations in issue, but not yet effective, which are not expected to have a material impact on the Group are:

- Annual improvements to IFRS: 2015 – 2017 cycle

3. Critical accounting estimates and judgements in applying accounting policies

The preparation of interim financial information requires judgements, estimates and assumptions to be made that affect the reported value of assets, liabilities, revenue and expenses. The nature of estimation and judgement means that actual outcomes could differ from expectation.

In preparing this interim financial information, unless stated otherwise, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation were the same as those that applied to the consolidated financial statements for the 52 weeks ended 27 April 2019 (as set out on pages 119 to 122 of the Group Annual Report FY19). These were as follows:

- Store impairments;
- Onerous lease provisions;
- Recognition of deferred tax assets;
- Attributing Ecommerce sales and costs to stores;
- Long-term loans receivable; and
- Determination of exceptional and other items.

There is also a critical judgement in relation to the recoverability of trading receivables.

The following new areas of key estimates and significant judgements were introduced in the 26 weeks to 26 October 2019, following the transition to IFRS 16:

Discount rates (critical judgement)

The interest rate implicit in all leases is considered not be readily determinable, and therefore the incremental borrowing rate has been used to calculate lease liabilities. The incremental borrowing rate has been calculated at a territory level with reference to the risk-free rate for that territory and a Group-specific credit risk adjustment, both of which require the use of judgements and estimates. A 0.5% increase in the incremental borrowing rate for each lease would result in a grossing up of the transitional right of use asset and lease liability by £5m.

Break and extension options (critical estimate)

The lease term over which the applicable lease payments are discounted is set as the non-cancellable period of a lease, together with:

- periods covered by an option to extend the lease where it is reasonably certain that this will be exercised; and
- periods covered by an option to break the lease where it is reasonably certain that this will not be exercised.

Except for certain specific leases where there is a reasonable possibility of the break option being exercised, the Group has determined that the exercise of break options is not reasonably certain and therefore have determined the lease term as being until the lease end date. The Group has carried out a sensitivity analysis on the effect of this estimate. Continuing the lease term to the end of the lease, rather than exercising an option to break the lease, has the effect of grossing up the transitional right of use asset and lease liability by £50m.

4. Seasonality of operations

Due to the seasonal nature of the Retail segment, higher revenues and operating profits are usually expected in the second half of the year. The weighting of higher revenues in the second half of the year is a consequence of the brand's strength in cooler weather categories, such as outerwear, which also carry higher average selling prices. Operating profits therefore benefit from operating cost leverage, particularly in the Group's stores. Wholesale seasonality is more evenly spread across the year.

In the financial period ended 27 April 2019, 47.6% of total revenues accumulated in the first half of the year, with 52.4% in the second half. This corresponded to 30.8% of underlying profit before tax in the first half of the year and 69.2% in the second half.

5. Segmental information

The Group's operating segments under IFRS 8 have been determined based on the reports reviewed by the Group's Chief Operating Decision Maker (Executive Committee Members "the CODM"). The CODM assesses the performance of the operating segments based on underlying profit before interest and before inter-segment royalties. The CODM considers the business from a customer perspective only, being Retail and Wholesale. The CODM reviews the balance sheet at a Group level. No separate balance sheet measures are provided between the Retail and Wholesale segments. Ecommerce is not identified separately as an operating segment due to increasing levels of cross-over between physical store sales, Ecommerce sales and retail customers as we pursue our strategic goal of being a Global Digital Brand.

The CODM receives information, reviews the performance of the business, allocates resources and approves budgets for two operating segments, and therefore information is disclosed in respect of the following two segments:

- Retail - principal activities comprise the operation of UK, Republic of Ireland, European and US stores, concessions and all internet sites. Revenue is derived from the sale to individual consumers of own brand clothing, footwear and accessories;
- Wholesale - principal activities comprise the ownership of brands, wholesale distribution of own brand products (clothing, footwear and accessories) worldwide and trade sales.

Segment results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The Group reports and manages central functions separately to the Retail and Wholesale operations, which includes design, finance, HR, IT, legal, merchandising, property, sourcing and the goodwill and intangibles arising on consolidation.

The revenue from external parties reported to the CODM is measured in a manner consistent with that of the IFRS financial statements.

Inter-segment royalties, transfers or transactions entered into under a cost plus pricing structure are not reflected in the performance of each business segment.

