

# Customer Reviews...



## Easy to purchase and quick to deliver

We've recently purchased a washing machine and American fridge freezer from AO. The service was excellent and the two delivery men were very friendly and helpful. Thank you AO

TRUSTPILOT ★★★★★ 12 Nov 2015 Elisabeth Hampton

## Excellent Service

The dishwasher we bought appears to be good value. The delivery was spot on! The drivers rang us about 10 minutes before dropping off. They were very quick but also careful in protecting the dishwasher from damage during handling.

TRUSTPILOT ★★★★★ 12 Oct 2015 Mr Gregory Hood

wow what a great service...most reasonable price and next day delivery....will use this company again...tumble drier is brilliant. thanks

facebook. 👍 9 Sept 2015

Sue Kirby

Got our freezer delivered today. Great that we could have weekend delivery for such a reasonable price. Great tracking service, delivery guys very helpful, prompt and professional. Good job AO.

facebook. 👍 7 Nov 2015

Caz Stackhouse



## 2016 Interim Results Presentation

24 November 2015





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## Today's Agenda

**1 Vision & Strategic Review – John Roberts**

**2 Operational Review – Steve Caunce**

**3 Financial Review – Mark Higgins**

**4 Summary and Q&A**

**1**

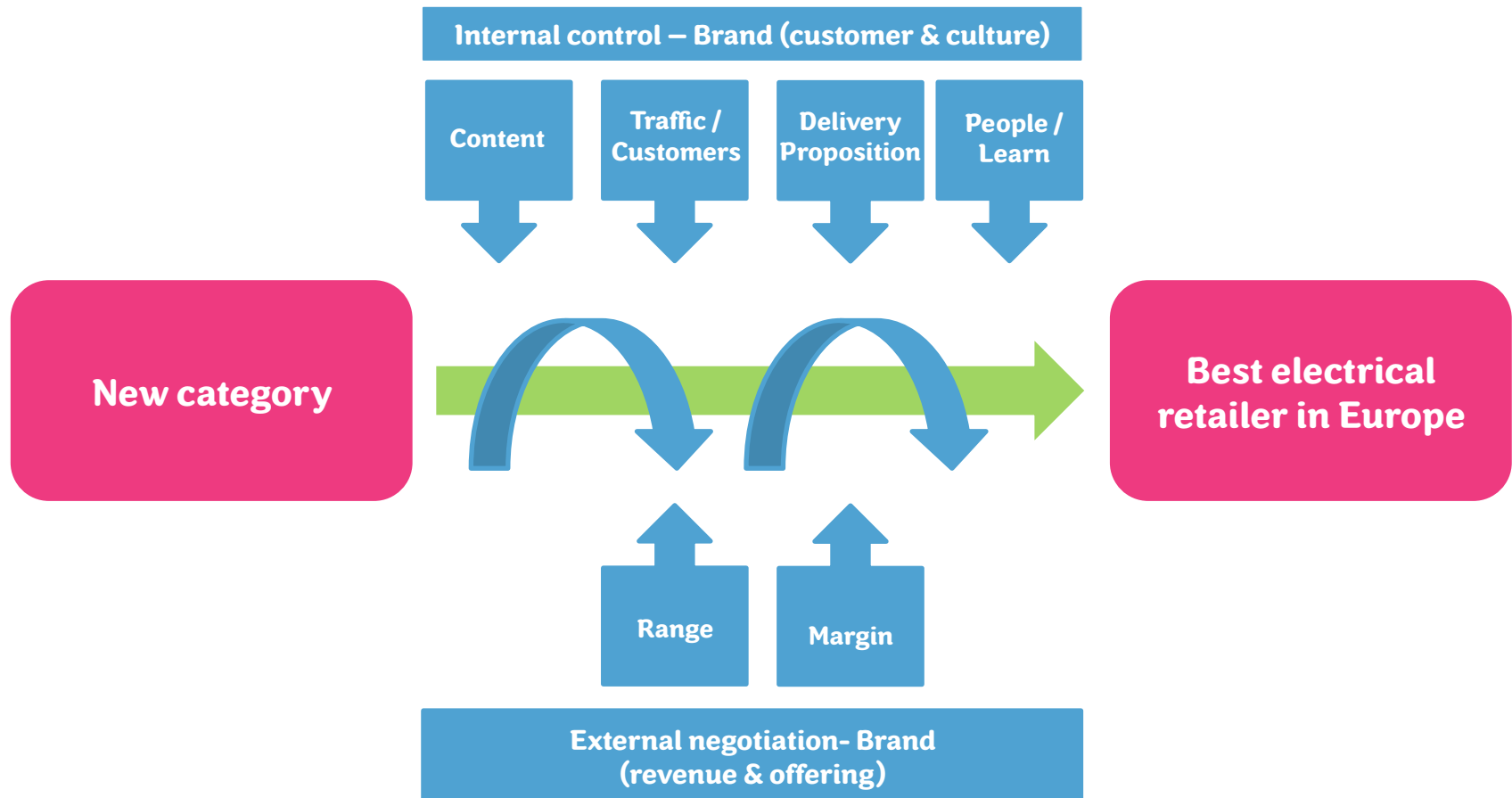
# **VISION & STRATEGIC REVIEW**



- 1 Continue to grow UK category – Major Domestic Appliances**
- 2 Develop UK category – Small Domestic Appliances**
- 3 Launch new UK category – Audio Visual**
- 4 Roll UK categories to Germany and surrounding countries**

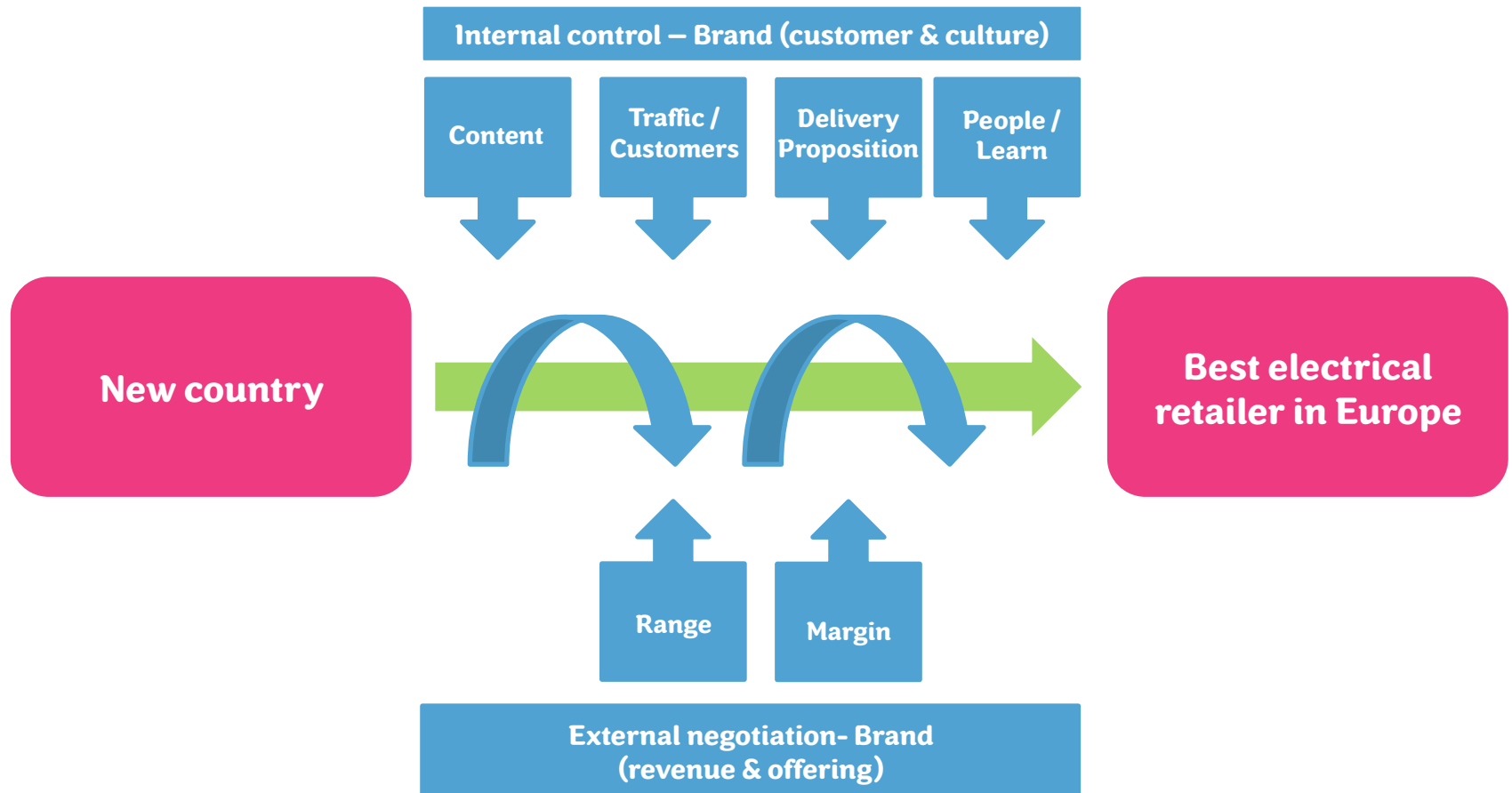


## Category roll out





# Territory roll out





AO is on a mission to...

