

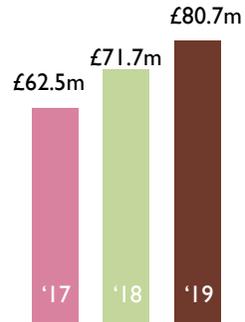
# Interim Results

For 6 months ended 30 Dec 2018

February 2019



# Financial highlights



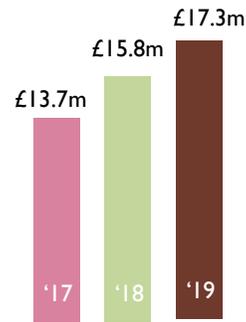
REVENUE

**£80.7m**

(HI FY18: £71.7m)

**+13%**

YEAR-ON-YEAR



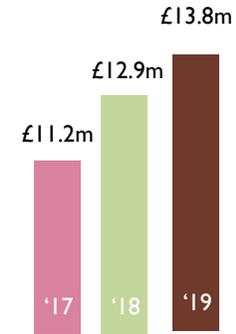
UNDERLYING EBITDA<sup>1</sup>

**£17.3m**

(HI FY18: £15.8m)

**+10%**

YEAR-ON-YEAR  
(+13% excl. US & Japan start-ups)



PROFIT BEFORE TAX

**£13.8m**

(HI FY18: £12.9m)

**+7%**

YEAR-ON-YEAR  
(+11% excl. US & Japan start-ups)

PROFIT AFTER TAX

**£10.8m**

(HI FY18: £10.1m)

EARNINGS PER SHARE

**9.6p**

(HI FY18: 9.0p)

INTERIM DIVIDEND

**0.6p**

(HI FY18: 0.6p)

1. Underlying EBITDA is stated before share-based payments (H1 FY19 £0.4m, H1 FY18 £0.4m)

# Operational highlights



## GROWTH STRATEGY IS ON TRACK

1. Open stores & new shop+cafe format
2. Increase capacity and capture efficiencies from the vertically integrated supply chain
3. Grow digital customer base and improve gifting proposition
4. Cautious 'test, learn, grow' approach to new international markets

## OPERATIONAL HIGHLIGHTS

### UK GROWTH CONTINUES TO DRIVE IMPROVED RESULTS

- A strong Christmas range, new VIP Me loyalty card and Velvetiser drove sales through retail and online
- Opened 14 stores in UK & ROI, now have 118 stores
- Digital wholesale partners improve customer access and provide capex-light growth, with minimal incremental overheads
- Factory efficiencies improved and long-term investment plan in place

### INITIAL TRADING IN INTERNATIONAL MARKETS IS ENCOURAGING

- First stores in USA & Japan achieving early expectations
- Encouraging consumer reaction to range, flavours, and pricing
- New Danish franchise in growth

1) Digital Growth expressed at Retail Prices charged to end consumer, includes own website, subscriptions and digital wholesale partners. Own channel Digital sales growth on a reported statutory basis of +12% YOY

# Group income statement



	26 weeks ended 30 December 2018 £m	26 weeks ended 31 December 2017 £m
<b>Revenue</b>	<b>80.7</b>	<b>71.7</b>
Cost of sales	(27.6)	(22.6)
Operating expenses	(35.8)	(33.3)
<b>Underlying EBITDA</b>	<b>17.3</b>	<b>15.8</b>
Share based payments	(0.4)	(0.4)
Depreciation & amortisation & loss on disposal	(2.8)	(2.2)
<b>Operating profit</b>	<b>14.1</b>	<b>13.2</b>
Finance income	0	-
Finance expenses	(0.2)	(0.3)
Share of joint venture loss	(0.1)	-
<b>Profit before tax</b>	<b>13.8</b>	<b>12.9</b>
Tax expense	(3.0)	(2.8)
<b>Profit for the period</b>	<b>10.8</b>	<b>10.1</b>
EPS – basic and diluted	9.6p	9.0p
EPS excluding US & Japan minority interest	10.1p	

## Revenue growth +13% Year on Year

Gross margin declined from 68.5% to 65.8% due to growth of lower margin lower overhead channels (see slide 9)

Overheads grow +7%, operating cost ratio reduced from 46.5% to 44.3%

## EBITDA growth +10% Year on Year (+13% excluding US startup loss of £0.5m)

20% minority interest in start-up losses of new Japanese Joint Venture

## Profit growth +7% Year on Year (+11% excluding startup loss in US & Japan)

Profit for the period divided by the weighted average number of shares in issue (FY19 113m, FY18 113m).