Segment information for the business segments of the Group for October 2019 is set out below:

October 2019 segmental analysis (unaudited)	Retail £m	Wholesale £m	Central costs £m	Group £m
Total segment revenue	215.1	266.0	-	481.1
Inter-segment revenue	-	(112.0)	-	(112.0)
Revenue from external customers	215.1	154.0	-	369.1

October 2019 segmental analysis (unaudited)

	Underlying* October 2019 £m	Exceptional and other items £m	Reported 2019 £m
Revenue			
Retail	215.1	-	215.1
Wholesale	154.0	-	154.0
Total revenue	369.1	-	369.1

Operating profit/(loss)			
Retail	5.5	(0.4)	5.1
Wholesale	42.0	(0.2)	41.8
Central	(46.3)	(1.3)	(47.6)
Total operating profit/(loss)	1.3	(1.9)	(0.6)
(Loss)/profit before tax			
Retail	2.6	(0.4)	2.2
Wholesale	42.0	(0.2)	41.8
Central costs	(46.9)	(1.3)	(48.2)
Total (loss)/profit before tax	(2.3)	(1.9)	(4.2)

*Underlying is defined as reported results before exceptional items and other items, and is further explained in note 20.

The £1.3m charge in the Central Segment is in relation to restructuring, strategic change and other costs, and the Founder Share Plan and other share schemes. The £0.6 loss in the other segments relates to the fair value of forward exchange contracts, as disclosed further in note 6.

	Retail	Wholesale	Central	Group
	£m	£m	£m	£m
October 2018 segmental analysis (unaudited)				
Total segment revenue	245.6	309.6	-	555.2
Inter-segment revenue	(2.8)	(137.8)	-	(140.6)
Revenue from external customers	242.8	171.8	-	414.6

The following additional information is considered useful to the reader.

October 2018 segmental analysis (unaudited)

	Underlying* October 2018 £m	Exceptional and other items £m	Reported 2018 £m
Revenue			
Retail	242.8	-	242.8
Wholesale	171.8	-	171.8
Total revenue	414.6	-	414.6
Operating profit			
Retail	5.8	10.1	15.9
Wholesale	52.3	4.8	57.1
Central	(43.2)	(1.4)	(44.6)
Total operating profit	14.9	13.5	28.4
Share of loss of investment – Central	(2.0)	-	(2.0)
Profit before tax			
Retail	5.8	10.1	15.9
Wholesale	52.3	4.8	57.1
Central costs	(45.2)	(1.4)	(46.6)
Total profit before tax	12.9	13.5	26.4

*Underlying is defined as reported results before exceptional items and other items, and is further explained in note 20.

The £1.4m charge in the Central Segment is in relation to the Founder Share Plan and the £14.9m loss in the other segments relates entirely to the fair value of forward exchange contracts, as disclosed further in note 6.

The Group has subsidiaries which are incorporated and resident in the UK and overseas. Revenue from external customers in the UK and the total revenue from external customers from other countries are:

Unaudited	Unaudited
October 2019	October 2018

	£m	£m
External revenue – UK	123.2	136.5
External revenue – Europe	199.4	219.0
External revenue – Rest of world	<u>46.5</u>	<u>59.1</u>
Total external revenue	<u>369.1</u>	<u>414.6</u>

Included within non-UK external revenue is £95.3m (October 2018: £105.3m) generated by our overseas subsidiaries.

The total of non-current assets, other than deferred tax assets, located in the UK is £141.6m (October 2018: £82.2m, April 2019: £56.1m), and the total of non-current assets located in other countries is £230.6m (October 2018: £105.7m, April 2019: £70.8m). The October 2019 figures are after the transition to IFRS 16.

6. Exceptional and other items

Non-underlying adjustments constitute exceptional and other items. These are defined in note 20 and are disclosed separately in the Group statement of comprehensive income.

	Unaudited October 2019 £m	Unaudited October 2018 £m
Exceptional and other items		
Unrealised (loss)/gain on financial derivatives	(0.6)	14.9
Restructuring, strategic change and other costs	(1.4)	-
IFRS 2 charge in respect of Founder Share Plan ('FSP')	<u>0.1</u>	<u>(1.4)</u>
Exceptional and other items	<u>(1.9)</u>	<u>13.5</u>
Taxation		
Tax impact of non-underlying adjustments	<u>0.1</u>	<u>(3.0)</u>
Taxation on exceptional and other items	<u>0.1</u>	<u>(3.0)</u>
Total exceptional and other items after taxation	<u>(1.8)</u>	<u>10.5</u>
Exceptional and other items are included within:		
Selling, general and administrative expenses	(1.3)	(1.4)
Other gains and losses (net)	<u>(0.6)</u>	<u>14.9</u>
Exceptional and other items	<u>(1.9)</u>	<u>13.5</u>

The Group Annual Report FY19 included exceptional items in relation to a cost-saving restructuring programme, and the strategic change with Julian Dunkerton re-joining the business on 2 April 2019. The same programme and strategic change has also seen an additional £1.4m of cost in 1H20. The Directors consider these to be "exceptional and other" costs due to their size and their "one-off" nature. These are not considered to be a reflection of the trading performance in the period.