**“become the best electrical  
retailer in Europe”**





# Europe market – current categories c.£40bn opportunity

## UK

Population	64.1m
Pop. Density	265
MDA	£3.9bn
SDA	£2.3bn
AV	£3.5bn

## Germany

Population	81m
Pop. Density	231
MDA	£6.0bn
SDA	£2.7bn
AV	£4.0bn

## Poland

Population	38.2m
Pop. Density	126
MDA	£0.9bn
SDA	£0.4bn
AV	£0.9bn

## Austria

Population	8.5m
Pop. Density	103
MDA	£0.6bn
SDA	£0.3bn
AV	£0.4bn

## Netherlands

Population	16.8m
Pop. Density	498
MDA	£1.0bn
SDA	£0.5bn
AV	£0.7bn

## ROI

Population	4.8m
Pop. Density	67
MDA	£0.3bn
SDA	£0.1bn
AV	£0.1bn

## France

Population	66.2m
Pop. Density	121
MDA	£3.6bn
SDA	£2.2bn
AV	£2.4bn

## Belgium

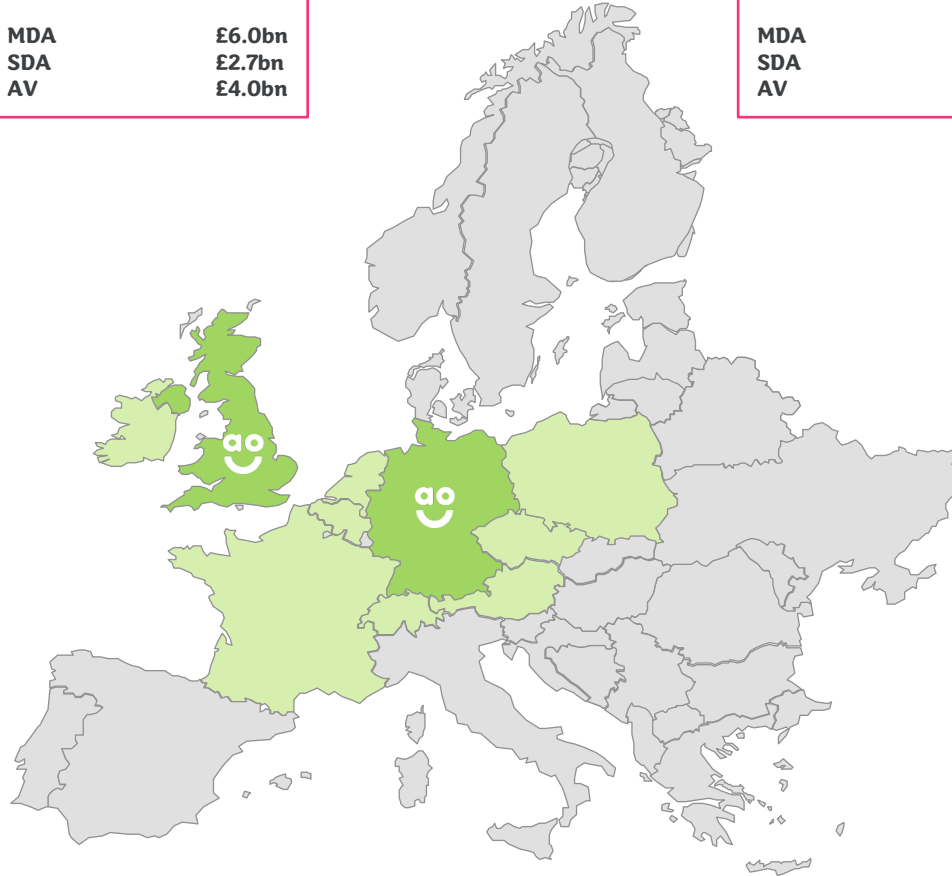
Population	11.1m
Pop. Density	370
MDA	£0.7bn
SDA	£0.3bn
AV	£0.4bn

## Switzerland

Population	8.1m
Pop. Density	205
MDA	£0.5bn
SDA	£0.2bn
AV	£0.4bn

## Czech

Population	10.6m
Pop. Density	136
MDA	£0.3bn
SDA	£0.1bn
AV	£0.2bn



### Information Sources

Country Statistics - World Bank

Market sizes - Euromonitor



# Europe market – further categories c.£50bn opportunity

## UK

Computing	£5.2bn
Personal Care	£0.5bn
In-Car devices	£0.3bn
Portable CE	£1.3bn
Mobile	£3.6bn
Audio	£0.8bn
Gaming	£2.8bn

## Germany

Computing	£5.7bn
Personal Care	£0.6bn
In-Car devices	£0.3bn
Portable CE	£1.2bn
Mobile	£6.1bn
Audio	£0.7bn
Gaming	£2.1bn