# Group balance sheet



	As at 30 December 2018 £m	As at 31 December 2017 £m	
<b>Non-current assets</b>			
Intangible assets	2.7	2.5	
Property, plant and equipment	39.1	34.7	Capital investment in new stores
Derivative financial assets	0.1	-	
Investment in joint ventures	0	0	
Loans to joint ventures	0.7	-	
Prepayments	-	-	
Deferred tax asset	0.3	0.4	
	<b>43.0</b>	<b>37.6</b>	
<b>Current assets</b>			
Derivative financial assets	0.2	0.1	
Inventories	9.4	9.0	Inventory growing slower than sales
Trade and other receivables	9.5	6.5	Growth of wholesale channel
Cash and cash equivalents	21.9	25.0	£6.5m of chocolate bonds repaid in June 2018
	<b>41.1</b>	<b>40.6</b>	
<b>Total assets</b>	<b>84.1</b>	<b>78.2</b>	
<b>Current liabilities</b>			
Trade and other payables	27.1	25.8	
Corporation tax payable	3.0	2.8	
Derivative financial liabilities	-	0.1	
Borrowings	0.1	3.5	Chocolate bonds repaid in FY18
	<b>30.3</b>	<b>32.2</b>	
<b>Non-current liabilities</b>			
Other payables and accruals	2.9	2.5	
Derivative financial liabilities	-	-	
Borrowings	-	3.2	Chocolate bonds repaid in FY18
Provisions	0.9	0.8	
	<b>3.8</b>	<b>6.5</b>	
<b>Total liabilities</b>	<b>34.1</b>	<b>38.7</b>	
<b>NET ASSETS</b>	<b>50.0</b>	<b>39.5</b>	

# Group cash flow



	26 weeks ended 30 December 2018 £m	26 weeks ended 31 December 2017 £m
Profit before tax for the period (ex minority interest)	13.9	12.9
<b>Adjusted by:</b>		
Depreciation, amortisation & impairment	2.8	2.2
Net interest expense	0.2	0.3
Other non-cash expenses	0.4	0.4
<b>Operating cash flows before movements in working capital</b>	<b>17.3</b>	<b>15.8</b>
Changes in working capital	13.7	10.3
<b>Cash inflow generated from operations</b>	<b>31.0</b>	<b>26.1</b>
Income tax paid	(1.3)	(1.1)
Interest paid	(0.2)	(0.1)
<b>Cash flows from operating activities</b>	<b>29.5</b>	<b>24.9</b>
Cash flows used in investing activities	(6.6)	(6.4)
Cash flows from/(used in) financing activities	(1.3)	(2.1)
<b>Net change in cash and cash equivalents</b>	<b>21.6</b>	<b>16.5</b>
Cash and cash equivalents at beginning of period	0.2	8.5
Foreign currency movements	0.1	0
<b>Cash and cash equivalents at end of period</b>	<b>21.9</b>	<b>25.0</b>