7. Share of loss of joint venture

As at 27 April 2019, the carrying value of the investment in Trendy & Superdry Holding Limited was £nil, and no further investment has been provided during the period by Superdry Plc. As such the carrying value of the investment at 26 October 2019 is still £nil (October 2018: £4.2m). The unrecognised share of joint venture losses in the period are £2.6m in line with the Group policy (FY19: £3.9m, 1H19: £nil, cumulative £6.5m).

8. Tax

The Group's underlying income tax expense for 1H20 is £2.4m (H1 FY19: £3.2m). Excluding prior year items of £2.4m and other discrete tax charges of £0.5m, the residual underlying income tax credit of £0.5m represents an underlying effective tax rate of 19.8% compared to 25.0% in 1H19 and 29.0% in FY19. The difference between the 1H20 Group underlying tax rate of 19.8% and the UK statutory rate of 19.0% is

primarily attributable to the tax impact of implementing IFRS 16 in the period. Without the implementation of IFRS 16 the Group ETR would be 24.8% which is driven by higher tax rates in overseas jurisdictions, depreciation and amortisation on non-qualifying assets and non-deductible expenses.

The prior period item relates to an increase in the corporation tax creditor on the balance sheet in respect of corporation tax payable in Belgium.

Factors affecting the tax expense for the period are as follows:

	Unaudited October 2019	Unaudited October 2018
	£m	£m
(Loss)/profit before income tax	(4.2)	26.4
(Loss)/profit multiplied by the standard rate in the UK – 19.0% (1H19: 19.0%)	(0.8)	5.0
Expenses not deductible for tax purposes	0.5	0.8
Overseas tax differentials	0.2	0.1
Deferred tax not recognised	-	0.3
Prior year items	2.4	-
Total income tax expense	2.3	6.2

9. Note to the cash flow statement

Reconciliation of operating (loss)/profit to cash generated from operations

	Note	October 2019	October 2018
		£m	£m
Operating (loss)/profit		(0.6)	28.4
Adjusted for:			
- Loss/(profit) on unrealised financial derivatives	6	0.6	(14.9)
- Depreciation of property, plant and equipment	11	12.2	18.4
- Net depreciation of right of use asset and deferred liability	2	27.3	-
- Amortisation of intangible assets	12	4.5	4.2
- Loss on disposal of property, plant and equipment	11	0.1	-
- Release of lease incentives		(0.7)	(4.8)
- Employee share award schemes		0.6	1.5
- Foreign exchange (gains)/losses		(0.1)	4.9
Operating cash flow before movements in working capital		43.9	37.7
Changes in working capital:			
- Increase in inventories		(6.1)	(52.6)
- Increase in trade and other receivables		(19.7)	(15.5)
- (Decrease)/increase in trade and other payables, and provisions		(14.1)	19.6
Cash generated from operating activities		4.0	(10.8)

10. Dividends

In the year ended 27 April 2019 a final dividend of 2.2p per share was approved. These dividends were paid on 17 September 2019 to shareholders on the register at the close of business on 19 July 2019.

We announce today an interim dividend of 2.0 pence per share (1H19: 9.3 pence per share). The interim dividend will utilise an estimated £1.6m of shareholders' funds. The interim dividend will be paid on 24 January 2020 to shareholders on the register at the close of business on 20 December 2019.

11. Property, plant and equipment and right of use assets

Movements in the net book value (“NBV”) of property, plant and equipment in the period to October 2019 were as follows:

	Land and buildings	Leasehold improvements	Furniture, fixtures and fittings	Computer equipment	Total Group
	£m	£m	£m	£m	£m
NBV as at 27 April 2019	4.8	47.8	17.3	4.2	74.1
Additions	-	1.5	0.9	0.8	3.2
Depreciation	(0.1)	(6.9)	(3.5)	(1.7)	(12.2)
Exchange differences	-	0.4	0.1	-	0.5
NBV as at 26 October 2019	4.7	42.8	14.8	3.3	65.6

Movements in the net book value (“NBV”) of right of use assets in the period to October 2019 were as follows:

	Total Group
	£m
NBV as at 27 April 2019 on transition to IFRS 16	283.2
Additions	0.7
Depreciation	(27.5)
Exchange differences	0.8
NBV as at 26 October 2019	257.2

12. Intangible assets

Movements in the net book value (“NBV”) of intangible assets in the period to October 2019 were as follows:

	Trademarks	Websites and software	Lease premiums	Distribution agreements	Goodwill	Total Group
	£m	£m	£m	£m	£m	£m
NBV as at 27 April 2019	1.3	24.1	2.0	2.9	21.2	51.5
IFRS 16 restatement	-	-	(1.6)	-	-	(1.6)
Restated NBV as at 27 April 2019	1.3	24.1	0.4	2.9	21.2	49.9
Additions	0.2	3.7	-	-	-	3.9
Amortisation	(0.2)	(3.9)	(0.1)	(0.3)	-	(4.5)
Exchange differences	-	-	-	0.1	-	0.1
NBV as at 26 October 2019	1.3	23.9	0.3	2.7	21.2	49.4

13. Capital expenditure commitments

The Group has capital expenditure commitments on property, plant and equipment of £nil at October 2019 (£nil at October 2018 and £nil at April 2019).

14. Equity securities

6,956 ordinary shares of 5p each were authorised, allotted and issued in the period under the Superdry Plc Share based Long Term Incentive Plans, Save As You Earn and Buy As You Earn schemes.

15. (Loss)/earnings per share

Unaudited October 2019	Unaudited October 2018
£m	£m

(Loss)/earnings

(Loss)/profit for the period attributable to owners of the company	(6.5)	20.2
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	Number	Number
Number of shares at period end	82,002,204	81,961,558
Weighted average number of ordinary shares - basic	81,998,661	81,758,151
Effect of dilutive options and contingent shares	262,323	110,979
Weighted average number of ordinary shares - diluted	82,260,984	81,869,130
Basic (loss)/earnings per share (pence)	(7.9)	24.7
Diluted (loss)/earnings per share (pence)	(7.9)	24.7

Underlying basic earnings per share

	Unaudited October 2019 £m	Unaudited October 2018 £m
(Loss)/earnings		
Underlying (loss)/profit for the period attributable to owners of the company	(4.7)	9.7

	Number	Number
Weighted average number of ordinary shares - basic	81,998,661	81,758,151
Weighted average number of ordinary shares - diluted	82,260,984	81,869,130
Underlying basic (loss)/earnings per share (pence)	(5.7)	11.9
Underlying diluted (loss)/earnings per share (pence)	(5.7)	11.8

16. Related parties

Directors of the Group within the period and their immediate relatives control 18.5% (October 2018: less than 0.2%) of the voting shares of the Group. There have been no material transactions in the period with related parties, including Directors.

17. Net (debt)/cash

	April 2019 £m	Net cash flow £m	Other non-cash changes £m	October 2019 £m
Analysis of net cash - October 2019 (unaudited)				
Cash and short-term deposits	35.9	(8.7)	4.4	31.6
Bank overdraft	-	(10.9)	-	(10.9)
Net cash and overdraft	35.9	(19.6)	4.4	20.7
Other short-term borrowings	-	(30.0)	-	(30.0)
Total net (debt)/cash	35.9	(49.6)	4.4	(9.3)

	April 2018 £m	Net cash flow £m	Other non-cash changes £m	October 2018 £m
Analysis of net cash - October 2018 (unaudited)				
Cash and short-term deposits	75.8	(53.3)	(3.3)	19.2
Cash and cash equivalents	75.8	(53.3)	(3.3)	19.2
Total net cash/(debt)	75.8	(53.3)	(3.3)	19.2

Included with cash and cash equivalents is £0.2m of rent deposits held for sub-tenants of the Regent Street Store, and £1.2m of cash deposits from franchise customer guarantees. This is restricted cash.

Other non-cash changes relate to foreign exchange gains and losses.

18. Financial risk management and financial instruments

The Group's activities expose it to a variety of financial risks including: market risk (including foreign currency risk and cash flow interest rate risk), credit risk and liquidity risk. The condensed interim financial information does not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group Annual Report FY19. There have been no changes in the risk management department or in any risk management policies since the year end.

Liquidity risk

Compared to the year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 26 October 2019 and 27 October 2018.

Unaudited	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	2019	2019	2019	2018	2018	2018
	£m	£m	£m	£m	£m	£m
ASSETS						
Derivative financial instruments						
- Forward foreign exchange contracts	-	1.5	-	-	-	-
- Option contracts	-	-	-	-	-	-
LIABILITIES						
Derivative financial instruments						
- Forward foreign exchange contracts	-	0.5	-	-	4.4	-
- Option contracts	-	3.2	-	-	6.3	-

There were no transfers between levels during the period.