## Poland

Computing	£1.0bn
Personal Care	£0.1bn
In-Car devices	£47m
Portable CE	£0.2bn
Mobile	£1.0bn
Audio	£53m
Gaming	£0.2bn

## Austria

Computing	£0.8bn
Personal Care	£48m
In-Car devices	£17m
Portable CE	£0.1bn
Mobile	£0.5bn
Audio	£67m
Gaming	£n/a

## Netherlands

Computing	£1.2bn
Personal Care	£0.1bn
In-Car devices	£0.1bn
Portable CE	£0.3bn
Mobile	£1.0bn
Audio	£0.2bn
Gaming	£0.4bn

## ROI

Computing	£0.2bn
Personal Care	£22m
In-Car devices	£1m
Portable CE	£40m
Mobile	£0.1bn
Audio	£18m
Gaming	£n/a

## France

Computing	£4.5bn
Personal Care	£0.4bn
In-Car devices	£0.2bn
Portable CE	£1.0bn
Mobile	£2.2bn
Audio	£0.9bn
Gaming	£2.1bn

## Belgium

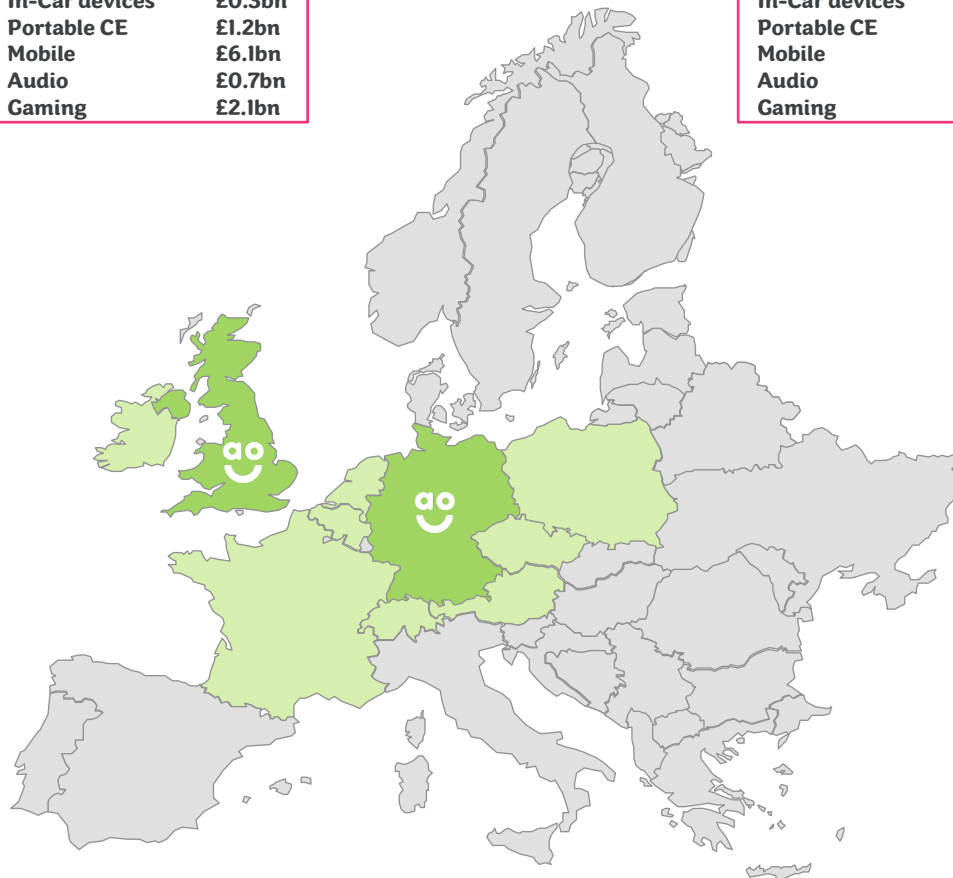
Computing	£0.3bn
Personal Care	£39m
In-Car devices	£27m
Portable CE	£0.1bn
Mobile	£0.4bn
Audio	£0.1bn
Gaming	£n/a

## Switzerland

Computing	£0.5bn
Personal Care	£41m
In-Car devices	£4m
Portable CE	£0.1bn
Mobile	£0.2bn
Audio	£44m
Gaming	£0.2bn

## Czech

Computing	£0.4bn
Personal Care	£25m
In-Car devices	£41m
Portable CE	£60m
Mobile	£0.3bn
Audio	£23m
Gaming	£n/a