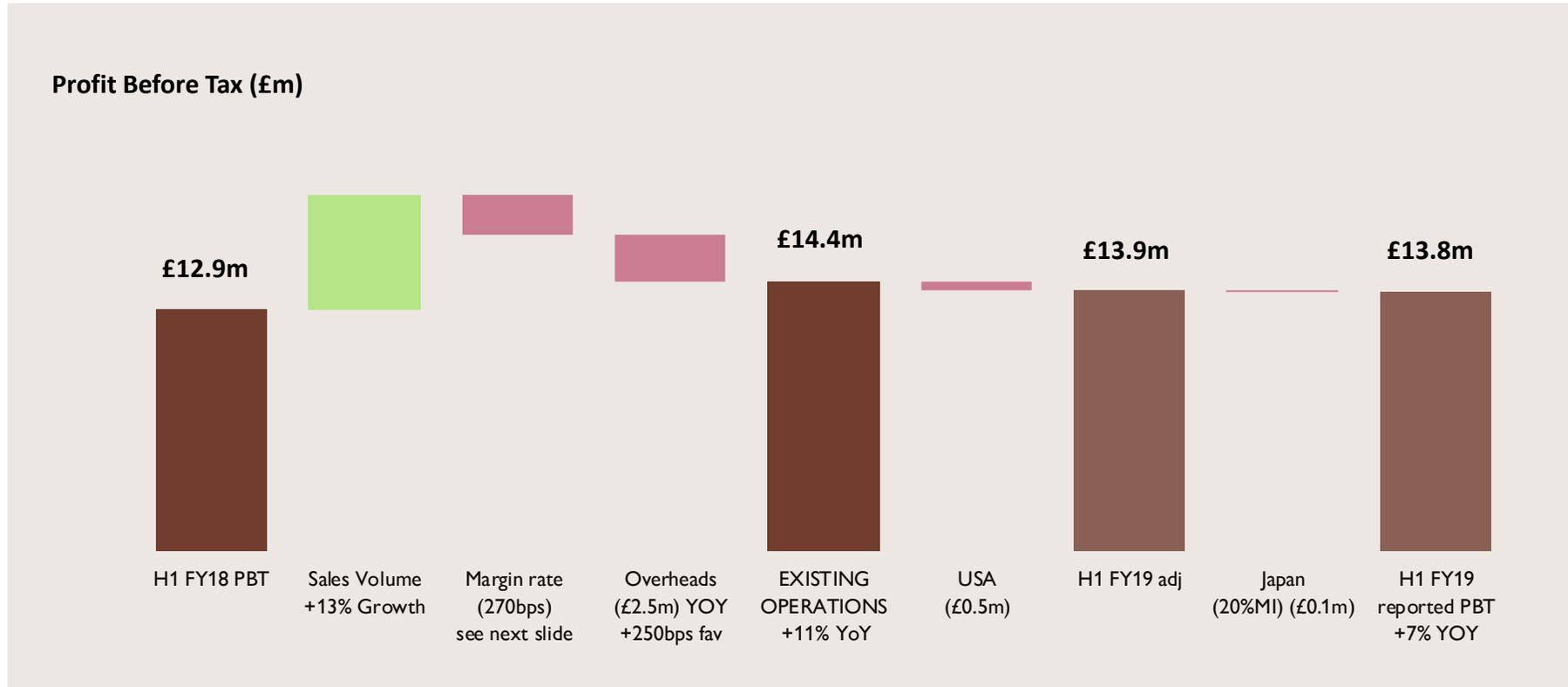
Excludes £0.1m share of Japan joint-venture loss

Improved working capital management (sales up 13% with inventory up 4%)

18% increase driven by sales growth & cost control

No interim dividend paid in prior year, so comparing a full year's dividend for FY17 with just the final dividend for FY18