The fair value of the following financial assets and liabilities is approximate to their carrying amount:

- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables

19. Prior year restatement

An error associated with inventory accounting in the prior year has been identified during the course of H1 FY20. Inventories are valued at the lower of cost and net realisable value. Cost comprises costs associated with the purchase and bringing of inventories to the distribution centres. The historic journal entries for stock cost are complex. The error of £3.9m relates to the system of recording and allocating cost variances related to freight, duty, and other charges, and transfers between warehouses. We have reviewed the recording processes and concluded that the record keeping process was overly complex. We have now simplified the accounting. The impact of the adjustment on the relevant financial statement line items is set out below.

£m	52 weeks to 27 April 2019 As reported	Adjustment	52 weeks to 27 April 2019 Restated
Revenue	871.7	-	871.7
Cost of sales	(387.4)	(3.9)	(391.3)
Gross profit	484.3	(3.9)	480.4
Underlying operating profit	48.1	(3.9)	44.2
Operating loss	(68.2)	(3.9)	(72.1)
Underlying profit before tax	41.9	(3.9)	38.0
(Loss) before tax	(85.4)	(3.9)	(89.3)
Taxation	(13.1)	0.7	(12.4)
Underlying profit after tax	29.7	(3.2)	26.5
(Loss) for the period	(98.5)	(3.2)	(101.7)
Inventories	190.8	(3.9)	186.9
Corporation tax (liability)/debtor	(0.4)	0.7	0.3
Net assets	260.7	(3.2)	257.5
Retained earnings	413.0	(3.2)	409.8
Total equity	260.7	(3.2)	257.5
<i>Earnings per share</i>	Pence per share As reported	Adjustment	Pence per share Restated
Basic	(120.3)	(3.9)	(124.2)
Diluted	(120.0)	(3.9)	(123.9)

The isolated error arose in the second half of 2019 and hence 2018 H1 condensed Group balance sheet as at 26 October 2019 and Condensed Group statement of comprehensive income have not been restated. A restated full year comparative Condensed Group statement of comprehensive income and condensed Group balance sheet as at 26 October 2019 will be provided at the year ended 25 April 2019.

20. Alternative performance measures

Introduction

The Directors assess the performance of the Group using a variety of performance measures, some are IFRS, and some are adjusted and therefore termed “non-GAAP” measures or “Alternative Performance Measures” (“APMs”). The rationale for using adjusted measures is explained below. The Directors principally discuss the Group’s results on an “underlying” basis. Results on an underlying basis are presented before exceptional and other items.

The APMs used in this Interim Report are: underlying gross profit and margin, underlying operating profit and margin, underlying EBITDA, like-for-like revenue growth, underlying (loss)/profit before tax, underlying tax expense and underlying effective tax rate, underlying earnings per share and net cash/debt.

The following APM has been introduced in the current period: Underlying profit before tax pre-IFRS 16, and underlying earnings per share pre-IFRS 16.

A reconciliation from these non-GAAP measures to the nearest measure prepared in accordance with IFRS is presented below. The APMs we use may not be directly comparable with similarly titled measures used by other companies. There have been no changes in definitions from the prior period.

Exceptional and other items

The Group’s statement of comprehensive income and segmental analysis separately identify trading results before exceptional and other items. The Directors believe that presentation of the Group’s results in this way is an alternative analysis of the Group’s financial performance, as exceptional and other items are identified by virtue of their size, nature or incidence. This presentation is consistent with the way that financial performance is measured by management and reported to the Board and the Executive Committee and assists in providing a relevant analysis of the trading results of the Group. It is also consistent with the way that management is incentivised. In determining whether events or transactions are treated as exceptional and other items, management considers quantitative as well as qualitative factors such as the frequency or predictability of occurrence.

Examples of charges or credits meeting the above definition and which have been presented as exceptional and other items in the current and/or prior years include:

Exceptional items

- Acquisitions/disposals of significant businesses and investments (including related to the joint venture);
- Impact on deferred tax assets/liabilities for changes in tax rates;
- Business restructuring programmes;
- Derecognition of deferred tax assets (including related to the joint venture); and
- Asset impairment charges and onerous lease provisions.

Other items

- The movement in the fair value of unrealised financial derivatives
- IFRS 2 charges in respect of Founder Share Plan ('FSP')

In the event that other items meet the criteria, which are applied consistently from year to year, they are also treated as exceptional and other items.

Exceptional and other items in this period

The following items have been included within exceptional and other items for the 26 weeks ended 26 October 2019:

Fair value re-measurement of foreign exchange contracts – 1H20, FY19 and 1H19 item

The fair value of unrealised financial derivatives is reviewed at the end of each reporting period and unrealised losses/gains are recognised in the Group statement of comprehensive income.