Information Sources

Market sizes - Euromonitor

2

## OPERATIONAL REVIEW



## Highlights

### ***Financial\****

- 1** Total revenue for the period increased by 21.7% to £264.3m (2014: £217.1m)
- 2** AO UK Website sales up 23.7% to £214.8m (2014: £173.7m)
- 3** Europe annualised exit run rate of €61.2m (based on September 2015 sales)
- 4** UK adjusted EBITDA of £5.1m (2014: £7.3m)
- 5** Europe adjusted EBITDA loss of £9.6m (2014: £nil)
- 6** Group cash balance £35.6m (2014: £50.1m)

\*The highlights are for the period ended 30 September 2015 and the comparative 2014 period

**Strong revenue growth and good progress on strategic objectives**



# Highlights

## *Operational*

- 1 UK NPS remains over 80% with Germany NPS higher still.
- 2 UK repeat business metrics continued to improve during the period
- 3 UK unprompted brand recognition continued to grow
- 4 UK business awarded “Best Online Shop” by Which?
- 5 UK completed orders up by 23%
- 6 Progress towards regional office and distribution centre in Bergheim, Germany

**Increasing customer awareness and advocacy**



# UK Operations

## Customers

- Revenue continues to grow
- Best Online Shop – Which?
- Unprompted brand awareness increased during the period
- NPS remains at high level of over 80%
- Repeat customer metrics continue to improve

## Categories

- Continue to develop our SDA business improving ranges and margins with several suppliers
- AV range and margin continues to grow
- Assess relevant categories for further UK expansion

## Culture

- We're proud of our IT team who won IT team of the Year at the UK IT Industry Awards 2015
- Newcomer large employer at the regional final of the National Apprenticeship Awards 2015
- Top 10 in the UK Customer Experience Excellence Results – Nunwood & KPMG



# Europe Operations

## Customers

- Our German customers continue to be delighted by our service with an NPS score higher than the UK
- Revenues continue to grow, with an exit run rate in excess of €60m
- Encouraging repeat rates

## Categories

- We have continued to refine our MDA category in the period adding some new suppliers
- We are investigating extending current UK categories to Germany

## Culture

- We are delighted how our German operation continues to live our values; translating in to the excellent customer service they give
- We have appointed a Group International Director from our existing Executive team to ensure our culture is maintained as we grow our international operations

## Countries

- Launching Netherlands in Spring 2016
- Continuing to review other territories



# Revenue

Group			
6 months ended September (£m)	2015	2014	Growth

AO website sales	230.5	173.7	32.7%
Third-party website sales	26.3	34.1	-22.9%
Third-party logistics services	7.5	9.3	-18.8%
<b>Revenue</b>	<b>264.3</b>	<b>217.1</b>	<b>21.7%</b>

UK			
6 months ended September (£m)	2015	2014	Growth

AO website sales	214.8	173.7	23.7%
Third-party website sales	26.3	34.1	-22.9%
Third-party logistics services	7.5	9.3	-18.8%
<b>Revenue</b>	<b>248.6</b>	<b>217.1</b>	<b>14.5%</b>

Europe			
6 months ended September (£m)	2015	2014	Growth

AO website sales	15.6	-	n/a
Third-party website sales	-	-	n/a
Third-party logistics services	-	-	n/a
<b>Revenue</b>	<b>15.6</b>	<b>-</b>	<b>n/a</b>

1

Group revenue increased by 21.7% to £264.3m (2014: £217.1m)

- AO website revenue increased by 32.7% to £230.5m (2014: £173.7m)
- UK third-party retail and third-party logistics revenues have both decreased significantly since the comparative period

2

UK revenue increased significantly from the 6.5% growth seen in the first quarter to an average of 14.5% for the first half

3

Revenue has been increasing in Europe through the period and based on September sales had an exit run rate of €61.2m





# UK Analysis

UK 6 months ended September (£m)			
	2015	2014	Growth
AO website sales	214.8	173.7	23.7%
Third-party website sales	26.3	34.1	-22.9%
Third-party logistics services	7.5	9.3	-18.8%
<b>Revenue</b>	<b>248.6</b>	<b>217.1</b>	<b>14.5%</b>
<b>Gross profit</b>	<b>47.9</b>	<b>40.9</b>	<b>17.1%</b>
% margin	19.3%	18.8%	0.4ppts
<b>Adjusted EBITDA</b>	<b>5.1</b>	<b>7.3</b>	<b>-31.1%</b>
Adjusted EBITDA margin	2.0%	3.4%	-1.4ppts

UK 6 months ended 30 September (£m)			
	2015	2014	Growth
Advertising and marketing	12.2	7.9	55.0%
% sales	4.9%	3.6%	
Warehousing	9.0	8.1	10.1%
% sales	3.6%	3.8%	
Other Admin	23.7	19.4	22.5%
% sales	9.5%	8.9%	
<b>Total SG&amp;A (before Adjustments)</b>	<b>44.8</b>	<b>35.4</b>	<b>26.8%</b>
Europe set up costs	0.5	0.9	-44.1%
Share based payments	1.2	1.3	-3.5%
<b>Total SG&amp;A</b>	<b>46.6</b>	<b>37.6</b>	<b>24.1%</b>