# Existing Business: +11%YOY Profit Before Tax

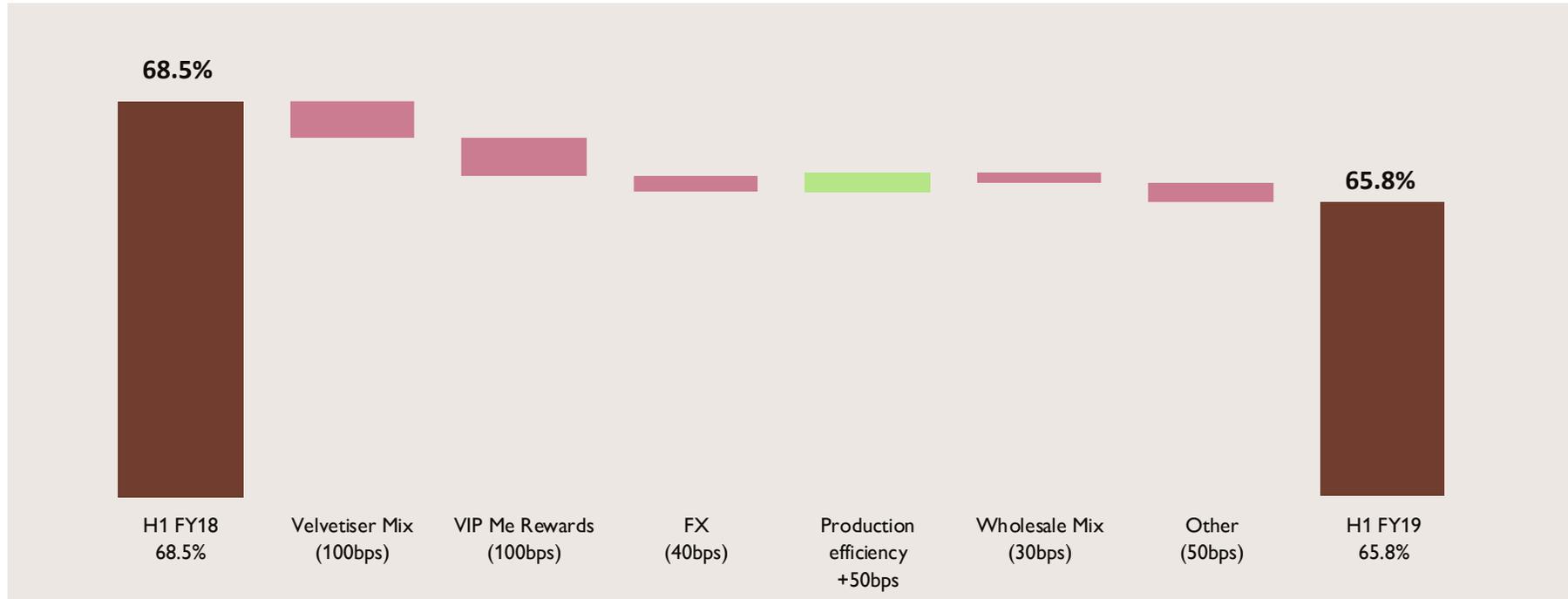


YOY sales growth from Wholesale & Velvetiser attracting minimal overhead

Start-up losses, first store opened December '18

Start-up losses, first store opened November '18

# Gross Margin Drivers



**H1 drivers**

Lower margin than self-produced chocolate, plus airfreight costs to protect availability

Investment gives visibility of retail buying patterns for first time

Headwind from hedges placed in H2 CY16

Better buying and more efficient production plan

Growth of online partners at lower GP%

Stronger multibuy to drive basket size. Clearance activity reduced closing stock levels

**H2 actions**

Use sea-freight to reduce dilution

H1 investment pays back if 1 in 5 cardholders make one additional purchase

No further headwind

Target to continue improvement

Target to continue growth

Target to Reduce levels of discount

# Positioned for growth



## DIFFERENTIATED BRAND & PRODUCTS

- Core brand ethos of: ORIGINALITY, AUTHENTICITY AND ETHICS
- Differentiated taste “More cocoa, less sugar”
- Accessible luxury: prices from £1 to £300
- High rate of product innovation within disciplined range architecture
- Consumer research shows high advocacy

## GROWTH FROM PROVEN FORMATS

- Retail stores continue to deliver attractive returns
- Website growth of +25%,
- Digital wholesale partners

## LARGE AND GROWING MARKETS

- £20bn UK gifting market<sup>1</sup>
- £6bn UK chocolate market<sup>2</sup>
- £8bn UK cafe market<sup>3</sup>
- HC has significant headroom in each
- Consumer research shows perceived “lack of access” is the main barrier to purchase
- Cautious ‘test, learn, grow’ approach to International Markets multiple times larger than the UK

## STRONG PLATFORM

- Vertical integration is responsive whilst also protecting intellectual property
- Further economies of scale available
- Ability to increase capacity at factory and distribution centre
- Mitigated cost headwinds with efficiencies



BRITISH COCOA GROWER

# Operational Progress



# Retail Estate



Opened 14 new stores in H1 FY19, now have 118 stores in the UK and Eire

**Store economics remain attractive:**

- All stores trading >12 months are profitable
- New stores are achieving payback targets similar to earlier vintages
- LFL Stores continue to achieve sales growth, assisting in mitigation of inflationary headwinds
- Acquired 0.5m active VIP Me card holders
- Velvetiser & consumables now available to buy in all stores (from Feb '19)
- Chocolate-lock in experiences growing in popularity



“HOTEL CHOCOLAT IS MY FAVOURITE SHOP IN THE WORLD”

