AO WORLD PLC

FINAL RESULTS FOR THE YEAR ENDED 31 MARCH 2019

Continued growth and a renewed mindset

AO World plc ("the Group" or "AO"), a leading European online electrical retailer, today announces its audited financial results for the year ended 31 March 2019.

Financial Highlights[1,2]

- Continued revenue growth in both the UK and Europe with total revenue for the period increasing by 13.3% to £902.5m (2018: £796.8m); against a backdrop of ongoing weak consumer confidence in a continuingly competitive market, particularly in the UK:
    - Total UK[3] revenue up 10.1% to £749.3m (2018: £680.8m), (up 5.7% on a like for like basis excluding revenues from our newly acquired mobile phones business ("MPD")).
    - Europe[4] revenue for the period increased by 32.2% on a constant currency basis[5] to €173.3m (2018: €131.2m) (in GBP 2019: £153.2m, 2018: £116.0m).
- Group Adjusted EBITDA[6] losses of £0.4m (2018: £3.4m losses).
    - UK Adjusted EBITDA improved by 20.9% to £27.4m (2018: £22.6m) (up 14.3% on a like for like basis excluding EBITDA from MPD).
    - Europe Adjusted EBITDA losses increase to €31.3m (2018: €29.6m) (in GBP 2019: £27.8m loss; 2018: £26.0m loss) reflecting less progress than expected on product margins and cost pressures from re-configuring driver scheduling arrangements in Germany.
- Group operating loss reduces to £15.2m (2018: £16.2m loss) reflecting an increase in UK operating profit of 28.4% to £14.9m (2018: £11.6m) offset by trading losses incurred in Europe of £30.1m (2018: £27.8m).
- Group net debt position[7] as at 31 March 2019 was £9.0m (2018: net funds of £38.3m); with gross cash of £28.9m (2018: £52.9m). Debt increased over the year to fund the acquisition of MPD and construction of the new Plastics Plant in recycling. Total available liquidity to the Group as at 31 March 2019 of £85.0m.
- Basic loss per share of 3.78p (2018: 2.93p).[8] Diluted loss per share of 3.78p (2018: 2.92p).

Strategic and Operational Highlights

- Growth in the AO customer base to nearly 6.5m customers in the UK and approaching 800,000 in Europe.[9]
- Net Promoter Score[10] maintained at its consistently high level of over 80 in the UK and Germany and over 75 in the Netherlands reflecting continued high levels of customer satisfaction, whilst growing volumes and focussing on new competencies.
- Mobile proposition significantly enhanced through the acquisition of MPD making AO the UK's second largest indirect mobile connector, significantly increasing our customer base and extending our existing mobile offering to include network contracts and SIMs.
- MDA share maintained and double digit growth in all new categories in the UK. Share gains across all categories in Europe.

- Our dedicated B2B team has been established and is working to grow its customer and client base across multiple industries; a number of trials are underway with housebuilders and charities;

- We are refocussing on growing our third-party Logistics business to leverage our two-man delivery expertise, infrastructure and capacity;

- We have continued to develop our finance offering to be appropriate to all categories and territories and have significantly improved our AO Care proposition by switching the service backed warranties to insurance and creating a truly digital experience;

- We have commenced building a plastics refining facility due to be operational during FY20 to give us the capability to sort waste plastics from our fridge plants to create an additional sustainable revenue stream;

- We have launched a trial rental services for white goods shortly post the period end, partnering with two Housing Associations and running a small B2C trial via ao.com.; and

- Our ambition remains to be run-rate profitable in Europe during FY21[13]. We have a number of initiatives in place across four key measures; customer service, revenue growth, gross margin and cost to deliver that are currently being actioned. We will provide a further update at the time of our interim results in November against these measures.

John Roberts, AO Founder and Chief Executive Officer, said:

"We've delivered double digit revenue growth in the UK and achieved over 30% in Europe and Adjusted EBITDA in the UK has improved by over 20%. The UK result was achieved against an ongoing tough trading environment and includes three months contribution from Mobile Phones Direct which we acquired in December 2018 and its integration continues to go to plan.

Adjusted EBITDA losses in Europe have increased slightly against the prior year with progress hampered somewhat by driver challenges in Germany and a lack of real improvement in product margin and customer acquisition costs. We are working to address these issues. We've also made changes to the management of our international operations and are ensuring we utilise all the influence, intelligence and capability within AO.