1

Gross margin as a percentage of sales increased on the prior period:

- Small improvements were made in MDA margin and an efficiency in delivery costs was generated from opening new outbases
- the increasing mix of AV product at lower gross margin offset the above

2

Advertising and marketing costs increased by 55% year on year as we invested for growth following lower than expected sales volumes in the first quarter

3

Warehousing costs increased with higher volumes and the opening of 2 new outbases

4

Other administrative costs increased as a percentage of sales as we have invested in strengthening our UK category teams and our software development team. We also suffered some inefficiencies as we experienced lower than anticipated volumes in the first quarter and significant volume increases through summer

5

Adjustments are the pre go live costs of new Europe territories. Share based payments are the charges attributable to the LTIP IPO award which the board considers one off in nature



# Germany Analysis

<b>Europe</b> 6 months ended September (£m)	2015	2014	Growth
AO website sales	15.6	-	-
Third-party website sales	-	-	-
Third-party logistics services	-	-	-
<b>Revenue</b>	<b>15.6</b>	<b>-</b>	<b>-</b>
<b>Gross (loss)</b>	<b>(2.2)</b>	<b>-</b>	<b>-</b>
% margin	-13.9%	-	-
<b>Adjusted EBITDA</b>	<b>(9.6)</b>	<b>-</b>	<b>-</b>
Adjusted EBITDA margin	-61.4%	-	-

<b>Europe</b> 6 months ended 30 September (£m)	2015	2014	Growth
Advertising and marketing	3.0	-	n/a
% sales	19.2%	n/a	
Warehousing	0.9	-	n/a
% sales	5.8%	n/a	
Other Admin	3.8	-	n/a
% sales	24.2%	n/a	
<b>Total SG&amp;A (before Adjustments)</b>	<b>7.7</b>	<b>-</b>	<b>n/a</b>
Europe set up costs	0.3	2.4	-85.7%
Share based payments	-	-	n/a
<b>Total SG&amp;A</b>	<b>8.0</b>	<b>2.4</b>	<b>232.0%</b>

1

Gross margin in Germany was a loss of 13.9% during the period. This is reflective of:

- Product margin where we have not made progress as quickly as previously anticipated. Whilst some suppliers are fully supporting our customer offering, we realise we are on a journey with some that might take a period of time
- Delivery costs whilst delivery volumes are small are particularly inefficient when running a national logistics operation. These costs are leveraging materially as expected as our revenues are growing

2

Advertising and marketing costs include acquisition costs and early television advertising campaigns in July, August and September

3

Warehousing costs is the cost of our current distribution centre in Bedburg and our Outbase infrastructure

4

Other administrative costs are the core base of the operation and we would expect to leverage these as revenues grow

5

Europe set up costs in adjustments are the pre go live costs of new Europe territories



# The Netherlands

## Country Statistics

<b>Population</b>	16.8m
<b>Pop. density (per sq.km)</b>	498
<b>Language</b>	Dutch
<b>Currency</b>	Euro
<b>World Bank ease of doing business*</b>	27
<b>Online MDA Penetration</b>	40%
(*1 being best out of 189 countries analysed)	