VOGUE

1) Liverpool Street Station closed in H1 for station refurbishment works

# Digital

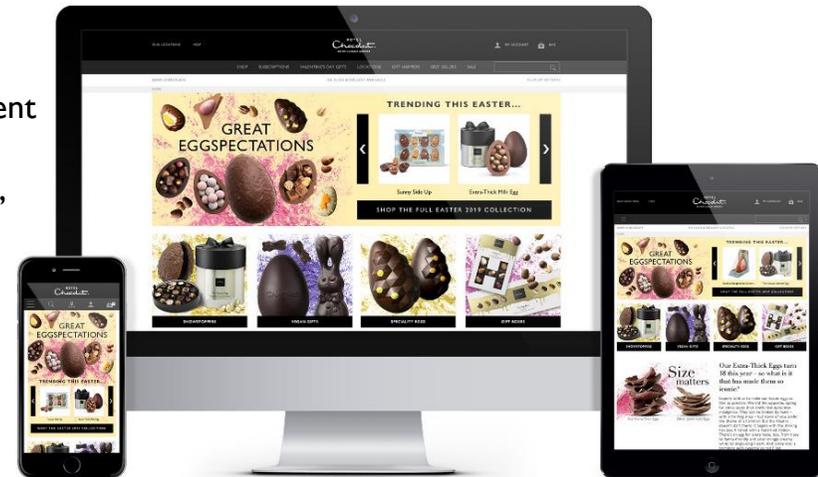


## HI Results

- Digital wholesale partners provide easy access for customers. Total digital sales (at Retail Price) combining own website, subscriptions & partner websites grew by a total of +29% YoY
- Website sales +25% YoY. Traffic increased +22%, Velvetiser growing average basket value
- Subscription sales -25% YoY, Tasting Club recruitment paused whilst investing in building user base for the Velvetiser

## Digital Strategy focuses on 4 key growth opportunities:

- E-commerce:** Improve navigation, quicker & simpler checkout, more delivery options (conversion optimised with A/B testing)
- Email & CRM:** Invest in new systems to maximise relevance of every communication, based on customer lifecycle (programmatic) and segmentation (behavioural)
- Social Media:** Invest in skills, create deeper and more relevant content (balance of interesting, useful and product-related). Apply to every stage of customer journey (awareness, consideration, purchase, reflection & re-purchase)
- Apps & Subscriptions:** VIP Me, Hot Chocolate re-order, Chocolate Love Match  
Evaluate 'Prime'-style delivery subscription services



# Production capacity & capability



## HI Results

- Produced over 100m chocolates +20% YOY
- Continuous improvement philosophy at team level continues to unlock margin improvements, which funded sustainability investments in cocoa prices, and mitigated the FX impact of lower sterling

## Capital investment Strategy:

- Detailed plans prepared which offer the ability to double production capacity within the next 5 years in a phased approach, ensuring new capacity comes on-stream as required without over-expansion. Overall capex requirement of c£20m over 5 years, in 4 phases.
- Phase I
  - Relocate ancillary services within existing roofline, new mezzanine, addition of 4<sup>th</sup> production line
  - Work commences 2019, in service 2021
- Phases 2-4
  - Modular extension of roofline with potential to accommodate 5<sup>th</sup> 6<sup>th</sup> and 7<sup>th</sup> lines
  - May elect to locate elements of production/packing in International markets rather than UK

HI EFFICIENCIES & BETTER-BUYING

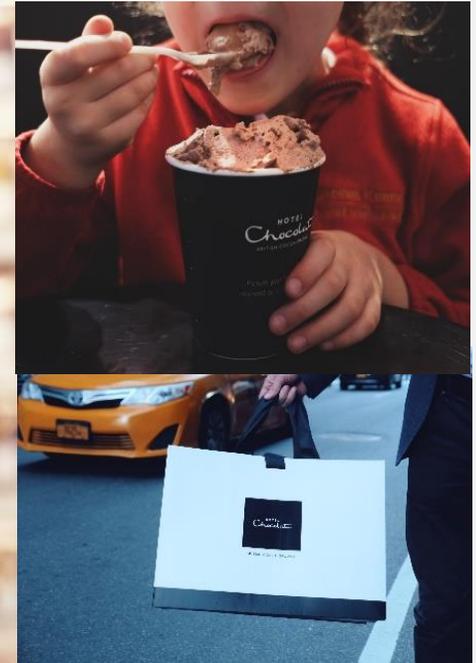
+50 bps



# Positive consumer response to first US store



I just noticed this cute chocolate bar on one of my walks. I ordered 100% dark chocolate drink. I was pleasantly surprised that they offered a no sugar hot chocolate option. It was delicious!!! Service was very friendly and the shop is gorgeous inside.



