

Findel plc (“Findel” or the “Group”)

Changes to operating segments – November 2017

Introduction

Following a review of the Group’s operating segments at the start of the 2017/18 financial year, a decision was taken to change the Group’s segmental reporting to more accurately reflect how management views the business and to allow a more granular analysis of the Group’s cost base. The purpose of this document is to explain the changes that have been made and to provide historic financial information on both the new and old bases for comparative purposes.

Summary of changes

Historically the Group has presented three operating segments:

- Express Gifts
- Findel Education
- Overseas sourcing

Consolidation adjustments and central costs were allocated to each operating segment for the purposes of segmental reporting, making it difficult to provide a granular analysis of costs at a segmental level.

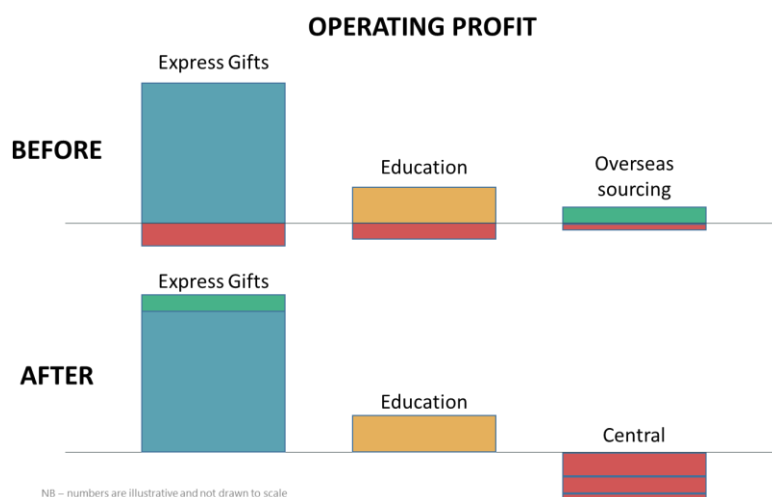
In recent years, the Group’s overseas sourcing function has significantly reduced the procurement activities it undertakes on behalf of third parties and is now almost exclusively focused on procurement on behalf of other group companies (particularly Express Gifts). It therefore no longer warrants separate presentation as an operating segment.

In addition, the Group wishes to present more granular detail on its cost base including gross margin by revenue stream and an analysis of trading costs between distribution, marketing and administrative activities.

As a result, the Group will now present a central cost centre and two operating segments as follows:

- Express Gifts
- Education

Central costs formerly allocated to each operating segment are now disclosed in the central cost centre, whilst the results from the Group’s overseas sourcing function are now disclosed within the Express Gifts operating segment. The changes to our operating segments are summarised in the following diagram:



The operating performance of each segment will be assessed by reference to revenue and gross margin by revenue stream, and operating profit after distribution, marketing and administrative costs. Distribution costs comprise customer order costs, external delivery and transport costs, and warehouse maintenance costs. Administrative costs are all other business expenses not related to distribution, marketing or cost of sales.

In addition, the impairment charge in respect of Express Gifts’ trade receivables is now disclosed within financial services cost of sales rather than within trading costs as it was disclosed in prior periods as we believe this presentation more accurately presents the performance of the business.

We have also disclosed gains/losses arising on the purchase of foreign currencies by the Group's treasury function in cost of sales rather than in trading costs as in prior periods.

The changes to our segmental analysis have no impact on the Group's results overall.

For comparative purposes, the results for the 53 week period ended 31 March 2017, 26 week period ended 30 September 2016 and 52 week period ended 25 March 2016, have been presented below showing both the new and old bases of presentation. The results for the 26 week period ended 29 September 2017, presented on the new basis, have also been included.