The Directors consider unrealised losses/gains to be 'exceptional and other items' due to both their size and nature. The size of the movement on the fair value of the contracts is dependent in particular on the spot foreign exchange rate at the balance sheet date and an assessment of future foreign exchange volatility applied to the relevant contract currencies; as such the size of the movements can be substantial. The unrealised foreign exchange contracts have been entered into in order to achieve an economic hedge against future payments and receipts and are not a reflection of historic performance. The Directors do not therefore consider these unrealised losses/gains to be a reflection of the trading performance in the period. When contracts mature, the profit or loss is reflected in underlying profit before tax.

Restructuring, strategic change and other costs – 1H20 and FY19 item

The Group Annual Report FY19 included exceptional items in relation to a cost-saving restructuring programme, and the strategic change with Julian Dunkerton re-joining the business on 2 April 2019. The same programme and strategic change has also seen an additional £1.4m of cost in 1H20. The Directors consider these to be "exceptional and other" costs due to their size and their "one-off" nature. These are not considered to be a reflection of the trading performance in the period.

Founder Share Plan ('FSP') – IFRS 2 charge – 1H20, FY19 and 1H19 item

While there are no cost or cash implications for the Company, the Founder Share Plan ('FSP') falls within the scope of IFRS 2. The Group has included the IFRS 2 charge and related deferred tax movement in relation to the FSP within 'exceptional and other items' for the current and subsequent periods.

The Directors consider the plan to be one-off in nature and unusual in that the share awards are being funded exclusively by the Founders. The full year charge for FY19, FY20 and FY21 has been estimated between £1m and £2m each period, depending on the level of leavers during each period. While the charge is spread over a number of financial years, the plan is a one-time scheme and will not be renewed should the share price fail to reach the target vesting price. Accordingly the IFRS 2 charge in respect of the FSP is considered to be an 'exceptional and other item' due to the size, nature and incidence of the scheme. There are no known recent examples within quoted companies of incentive arrangements operating in a similar way to the FSP. While unusual in terms of size, the plan is also unusual with regard to its treatment in what is essentially a personal arrangement, with no net cost or cash and minimal administrative burden to the Company. There are no other adjustments anticipated in respect of the scheme other than the IFRS 2 charge.

Therefore, the Directors consider the charge to be significant in terms of its potential influence on the readers' interpretation of the Group's financial performance and not a reflection of the trading performance in the period.

Underlying gross profit and margin

In the opinion of the Directors, underlying gross profit and margin are measures which seek to reflect the underlying performance of the Group that will contribute to long-term sustainable profitable growth. It is a key

internal management metric for assessing segmental performance. As such, they exclude the impact of exceptional and other items.

A reconciliation from gross profit, the most directly comparable IFRS measure, to the underlying gross profit and margin is set out below.

	1H20	1H19	FY19 Restated (note 19)
	£m	£m	£m
Reported revenue	369.1	414.6	871.7
Gross profit	207.8	233.7	480.4
Exceptional and other items	-	-	-
Underlying gross profit	207.8	233.7	480.4

	1H20	1H19	FY19 Restated (note 19)
	%	%	%
Gross margin	56.3%	56.4%	55.1%
Underlying gross margin	56.3%	56.4%	55.1%

Underlying operating profit and margin

In the opinion of the Directors, underlying operating profit and margin are measures which seek to reflect the underlying performance of the Group that will contribute to long-term sustainable profitable growth. The Directors focus on the trends in underlying operating profit and margins, and it is a key internal management metric for assessing segmental performance. As such, they exclude the impact of exceptional and other items.

A reconciliation from operating profit, the most directly comparable IFRS measure, to the underlying operating profit and margin is set out below.

	1H20	1H19	FY19 Restated (note 19)
	£m	£m	£m
Reported revenue	369.1	414.6	871.7
Operating (loss)/profit	(0.6)	28.4	(72.1)
Exceptional and other items	1.9	(13.5)	116.3
Underlying operating profit	1.3	14.9	44.2

	1H20	1H19	FY19 Restated (note 19)
	%	%	%
Operating margin	(0.2)%	6.8%	(8.3)%
Underlying operating margin	0.4%	3.6%	5.1%

Underlying EBITDA

In the opinion of the Directors, underlying earnings before interest, tax, depreciation and amortisation ("EBITDA") is a measure which seeks to assist in the calculation of the Return on Capital Employed for the Group. It is a key internal management metric.

A reconciliation from profit before tax, the most directly comparable IFRS measure, to the underlying EBITDA is set out below.