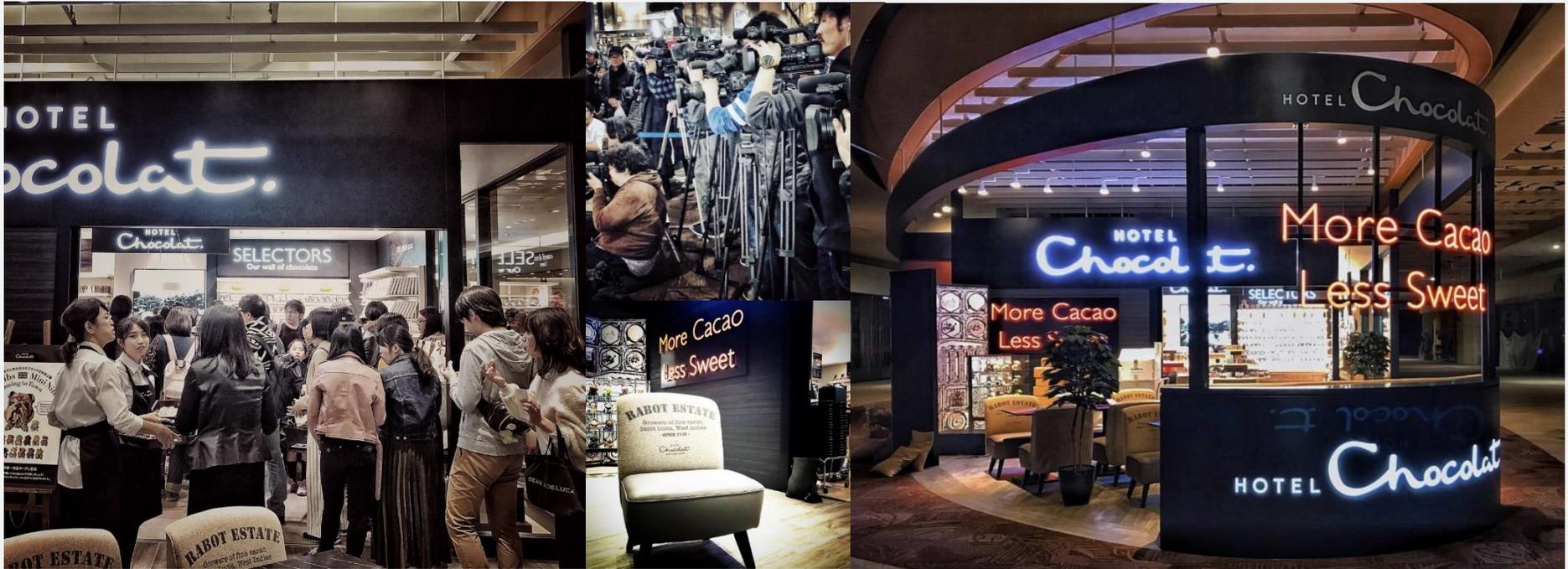
BOARD HAVE SET SIX TEST CRITERIA TO BE SATISFIED PRIOR TO ROLLOUT							
Addressable market (size vs UK)	Test and learn Progress to Date	Brand Allure (Footfall)	Local Tastes (Conversion)	Price Perception (unit volume)	Team & Culture (Implementation)	Supply chain & operations	Store economics (Capex & ROCE)
3X - 5X*	Lexington Ave, NYC <i>Opened Dec '18</i> Transactional Website <i>Live Spring '19</i> Garden State Mall, NJ <i>Opens April '19</i>						First store would rank in UK Top-20 for sales (based on 10wks data for 1 store)