Financial Information

26 weeks to 29 September 2017

	Continuing operations			
	Express Gifts	Education	Central	Total
	£000	£000	£000	£000
Product revenue	125,285	49,387	—	174,672
Financial services revenue	51,229	—	—	51,229
Sourcing revenue	108	—	—	108
Reportable segment revenue	176,622	49,387	—	226,009
Product cost of sales	(83,444)	(31,269)	—	(114,713)
Financial services cost of sales	(9,978)	—	—	(9,978)
Sourcing costs of sales	(138)	(25)	—	(163)
Total cost of sales	(93,560)	(31,294)	—	(124,854)
Product gross margin	33.4%	36.7%		34.3%
Gross profit	83,062	18,093	—	101,155
Marketing costs	(23,445)	(2,001)	—	(25,446)
Distribution costs	(17,493)	(5,170)	—	(22,663)
Administrative costs	(25,989)	(7,553)	(3,167)	(36,709)
Operating profit/(loss)	16,135	3,369	(3,167)	16,337
Finance costs				(4,404)
Profit before tax and fair value movements on derivative financial instruments				11,933
Fair value movements on derivative financial instruments				(3,817)
Profit before tax				8,116

53 weeks to 31 March 2017

New basis

	Continuing operations			
	Express Gifts	Education	Central	Total
	£000	£000	£000	£000
Product revenue	262,240	91,739	—	353,979
Financial services revenue	101,080	—	—	101,080
Sourcing revenue	1,971	—	—	1,971
Reportable segment revenue	365,291	91,739	—	457,030
Product cost of sales	(181,247)	(58,345)	—	(239,592)
Financial services cost of sales	(27,963)	—	—	(27,963)
Sourcing costs of sales	(1,747)	(83)	—	(1,830)
Total cost of sales	(210,957)	(58,428)	—	(269,385)
Product gross margin	30.9%	36.4%	—	32.3%
Gross profit	154,334	33,311	—	187,645
Marketing costs	(37,296)	(4,479)	—	(41,775)
Distribution costs	(35,959)	(10,798)	—	(46,757)
Administrative costs	(50,900)	(15,369)	(1,694)	(67,963)
Operating profit/(loss) before individually significant items	30,179	2,665	(1,694)	31,150
Individually significant items	(51,448)	(650)	(30,054)	(82,152)
Operating profit/(loss)	(21,269)	2,015	(31,748)	(51,002)
Finance costs				(8,921)
Loss before tax and fair value movements on derivative financial instruments				(59,923)
Fair value movements on derivative financial instruments				556
Loss before tax				(59,367)

Old basis

Revenue	Continuing operations			
	Express Gifts	Findel Education	Overseas sourcing	Total
	£000	£000	£000	£'000
Sales of goods	262,240	91,739	1,971	355,950
Rendering of services and fees	15,278	—	—	15,278
Interest	85,802	—	—	85,802
Reportable segment revenue	363,320	91,739	1,971	457,030

	Continuing operations			
	Express Gifts	Findel Education	Overseas Sourcing	Total
	£000	£000	£000	£000
Reportable segment results	30,432	1,417	(699)	31,150
Individually significant items	(53,260)	(28,654)	(238)	(82,152)
Operating loss	(22,828)	(27,237)	(937)	(51,002)
Finance costs				(8,921)
Loss before tax and fair value movements on derivative financial instruments				(59,923)
Fair value movements on derivative financial instruments				556
Loss before tax				(59,367)

27 weeks to 30 September 2016

New basis

	Continuing operations			
	Express Gifts	Education	Central	Total
	£000	£000	£000	£000
Product revenue	110,363	53,548	—	163,911
Financial services revenue	47,384	—	—	47,384
Sourcing revenue	1,754	—	—	1,754
Reportable segment revenue	159,501	53,548	—	213,049
Product cost of sales	(74,619)	(34,835)	—	(109,454)
Financial services cost of sales	(15,963)	—	—	(15,963)
Sourcing costs of sales	(1,563)	(53)	—	(1,616)
Total cost of sales	(92,145)	(34,888)	—	(127,033)
Product gross margin	32.4%	34.9%	—	33.2%
Gross profit	67,356	18,660	—	86,016
Marketing costs	(19,930)	(3,090)	—	(23,020)
Distribution costs	(16,337)	(5,876)	—	(22,213)
Administrative costs	(25,971)	(8,033)	(321)	(34,325)
Operating profit/(loss) before individually significant items	5,118	1,661	(321)	6,458
Individually significant items	(3,167)	—	(655)	(3,822)
Operating profit/(loss)	1,951	1,661	(976)	2,636
Finance costs	—	—	—	(4,588)
Loss before tax and fair value movements on derivative financial instruments	—	—	—	(1,952)
Fair value movements on derivative financial instruments	—	—	—	1,390
Loss before tax	—	—	—	(562)