The AO model is an eco-system of complementary competencies across retail, mobile, recycling and logistics through to financial services and B2B trade. We have huge structural advantages when these capabilities operate in harmony. So, we have enhanced structure with informality and a renewed mindset and are now releasing the immense unrealised value we've created. We've started to see this in the last few months and it will be an important driver for the year ahead.

Overall, the AO team deserve praise for their efforts in FY19 but we can do better and I'm pleased with the progress that we are now making in the first few months of this financial year. I'm proud to be back at the helm of the business I founded almost two decades ago and I'm more excited than ever about the future for AO."

Webcast details

A results presentation hosted by Geoff Cooper, John Roberts and Mark Higgins for analysts and investors will be held today, 4 June 2019 at 8:30am (GMT) at Numis Securities Limited, 10 Paternoster Square, London EC4M 7LT. Please register your attendance in advance with Tulchan Communications using the contact details below.

A live audio webcast will be available for analysts and investors who are unable to attend the presentation at: https://webcasting.brrmedia.co.uk/broadcast/5cb6e597eb566331974d7173 and will be available for playback on AO's corporate website at ao-world.com[11] later today. The presentation can also be heard live via a conference line facility by dialling 44 (0)330 336 9125 and using confirmation code 6599153.

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About AO

AO World plc, headquartered in Bolton and listed on the London Stock Exchange, is an online electrical retailer, with a simple mission: to have the happiest customers by relentlessly striving for a better way. We create value by providing electrical products and related services to our customers, offering a huge range, a price-match promise and market-leading customer service.

We sell major and small domestic appliances and consumer electronics in the UK, Germany and the Netherlands and deliver them via our in-house logistics business and carefully selected third parties. We also provide ancillary services such as the installation of new and collection of old products and offer product protection plans and customer finance.

In the UK, AO operates in four main categories (Major Domestic Appliances "MDA", Small Domestic Appliances "SDA", Audio Visual "AV" and computing) and more recently added Gaming, Mobile, Smart Home and Photographic devices and equipment to its ranges. Following the acquisition of Mobile Phones Direct Limited in December 2018, AO has significantly broadened its mobile phone offering.

AO launched in Germany in October 2014 with MDA and now sells Floorcare, AV and SDA categories. AO's international expansion strategy took a step further in February 2016 with the launch of MDA in the Netherlands, which has also expanded to include SDA and AV. In 2018, AO acquired Mobile Phones Direct making AO the UK's largest pureplay mobile phone retailer.

AO also has a majority equity stake in AO Recycling, a WEEE[12] processing facility, allowing AO to ensure its customers' waste is dealt with responsibly in the UK.

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[1]The highlights are for the 12 month period ended 31 March 2019 and the comparative 2018 period. Certain financial data have been rounded. As a result of this rounding, the totals of data presented in this document may vary slightly from the actual arithmetic totals of such data.

[2] Unless stated, all figures include Mobile Phones Direct Ltd ("MPD") which became part of the AO group on 17 December 2019.

[3] UK is defined by the Group as entities operating within the United Kingdom. (It excludes AO Deutschland Limited which is a company registered in England but operates in Germany and therefore is included in the Europe segment).

[4] Europe is defined by the Group as entities operating within the European Union but excluding the UK.

[5] Where Euro amounts are disclosed they represent the actual Euro revenue, cost or loss for the period. The term constant currency is used by the Group to describe the increase or decrease on actual Euro amounts for the relevant period. Providing this information eliminates the impact of foreign exchange movements.

[6] Adjusted EBITDA is defined by the Group as profit/ (loss) before tax, depreciation, amortisation, profit on disposal of fixed assets net finance income, "adjustments" and exceptional items. Adjustments is defined by the Group as (i) set-up costs relating to overseas expansion namely strategic post go-live costs incurred in connection with our European expansion strategy of £nil (2018: £0.3m), (ii) share-based payment charges of £2.3m (2018: £3.5m) attributable to the exceptional LTIP awards which the Board considers exceptional in nature, (iii) exceptional costs of £1.2m (2018: £1.5m) relating to restructure of the senior leadership team in the previous year and the current year following the changes in Chief Executive Officer including the impact of the acceleration of certain share option charges in 2018, which is considered to be one-off in nature due to its size and timing, (iv) the fees incurred in connection with the acquisition of MPD of £2.6m (2018: £nil), and (v) the costs of fulfilling a marketing contract in Germany which are considered exceptional in nature £1.2m (2018: £nil).