	1H20	1H19	FY19 Restated (note 19)
	£m	£m	£m
Reported revenue	369.1	414.6	871.7
(Loss)/profit before tax	(4.2)	26.4	(89.3)
Exceptional and other items	1.9	(13.5)	127.3
Underlying (loss)/profit before tax	(2.3)	12.9	38.0

Depreciation on property, plant and equipment	12.2	18.4	32.6
Net depreciation on right of use assets and deferred liability	27.3	-	-
Amortisation	4.5	4.2	9.3
Finance expense	3.6	-	1.0
Underlying EBITDA	45.3	35.5	80.9

Like-for-like revenue growth

In the opinion of the Directors, like-for-like revenue growth is a measure which seeks to reflect the underlying performance of the Group's stores without the impact of new or closed stores in the year. The Directors consider this to be an important measure of Group performance and is consistent with how the business performance is reported to and assessed by the Board and the Executive Committee. It is a key internal management metric for assessing revenue performance. Like-for-like sales growth is defined as the year-on-year increase in revenue from stores and concessions open for more than one year, and allowing for store upsizing of no more than 100% in original trading space, less the impact of store closures. As such, they exclude the changes to the store portfolio. This is a new measure in the period following the change in Directors.

A reconciliation from reported revenue growth, the most directly comparable IFRS measure, to the like-for-like revenue growth is set out below.

	1H20	1H19	FY19
	%	%	%
Reported retail revenue growth %	(11.4%)	(2.3%)	(3.7%)
Like-for-like store revenue growth %	(11.8%)¹	(10.8%)	(9.6%)

Note 1: This revised release was updated on 12 December 2019, from that first published on 12 December 2019, to reflect the appropriate like-for-like store revenue growth % for 1H20.

Underlying (loss)/profit before tax

In the opinion of the Directors, underlying (loss)/profit before tax is a measure which seeks to reflect the underlying performance of the Group that will contribute to long-term sustainable profitable growth. The Directors consider this to be an important measure of Group performance and is consistent with how the business performance is reported to and assessed by the Board and the Executive Committee.

This is a measure used within the Group's incentive plans. Refer to the Remuneration Report in the Group Annual Report FY19 for explanation of why this measure is used within incentive plans.

As such underlying (loss)/profit before tax excludes the impact of exceptional and other items.

A reconciliation from (loss)/profit before tax, the most directly comparable IFRS measures, to the underlying (loss)/profit before tax is set out below.

	1H20	1H19	FY19 Restated (note 19)
	£m	£m	£m
(Loss)/profit before tax	(4.2)	26.4	(89.3)
Exceptional and other items	1.9	(13.5)	127.3
Underlying (loss)/profit before tax	(2.3)	12.9	38.0

Underlying profit before tax pre-IFRS 16

In the opinion of the Directors, underlying profit before tax pre IFRS 16 is a measure which seeks to provide an equivalent comparison to the prior year profitability by showing current year profit before IFRS 16 adjustments. The Directors consider this to be an important measure of Group performance and is consistent with how the business performance is reported to and assessed by the Board and the Executive Committee. This is a new measure in the year, following the transition to IFRS 16.

As such underlying profit before tax pre-IFRS 16 excludes the impact of exceptional and other items.

A reconciliation from profit before tax, the most directly comparable IFRS measures, to the underlying profit before tax pre-IFRS 16 is set out below.

	1H20	1H19	FY19 Restated (note 19)
	£m	£m	£m
(Loss)/profit before tax	(4.2)	26.4	(89.3)
Exceptional and other items	1.9	(13.5)	127.3
Underlying (loss)/profit before tax	(2.3)	12.9	38.0
Underlying IFRS 16 adjustments (Note 2)	2.5	-	-
Underlying profit before tax pre-IFRS 16	0.2	12.9	38.0

Underlying tax expense and underlying effective tax rate

In the opinion of the Directors, underlying tax expense is the total tax charge for the Group excluding the tax impact of exceptional and other items. Correspondingly, the underlying effective tax rate is the underlying tax expense divided by the underlying profit before tax. For interim reporting purposes, we categorise the prior year items and specific other balances as discrete items, in the calculation of our underlying effective tax rate.

These measures are an indicator of the ongoing tax rate of the Group.

A reconciliation from tax expense, the most directly comparable IFRS measures, to the underlying tax expense is set out below:

	1H20	1H19	FY19 Restated (note 19)
	£m	£m	£m
(Loss)/profit before tax	(4.2)	26.4	(89.3)
Exceptional and other items	1.9	(13.5)	127.3
Underlying (loss)/profit before tax	(2.3)	12.9	38.0
Tax expense	(2.3)	(6.2)	(12.4)
Exceptional and other items – tax impact of items included in profit/(loss) before tax	(0.1)	3.0	(1.7)
Exceptional and other items – impact on deferred tax assets/liabilities for changes in tax rates	-	-	2.6
Underlying tax expense	(2.4)	(3.2)	(11.5)
Underlying effective tax rate	19.8%	24.8%	(30.3)%

Excluding prior year items of £2.4m and other discrete tax charges of £0.5m, the residual underlying income tax credit of £0.5m represents an underlying effective tax rate of 19.8% compared to 25.0% in 1H19 and 29.0% in FY19. Without the implementation of IFRS 16 the Group ETR would be 24.8%.