## UK

64.1m
265
English
GBP
8
48%

## AO category potential – £2.1bn

<b>MDA</b>	£1.0bn
<b>SDA</b>	£0.5bn
<b>AV</b>	£0.7bn
<b>TOTAL</b>	<b>£2.1bn</b>

## UK

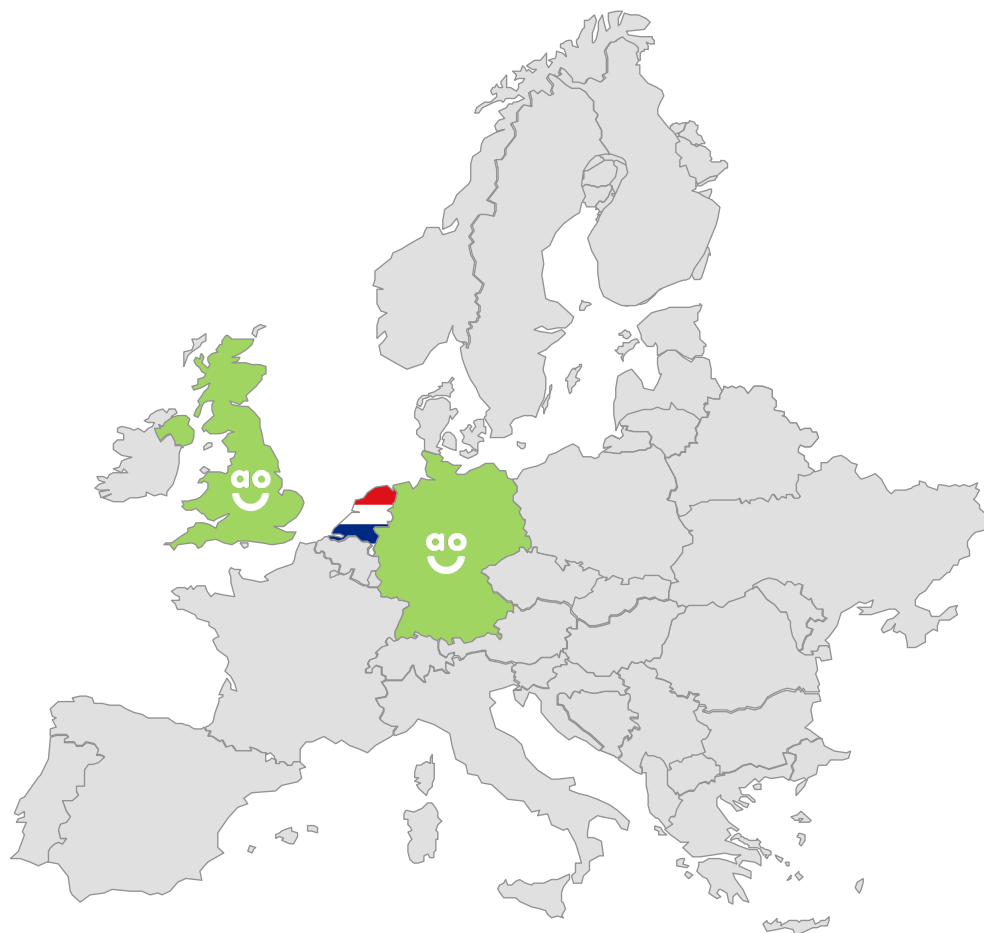
£3.9bn
£2.3bn
£3.5bn
<b>£9.7bn</b>

## AO future categories potential - £3.2bn

<b>Computing</b>	£1.2bn
<b>Personal Care</b>	£0.1bn
<b>In-Car devices</b>	£0.1bn
<b>Portable CE</b>	£0.3bn
<b>Mobile</b>	£1.0bn
<b>Audio</b>	£0.2bn
<b>Gaming</b>	£0.4bn
<b>TOTAL</b>	<b>£3.2bn</b>

## UK

£5.2bn
£0.5bn
£0.3bn
£1.3bn
£3.6bn
£0.8bn
£2.8bn
<b>£14.5bn</b>



## Information Sources;

Country Statistics - World Bank, Online Penetration – Google Barometer  
Market sizes – Euromonitor



# AO in the Netherlands

- 1 One additional outbase in Utrecht
- 2 Trunking time from German NDC under 3 hours (205km)
- 3 Local buying team and call centre



- 4 Leverage overhead from German operations. Initial launch with MDA
- 5 Next day delivery to majority of population

3

## FINANCIAL REVIEW



# Detailed Income Statement

<b>Group</b>		
<b>6 months ended 30 September (£m)</b>	<b>2015</b>	<b>2014</b>
<b>Revenue</b>	<b>264.3</b>	<b>217.1</b>
Cost of sales	(218.6)	(176.2)
<b>Gross profit</b>	<b>45.7</b>	<b>40.9</b>
Administrative expenses	(54.6)	(40.0)
<b>Operating (loss)/profit</b>	<b>(8.9)</b>	<b>0.9</b>
Net finance income/(cost)	0.9	(0.1)
<b>(Loss)/profit before tax</b>	<b>(8.0)</b>	<b>0.8</b>
Taxation credit/(charge) on ordinary activities	1.3	(0.3)
<b>(Loss)/profit for the period</b>	<b>(6.7)</b>	<b>0.5</b>
Basic EPS (p)	(1.58p)	0.12p
<b>6 months ended 30 September (£m)</b>	<b>2015</b>	<b>2014</b>

## Reconciliation of Operating (Loss)/Profit to Adjusted EBITDA

<b>Operating (loss)/profit</b>	<b>(8.9)</b>	<b>0.9</b>
Add: Depreciation and amortisation	2.3	1.8
<b>EBITDA</b>	<b>(6.6)</b>	<b>2.8</b>
Add: Share based payments	1.2	1.3
Add: New territory set up costs	0.9	3.3
<b>Adjusted EBITDA</b>	<b>(4.5)</b>	<b>7.3</b>

## Adjustments include:

- Netherlands set-up costs borne by group companies
- Share based payment charge relates to the LTIP IPO Award which the Board considers one-off in nature