[7] Net funds are defined by the Group as cash less borrowings less overdrafts as per the consolidated statement of financial position.

[8] Please refer to the loss per share paragraph later in this announcement for further information.

[9] A customer is defined as an individual who has purchased from ao.com, ao.de or ao.nl.

[10] NPS is defined by the Group as Net Promoter Score which is an industry measure of customer loyalty and satisfaction.

[11]The content of the ao.com website should not be considered to form a part of or be incorporated into this announcement.

[12]WEEE means waste electrical and electronic equipment. MDA means Major Domestic Appliances.

[13] By "run-rate" we mean achieving a positive Adjusted EBITDA for the Europe segment in at least one month of the financial year ending 31 March 2021, as we set out in our Capital Markets Day in February 2017.

Alternative performance measures

One of the Group's key performance indictors is Adjusted EBITDA and each segment is measured by the Chief Operating Decision Maker on this basis. It is one of our key performance measures and has been used in the calculation of executive management bonus and long-term incentives. As such, this measure is important and should be considered alongside the IFRS measures.

Adjusted EBITDA is calculated by adding back those items of income and expense defined at footnote 5 above which, because of the nature and expected infrequency of events giving rise to them, merit separate presentation to allow shareholders to better understand the financial performance of the Group in the period.

The adjustments are as follows:

- Long Term Incentive Plan ("LTIP") awards were made to a number of senior staff under the Employee Reward Plan ("ERP") in July 2016. The Board considers that the magnitude and timing of these awards are exceptional in nature and so add-back any charge in arriving at Adjusted EBITDA. AO Sharesave scheme charges and LTIP charges relating to the LTIP awards which are not considered to be exceptional in nature are included in trading numbers.
- Europe set-up costs were costs incurred in FY18 in connection with our European expansion strategy and our research into other further countries along with strategic post "go-live" costs.
- During the current and previous year and following the changes in Chief Executive Officer, the Group has undertaken a restructure of its senior leadership team. The cost of this restructure, including the impact of the acceleration of certain share option charges, is considered to be exceptional in nature due to its size and timing, and has therefore been added back in arriving at Adjusted EBITDA.
- During the current year, the company acquired Mobile Phones Direct Limited. Fees in relation to the transaction were significant in nature and considered by management to outside of the normal trading activity of the Group and have therefore been added back in arriving at Adjusted EBITDA.
- In December 2017, the Group entered into a marketing contract in Germany which was anticipated to generate significant additional revenue. During the current financial year, the performance of this contract has been re-assessed due to significant losses being incurred and the benefits expected from the contract not materialising. The Group is however committed to the contract until December 2020 and whilst management will explore routes to re-negotiate the contract, it is clear that the cost of fulfilling the contract over its life will significantly exceed any benefit gained from it. As a consequence, due to its size and the onerous nature of the contract, management consider this to be exceptional in nature and have added back the cost in the current year in arriving at Adjusted EBITDA.

Cautionary statement

This announcement contains certain forward-looking statements (including beliefs or opinions) with respect to the operations, performance and financial condition of the Group. These statements are made in good faith and are based on current expectations or beliefs, as well as assumptions about future events. By their nature, future events and circumstances can cause results and developments to differ materially from those anticipated. Except as is required by the Listing Rules, Disclosure Guidance and Transparency Rules and applicable laws, no undertaking is given to update the forward-looking statements contained in this document, whether as a result of new information, future events or otherwise. Nothing in this document should be construed as a profit forecast or an invitation to deal in the securities of the Company. This announcement has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to AO World plc and its subsidiary undertakings when viewed as a whole.

PERFORMANCE AT A GLANCE

Summary Results[1]