Underlying earnings per share

In the opinion of the Directors, underlying earnings per share is calculated using basic earnings, adjusted to exclude exceptional and other items net of current and deferred tax.

A reconciliation from the basic and diluted earnings per ordinary share, the most directly comparable IFRS measures, to underlying basic and diluted earnings per ordinary share, is set out below:

	1H20	1H19	FY19 Restated (note 19)
	£m	£m	£m
(Loss)/profit before tax	(4.2)	26.4	(89.3)
Exceptional and other items	1.9	(13.5)	127.3
Underlying (loss)/profit before tax	(2.3)	12.9	38.0
Underlying tax expense	(2.4)	(3.2)	(11.5)
Underlying (loss)/profit after tax	(4.7)	9.7	26.5
(Loss)/profit after tax	(6.5)	20.2	(101.7)
Basic			
Loss per share (pence)	(7.9)	24.7	(124.2)

Underlying basic (loss)/profit per share (pence)	(5.7)	11.9	32.4
	1H20	1H19	FY19 Restated (note 19)
	£m	£m	£m
Diluted			
Loss per share (pence)	(7.9)	24.7	(123.9)
Underlying diluted (loss)/profit per share (pence)	(5.7)	11.8	32.3
Weighted average number of shares - basic	81,998,661	81,758,151	81,870,875
Weighted average number of shares - diluted	82,260,984	81,869,130	82,068,659

Underlying earnings per share – Pre-IFRS 16

In the opinion of the Directors, underlying earnings per share is calculated using basic earnings, adjusted to exclude IFRS 16 adjustments, exceptional and other items net of current and deferred tax. This is a new measure in the year, following the transition to IFRS 16.

A reconciliation from the basic and diluted earnings per ordinary share, the most directly comparable IFRS measures, to underlying basic and diluted earnings per ordinary share, is set out below:

	1H20	1H19	FY19 Restated (note 19)
	£m	£m	£m
(Loss)/profit before tax	(4.2)	26.4	(89.3)
Exceptional and other items	1.9	(13.5)	127.3
Underlying (loss)/profit before tax	(2.3)	12.9	38.0
Underlying IFRS 16 adjustments (Note 2)	2.5	-	-
Underlying profit before tax pre-IFRS 16	0.2	12.9	38.0
Underlying tax expense	-	(3.2)	(11.5)
Underlying (loss)/profit after tax	0.2	9.7	26.5
Basic			
Underlying basic earnings per share (pence) – Pre-IFRS 16	0.2	11.9	32.4
Diluted			
Underlying diluted loss per share (pence) – Pre-IFRS 16	0.2	11.8	32.3
Weighted average number of shares - basic	81,998,661	81,758,151	81,870,875
Weighted average number of shares - diluted	82,260,984	81,869,130	82,068,659

Net cash/debt

In the opinion of the Directors, net cash/debt is a useful measure to monitor the overall cash position of the Group. It is the total of all short and long-term loans and borrowings, less cash and cash equivalents. The Group is in a net debt position at 26 October 2019 of £(9.3m) (October 2018: net cash position of £19.2m). These measures are excluding the lease liabilities existing under IFRS 16.

	April 2019	Net cash flow	Other non-cash changes	October 2019
	£m	£m	£m	£m
Analysis of net cash - October 2019 (unaudited)				

Cash and short-term deposits	35.9	(8.7)	4.4	31.6
Bank overdraft	-	(10.9)	-	(10.9)
Net cash and overdraft	35.9	(19.6)	4.4	20.7
Other short-term borrowings	-	(30.0)	-	(30.0)
Total net (debt)/cash	35.9	(49.6)	4.4	(9.3)

	April 2018 £m	Net cash flow £m	Other non- cash changes £m	October 2018 £m
Analysis of net cash - October 2018				
Cash and short-term deposits	75.8	(53.3)	(3.3)	19.2
Cash and cash equivalents	75.8	(53.3)	(3.3)	19.2
Total net cash	75.8	(53.3)	(3.3)	19.2

INDEPENDENT REVIEW REPORT TO SUPERDRY PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 26 October 2019 which comprises the condensed Group statement of comprehensive income, the condensed Group balance sheet, the condensed Group cash flow statement, the condensed Group statement of changes in equity and related notes 1 to 20. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 26 October 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP

Statutory Auditor
London, United Kingdom
11 December 2019