# Operating Cash Flow Statement

Group		
6 months ended 30 September (£m)	2015	2014
<b>Adjusted EBITDA</b>	<b>(4.5)</b>	<b>7.3</b>
Europe set-up costs	(0.9)	(3.3)
Finance income and taxation	2.2	(0.4)
Net change in working capital	(1.5)	(0.1)
<b>Cash generated from operating activities</b>	<b>(4.7)</b>	<b>3.5</b>
Operating Cash Flow conversion	104%	48%

30 September (£m)	2015	2014
Cash	35.6	50.1
Borrowings	(6.0)	(6.2)
<b>Net funds position at period end</b>	<b>29.6</b>	<b>43.9</b>

## Cash generated from operating activities

1

Cash consumed by operating activities of the group was £3.8m, with a further £0.9m being consumed by Europe set-up costs

## Net funds position

2

Net funds position of £29.6m reflects a cash balance of £35.6m

3

Borrowing at period end relates to finance leases and similar instruments



# Balance Sheet

Group		
6 months ended 30 September (£m)	2015	2014

## Non Current Assets

Intangible assets	14.4	13.3
Property, plant and equipment	15.1	12.9
Trade and other receivables	25.1	13.6
Deferred tax asset	2.2	0.3
	<b>56.8</b>	<b>40.1</b>

## Current Assets

Inventories	33.9	23.2
Trade and other receivables	32.4	25.5
Corporation tax	0.7	-
Cash and cash equivalents	35.6	50.1
	102.6	98.8
<b>Total Assets</b>	<b>159.4</b>	<b>138.9</b>

## Current Liabilities

Trade and other payables	(100.1)	(71.6)
Current tax liabilities	-	(0.3)
Borrowings	(2.1)	(2.0)
Provisions	(0.3)	(0.9)
	<b>(102.5)</b>	<b>(74.8)</b>

<b>Net current assets</b>	<b>0.1</b>	<b>24.0</b>
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Borrowings	(3.9)	(4.2)
<b>Total Liabilities</b>	<b>(106.4)</b>	<b>(79.0)</b>

<b>Net assets</b>	<b>53.0</b>	<b>59.9</b>
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Share capital	1.1	1.1
Share premium account	55.7	55.7
Merger reserve	4.4	4.4
Capital redemption reserve	(1.1)	(1.1)
Share-based payments reserve	4.3	1.5
Translation reserve	-	-
Retained losses	(11.4)	(1.7)
<b>Total equity</b>	<b>53.0</b>	<b>59.9</b>

## Capital expenditure

1

Capital expenditure (net of finance leases) for the period was £3.9m (2014: £2.7m), of which £2.6m relates to the purchase of one outbase in Germany, and one in the UK

## Inventories

2

Inventories were £33.9m (2014: £23.2m) reflecting an increase in sales volumes ensuring availability to customers support to the AV category and a stock holding in Germany. As a result average stock days increased to 28 days (2014: 24 days)

## Trade and other receivables

3

Trade and other receivables were £53.3m in the UK as at 30 September 2015 (2014: £38.9m) reflecting higher sales volumes. German receivables were £4.2m (2014: £0.3m)

## Trade and other payables

4

In the UK, trade & other payables increased to £93.6m (2014: £70.4m) as manufacturers continued to extend credit on a higher volume of sales and increase in stock-holding and in Germany were £6.4m (2014: £1.2m)





## Outlook

1

The second half has started well although we still have peak trading ahead of us, including Black Friday later this week. In the UK we are on track with our plans for the year as a whole

2

Our early success in Germany, has given us the confidence to continue to invest heavily in marketing to drive revenue growth. Given this we expect to maintain at least the level of net P&L investment made in the first half of the year through the second half

3

Whilst we will incur some early set up costs for our operations in the Netherlands this financial year we do not expect a material impact to Group adjusted EBITDA

4

The business is on track with progress against its long term strategic goals

4

## SUMMARY AND Q&A



## Summary

**1**

**Continue to grow UK MDA**

**2**

**Developing UK SDA and AV**

**3**

**Our MDA business in Germany is growing rapidly**

**4**

**Expect to launch Netherlands during spring 2016**

**Well placed to deliver on our exciting plans ahead**





## Appendix – Definitions

<b>Adjusted EBITDA</b>	Loss/profit before tax, depreciation, amortisation, net finance costs, adjustments and exceptional items
<b>Adjusted EBITDA Margin</b>	Adjusted EBITDA divided by revenue
<b>Adjustments</b>	Set-up costs relating to overseas expansion and share based payment charges attributable to the LTIP IPO Award which the Board considers to be one off in nature
<b>Europe</b>	Entities operating within the European Union but excluding the UK
<b>NPS</b>	Net Promoter Score – an industry measure of customer loyalty and satisfaction