	31 March 2019			31 March 2018			*Change*		
	UK[3]	Europe[2]	Total	UK	Europe	Total	*UK*	*Europe*	*Total*
Income Statement									
Product revenue	628.4	151.1	779.5	600.2	114.4	714.6	*4.7%*	*32.2%*	*9.1%*
Service revenue	30.1	1.6	31.8	26.2	1.4	27.6	*14.8%*	*20.2%*	*15.1%*
Commission revenue	61.2	0.3	61.5	26.6	0.1	26.7	*130.0%*	*180.9%*	*130.2%*
Third party logistics revenue	15.3	0.0	15.3	16.0	0.0	16.0	*(4.2)%*	-	*(4.2)%*
Recycling revenue	14.3	0.1	14.5	11.7	0.1	11.8	*22.2%*	*17.3%*	*22.2%*
Revenue	749.3	153.2	902.5	680.8	116.0	796.8	*10.1%*	*32.0%*	*13.3%*
Adjusted EBITDA[4]	27.4	(27.8)	(0.4)	22.6	(26.0)	(3.4)	*20.9%*	*(6.4)%*	*87.6%*
Adjusted EBITDA margin[5]	3.7%	(18.1)%	0.0%	3.3%	(22.4)%	(0.4)%	*0.4ppts*	*4.3ppts*	*0.4ppts*
Adjusted operating profit/(loss)[6]	21.0	(28.9)	(7.9)	16.8	(27.7)	(10.9)	*24.6%*	*-3.9%*	*27.8%*
Adjustments[7]									
Non-cash share-based payment charge	(2.3)	-	(2.3)	(3.5)	-	(3.5)			
Europe set-up costs	-	-	-	(0.3)	-	(0.3)			
Fees incurred on acquisition of subsidiary	(2.6)	-	(2.6)	-	-	-			
Onerous contract costs	-	(1.2)	(1.2)	-	-	-			
Executive restructuring costs	(1.2)	-	(1.2)	(1.4)	(0.1)	(1.5)			
Operating profit/(loss)	14.9	(30.1)	(15.2)	11.6	(27.8)	(16.2)	*27.7%*	*-7.8%*	*6.5%*
Loss per share (pence)									
Basic loss per share			(3.78)			(2.93)			
Diluted loss per share			(3.78)			(2.92)			
Adjusted loss per share[8]			(3.13)			(3.16)			

[1] Certain financial data have been rounded. As a result of this rounding, the totals of data presented in this document may vary slightly from the actual arithmetic totals of such data.

[2] Europe is defined by the Group as entities operating within Europe but excluding the UK and also includes exploratory costs in other European territories.

[3] UK is defined by the Group as entities operating within the United Kingdom. (It excludes AO Deutschland Limited which is a company registered in England but operates in Germany and therefore is included in the Europe segment). [4]Adjusted EBITDA is defined by the Group as profit/(loss) before tax, depreciation, amortisation, profit on disposal of fixed assets, net finance income, "adjustments" and exceptional items.

[5]Adjusted EBITDA margin is defined by the Group as Adjusted EBITDA divided by revenue.

[6] Adjusted operating profit/(loss) is defined by the Group as profit/(loss) before tax, net finance income, "adjustments" and exceptional items but after depreciation, amortisation and profit on disposal of fixed assets.

[7] Adjusted EBITDA is defined by the Group as profit/ (loss) before tax, depreciation, amortisation, profit on disposal of fixed assets net finance income, "adjustments" and exceptional items. Adjustments is defined by the Group as (i) set-up costs relating to overseas expansion namely strategic post go-live costs incurred in connection with our European expansion strategy of £nil (2018: £0.3m), (ii) share-based payment charges of £2.3m (2018: £3.5m) attributable to the exceptional LTIP awards which the Board considers exceptional in nature, (iii) exceptional costs of £1.2m (2018: £1.5m) relating to restructure of the senior leadership team in the previous year and the current year following the change in Chief Executive Officer including the impact of the acceleration of certain share option charges, which is considered to be one-off in nature due to its size and timing, (iv) the fees incurred in connection with the acquisition of MPD of £2.6m (2018: £nil), and (v) the costs of fulfilling a marketing contract in Germany of £1.2m (2018: £nil) which are considered exceptional in nature.

[8] Adjusted loss per share is basic earnings per share plus foreign exchange gains arising from inter-group funding. See note 6 later in this announcement.

Operating & Financial Review

Continued organic revenue growth enhanced by acquisition of MPD

We have continued to grow our businesses in the UK and Europe during the year whilst diversifying the categories that we offer to our customers and leveraging the competencies that we've created. Group revenue increased by 13.3% to £902.5m. Year-on-year UK revenue was up 10.1% to £749.3m (up 5.7% on a like for like basis when excluding revenues from our newly acquired mobile phones business ("MPD")). Revenue from our European business was £153.2m/€173.3m, up 32.2% year-on-year on a constant currency basis[1].