Old basis

Revenue	Continuing operations			
	Express Gifts	Findel Education	Overseas sourcing	Total
	£000	£000	£000	£000
Sales of goods	110,363	53,548	1,754	165,665
Rendering of services and fees	7,642	—	—	7,642
Interest	39,742	—	—	39,742
Reportable segment revenue	157,747	53,548	1,754	213,049

	Continuing operations			
	Express Gifts	Findel Education	Overseas Sourcing	Total
	£000	£000	£000	£000
Reportable segment results	5,254	1,558	(354)	6,458
Individually significant items	(3,657)	(165)	—	(3,822)
Operating profit/(loss)	1,597	1,393	(354)	2,636
Finance costs	—	—	—	(4,588)
Loss before tax and fair value movements on derivative financial instruments	—	—	—	(1,952)
Fair value movements on derivative financial instruments	—	—	—	1,390
Loss before tax	—	—	—	(562)

52 weeks to 25 March 2016

New basis

	Continuing operations			
	Express Gifts	Education	Central	Total
	£000	£000	£000	£000
Product revenue	224,880	94,401	—	319,281
Financial services revenue	88,098	—	—	88,098
Sourcing revenue	3,222	—	—	3,222
Reportable segment revenue	316,200	94,401	—	410,601
Product cost of sales	(154,715)	(60,130)	—	(214,845)
Financial services cost of sales	(17,857)	—	—	(17,857)
Sourcing costs of sales	(2,882)	(84)	—	(2,966)
Total cost of sales	(175,454)	(60,214)	—	(235,668)
Product gross margin	31.2%	36.3%		32.7%
Gross profit	140,746	34,187	—	174,933
Marketing costs	(34,440)	(3,568)	—	(38,008)
Distribution costs	(30,915)	(10,782)	—	(41,697)
Administrative costs	(43,466)	(15,538)	(1,547)	(60,551)
Operating profit/(loss) before individually significant items	31,925	4,299	(1,547)	34,677
Individually significant items	(19,876)	(5,582)	—	(25,458)
Operating profit/(loss)	12,049	(1,283)	(1,547)	9,219
Finance costs*				(10,899)
Loss before tax and fair value movements on derivative financial instruments				(1,680)
Fair value movements on derivative financial instruments				—
Loss before tax				(1,680)

*Includes £998,000 of individually significant finance costs.

Old basis

Revenue	Continuing operations			
	Express Gifts	Findel Education	Overseas sourcing	Total
	£000	£000	£000	£000
Sales of goods	224,880	94,401	3,222	322,503
Rendering of services and fees	16,369	—	—	16,369
Interest	71,729	—	—	71,729
Reportable segment revenue	312,978	94,401	3,222	410,601

	Continuing operations			
	Express Gifts	Findel Education	Overseas Sourcing	Total
	£000	£000	£000	£000
Reportable segment results	31,747	3,214	(284)	34,677
Individually significant items	(19,876)	(5,582)	—	(25,458)
Operating profit/(loss)	11,871	(2,368)	(284)	9,219
Finance costs*				(10,899)
Loss before tax and fair value movements on derivative financial instruments				(1,680)
Fair value movements on derivative financial instruments				—
Loss before tax				(1,680)

*Includes £998,000 of individually significant finance costs.

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Notes to Editors

The Findel group contains market leading businesses in the UK home shopping and education supplies markets. It is primarily a retailer and distributor, handling and supplying specialist products manufactured by third parties.

The Group's activities are focused in two main operating segments:

- Express Gifts – one of the largest direct mail order businesses in the UK, primarily trading via the Studio.co.uk brand; and
- Findel Education – the second largest listed independent supplier of resources