\*Management Estimate

# Japan JV also makes an encouraging start



BRITISH COCOA GROWER



Addressable market (size vs UK)	Test and learn Progress to Date	JV PARTNERS HAVE AGREED SIX TEST CRITERIA TO BE SATISFIED PRIOR TO ROLLOUT					
		Brand Allure (Footfall)	Local Tastes (Conversion)	Price Perception (unit volume)	Team & Culture (Implementation)	Supply chain & operations	Store economics (Capex & ROCE)
2X - 3X*	Laketown mall, Tokyo <i>Opened Nov '18</i> Transactional Website <i>Live Jan '19</i> Narita mall, Tokyo <i>Opens April '19</i>						First store would rank in UK Top-10 for sales <i>(based on 10wks data for 1 store)</i>

\*Management Estimate

# Product and Innovation



## Sustainability & responsibility

- Commitment that by 2021, all our packaging will be compostable, re-usable or recyclable. First product now on sale using 100% compostable plant-based packaging
- First ever 'Free from' range launching for Easter 2019
- Investing in ongoing recipe innovation; developing improved recipes that build on the mantra of 'more cocoa, less sugar', launching spring 2020



## The Velvetiser

- Launched September 2018
- Average customer review 4.8 out of 5 stars
- Strong demand, sales exceeded initial production run by 6x
- Hot Chocolat repeat-purchase frequency over next 12 months will demonstrate customer lifetime value and inform growth plan (acquisition spend)
- Online-only product until February '19, now available instore
- Exploring wholesale opportunities

# Outlook



## Strong differentiated brand with “accessible luxury” price points

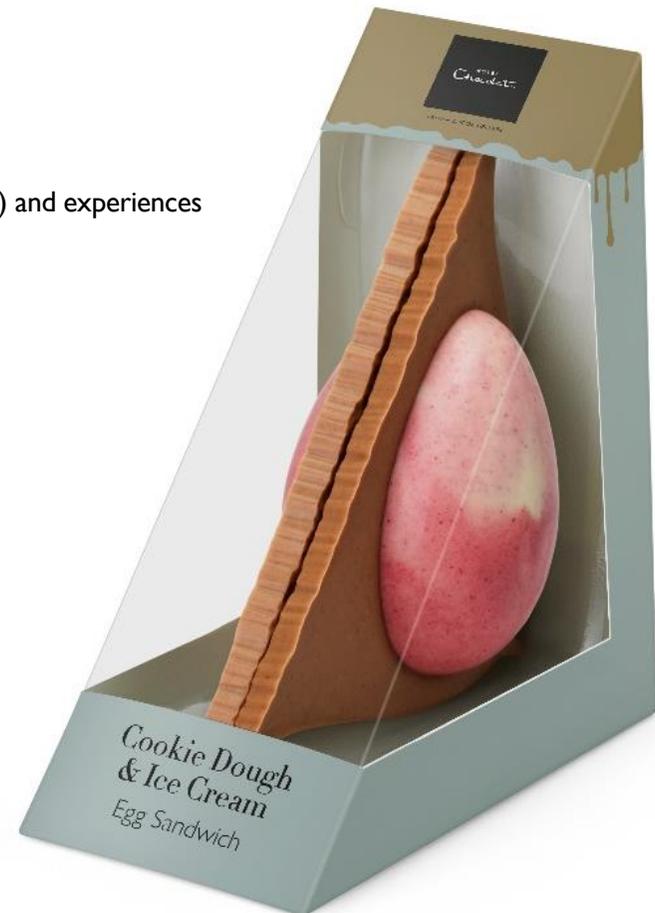
- Occasion-driven purchasing and relatively modest average spend per visit relative to demographics
- Accessible pricing, e.g Easter gifts from £2 to £80

## Exciting opportunities for future growth

- Well positioned to capitalise on consumer trends including; Wellness (more cocoa, less sugar) and experiences (cafe, drinking chocolat, and ‘lock-ins’)
- Encouraging initial consumer response to the brand in large new territories

## Current trading is in line with expectations

- Strong trading plan for key Mother’s Day and Easter seasons
- Velvetiser and VIP Me present opportunities for H2
- New stores performing well, pipeline for potential sites remains encouraging
- Clear digital roadmap in place
- Next set of capacity & capability investments under way
- Board has confidence in Group’s continued progress





**THANK YOU**