Group Adjusted EBITDA losses for the period improved to £0.4m (2018: £3.4m), with the UK growing by 20.9% (including MPD) and by 14.3% (excluding MPD). Loss before tax was £18.9m (2018: £13.5m). Our Europe business increased Adjusted EBITDA losses by 6.4% year-on-year on a sterling basis reflecting cost pressures from re-configuring driver scheduling arrangements in Germany and the impact of increased revenues with a negative gross margin.

We have incurred costs which we have classified as exceptional of £7.3m in FY19. These costs comprise exceptional share-based payment charges, certain restructuring costs, costs in relation to the acquisition of MPD together with charges for an onerous contract which we are unable to terminate in Germany. Further details of these are set out in the paragraph entitled "Adjustments", later in this document.

The acquisition of MPD completed in December 2018 and we have been working towards integrating this operation into the Group. MPD delivered £30.0m of revenue since completion and contributed £1.5m to Adjusted EBITDA. The business has grown revenue and connections consistently in recent years. MPD is a successful standalone business but by utilising AO's market leading logistics, finance and recycling proposition and leveraging our e-commerce competencies we will be able to grow the business further.

MPD operates in a market that is rapidly changing, especially as the 5G rollout comes to the UK which will further drive sales in smart and connected "Internet of Things" devices, alongside the changing consumer trends to online purchasing and buying patterns. The combination of MPD and AO provides a scaled Mobile offering and should allow us to take advantage of this customer first, connected landscape for years to come.

UK growth has been driven by double-digit growth in all categories except MDA and we experienced pleasing levels of growth through marketplace channels and trade sales. Although we managed to maintain our share of our most mature category, MDA revenue was impacted by a decline in the overall market and a more limited than expected response to our TV marketing campaign. We have also experienced good growth in service revenues and commissions which includes commissions from the sale of network contracts from our acquired MPD business, insurance and finance.

Customers responded positively to AO's UK seasonal Black Friday offer. This peak trading period continues to be popular with our customers and we are pleased with our performance. Our offering of Black Friday deals over a longer time period in November was well received by customers, which also allowed for a smoother sales flow and improved margins.

We are targeting new clients in third-party logistics which will help drive further growth in FY20. We continue to grow recycling revenue as our fridge plant has been operational for a full year, we have commenced building a plastics recycling plant and we look to launch a further plant in this growth area.

Profitability in the UK has been driven by a reduction in advertising and marketing expenditure and as we leverage our infrastructure and people to drive efficiencies.

The performance of our Europe business over the last twelve months has been disappointing. Whilst we have delivered a good level of revenue growth, this has been achieved at the expense of profit and cash. Although it is still early days, the recent changes we have made to the senior leadership team and the injection of our UK talent and experience should help drive improved product margin, provide a focus on relevant and cost-effective acquisition channels and continue to reduce costs to deliver. However, there is much to do.

Net cash outflow for the period was £27.0m as we experienced an outflow of working capital due in part to the increase in our inventory levels as part of our Brexit contingency planning. Cash at 31 March 2019 was £28.9m. Total borrowings increased from £14.6m to £38.0m mainly reflecting the new term loan to fund the cash component of the acquisition cost of MPD. We continue to enjoy strong relationships with, and good support from, our supplier base. However, their ability to obtain suitable levels of credit insurance remains consistent with an overall negative view in the credit insurance market towards the UK and in particular businesses in the UK consumer sector. We are assessing a number of alternatives and options to protect, aid and support our business relationships with our suppliers in the face of any negative implications arising from the actions of credit insurers, with whom AO has no direct relationships.

Whilst we have seen a number of challenges in FY19, there is good momentum as we progress through FY20 and a number of opportunities to drive both revenue and profit lay before us.

Revenue (see table 1)

For the year ended 31 March 2019 total Group revenue increased by 13.3% to £902.5m (2018: £796.8m).

Overall revenue in the UK increased by 10.1% to £749.3m (2018: £680.8m) up c.5.7% year on year excluding the impact of the post-acquisition revenue from MPD. Product revenue growth on our retail website was driven by our newer categories where we experienced double digit growth. Our market-place channels and trade sales further added to product revenue across all categories. Revenue from ao.com reduced year on year following a more limited than expected response to our TV marketing campaign. This strategy has been reviewed to focus our investment in performance marketing, social channels, influencers and user experience on the website. We have been successful in driving revenue from marketplace channels (Amazon and Ebay) which we believe are new customers to the group and do not cannibalise traffic that would otherwise shop with ao.com. In addition, we continue to focus on our Business to Business (B2B) offering and this has been a key driver of our growth in the MDA category.

Service revenue increased by 15.1% compared to the previous year; reflecting improvements to the customer propositions, for example the choice of timeslots and increased premium installations available to more locations, that have resonated well with our customers. Black Friday continues to be a major sales event in our retail calendar. This year our promotional period extended over 3 weeks, meaning our great deals were able to reach even more customers than ever before.

Our acquisition of MPD delivered £30.0m of revenue in the year, representing most of the significant increase year on year in commission revenue. We continue to be excited about this opportunity and look forward to AO Mobile launching later in FY20. Customers of ao.com continue to value the warranty products and during the year we migrated our product from a warranty to a hybrid insurance product offering greater regulatory protection. We are pleased how this migration progressed involving a full base contact exercise with a low proportion of plans cancelled. The reduction of third-party logistics revenue year on year reflects the loss of the contract to deliver goods for Argos which has previously been disclosed. During the year we won a new contract with the furniture retailer The Cotswold Company and are targeting new client growth in FY20. Recycling revenue increased by 22.2% as the Group benefited from the first full year of operation of our fridge recycling plant in Telford.

In Europe sales from our German website AO.de and our Netherlands website AO.nl, generated revenues, on a constant currency basis[1], of €173.3m (2018: €131.2m), an increase of 32.2% which equates to £153.2m (2018: £116.0m) on a reported currency basis. Revenue growth in this segment is a fundamental component of the journey to profitability. Towards the end of the period we carried out a review of the various drivers of growth that have been employed to ensure that they are sustainable as we continue to grow. This has entailed reviewing our pricing policy where we have been undercutting the market and considering traffic channels (particularly marketplaces) where cost to acquire traffic is in excess of our traditional website acquisition costs.

[1] Where euro amounts are disclosed in these financial statements, they represent the actual euro revenue, costs or loss for the period. The term constant currency is used by the Group to describe the increase or decrease as actual euro amounts recorded for the relevant period. Providing this information eliminates the impact of foreign exchange movements.

In line with the requirements of IFRS15, the Group has disaggregated its revenue into the main business lines and these are shown in the table below:

Table 1:

	2019			2018			% change		
Year ended 31 March (£m)	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**
Product revenue	628.4	151.1	779.5	600.2	114.4	714.6	*4.7%*	*32.0%*	*9.1%*
Service revenue	30.1	1.6	31.8	26.2	1.4	27.6	*14.8%*	*20.2%*	*15.1%*
Commission revenue	61.2	0.3	61.5	26.6	0.1	26.7	*130.0%*	*180.9%*	*130.2%*
Third party logistics	15.3	0.0	15.3	16.0	0.0	16.0	*(4.2)%*	-	*(4.2)%*
Recycling	14.3	0.1	14.5	11.7	0.1	11.8	*22.2%*	*17.3%*	*22.2%*
Revenue	749.3	153.2	902.5	680.8	116.0	796.8	*10.1%*	*32.1%*	*13.3%*

Gross margin (see table 2)

Gross margin for the Group, which includes product margin, delivery costs, commissions from selling insurance plans and other ancillaries (which attract a higher margin as a percentage of revenue than product sales), reduced to 17.0% for the reporting period. This was a fall of 0.8ppts against the prior year with total gross profit increasing by 7.5% to £152.3m (2018: £141.8m).

Gross Margin in the UK business fell slightly to 20.7%. As in previous periods, the increasing share of total revenue attributable to newer categories (including MPD), as well as that of business to business sales has had a dilutive effect on Gross Margin. Individual product margins in our retail business have increased in all categories. We would expect this effect to increase further once the full year effect of MPD is included in the income statement in FY20. The dynamics of the mobile business have a lower gross margin, but a corresponding lower cost to serve.

In Europe the gross margin improved slightly to a loss of £2.6m (2018: £2.8m loss) and gross margin improved to – 1.7% (2018: -2.5%). Whilst this was an improvement it was not to the degree that we had expected to achieve. During the summer we encountered some issues with local legislation in Germany regarding driver hours, and whilst popular with the drivers themselves we were obliged to move from a 4 day working week to a 5 day week. This resulted in a number of short term operational issues that lasted for a period of about 6 weeks and also built some inefficiency in to the longer term model. During the first half of the year we made progress on our product margin but as we moved in to the second half this moved backwards as we were not able to achieve as much price support from the manufacturers, and we discounted product in order to drive volumes to achieve rebate targets. As we move in to FY20 we have rebased our pricing strategy in line with the UK approach and are negotiating pricing with manufacturers.

Table 2:

	2019			2018			% change		
Year ended 31 March (£m)	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**
Gross profit/(loss)	154.9	(2.6)	152.3	144.6	(2.8)	141.8	7.1%	-10.1%	7.5%
Gross margin %	20.7%	-1.7%	17.0%	21.3%	-2.5%	17.8%	-0.6ppts	0.8ppts	-0.8ppts

Certain financial data have been rounded. As a result of this rounding, the totals of data presented in this document may vary slightly from the actual arithmetic totals of such data.

Selling, General & Administrative Expenses ("SG&A") (see table 3)

UK SG&A expenses for the year to 31 March 2019 increased by 5.1% to £141.0m (2018: £134.3m) and represented 18.8% of sales (2018: 19.7%).

UK advertising and marketing expenditure as a percentage of revenue reduced from 4.2% to 3.0%. In FY18 we sponsored Britain's Got Talent in the early part of the year which took our advertising cost run rate in the comparator period above normal levels. During FY19 in the first half of the year we invested in the "Delivering Tomorrow" advertising campaign. This did not deliver the results that we had hoped for and so we reduced the level of expenditure on TV advertising in the second half of the year.

UK warehousing costs increased by £3.7m to £33.7m (2018: £30.0m) representing 4.5% of revenue (2018: 4.4%) as a result of the opening of three new outbases in the year. The addition of further outbases helps to reduce stem mileage thus creating efficiencies in delivery costs which are reflected in gross margin. As we continue to grow we should continue to achieve greater efficiencies due to scale from this physical structure. In addition, the first full year of activity at our Recycling facility in Telford has contributed to the year on year increase in warehousing costs

UK other administration expenses increased by £8.2m to £78.9m (2018: £70.7m) and as a percentage of sales increased to 10.5% (2018: 10.4%). The increase largely related to increases in staff costs in our UK retail business as we invest to drive margin and to manage the increasing complexity of multiple categories. As we move forwards this is an area of focus for management to leverage the fixed cost base with scale.

In Europe our SG&A costs as a percentage of revenue reduced from 22.0% to 18.3% and totalled £28.0m (2018: £25.5m).

Europe advertising and marketing expenses increased by £1.1m to £5.9m in the 12 months to 31 March 2019 primarily due to increased acquisition costs to drive revenue although as a percentage of sales they decreased. Warehousing costs increased to £5.2m (2018: £4.3m) as we expanded the number of outbases from five to seven. Other administration expenses increased slightly to £16.8m (2018: £16.5m) but reduced significantly as a percentage of sales as the business sought to drive out some of the early set up inefficiencies.

Table 3:

	2019			**2018**			**% change**		
Year ended 31 March (£m)	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**
Advertising and marketing	22.3	5.9	28.3	28.4	4.8	33.2	-21.5%	24.8%	-14.8%
% of revenue	3.0%	3.9%	3.1%	*4.2%*	*4.1%*	*4.2%*			
Warehousing	33.7	5.2	38.9	30.0	4.3	34.3	12.5%	21.8%	13.7%
% of revenue	4.5%	3.4%	4.3%	*4.4%*	*3.7%*	*4.3%*			
Other administration	78.9	16.8	95.8	70.7	16.5	87.2	11.6%	2.1%	9.8%
% of revenue	10.5%	11.0%	10.6%	*10.4%*	*14.2%*	*10.9%*			
Adjustments[1]	6.1	0.1	6.2	5.2	0.1	5.3			
% of revenue	0.8%	0.1%	0.7%	*0.8%*	*n/a*	*0.7%*			
Total Administrative expenses	141.0	28.0	169.0	134.3	25.5	159.8	5.1%	9.8%	5.8%
% of revenue	18.8%	18.3%	18.7%	*19.7%*	*22.0%*	*20.1%*			

Certain financial data have been rounded. As a result of this rounding, the totals of data presented in this document may vary slightly from the actual arithmetic totals of such data.

[1] Adjustments is defined by the Group as set-up costs and strategic post go-live costs relating to overseas expansion, share-based payment charges attributable to exceptional LTIP awards, exceptional restructuring costs, the fees incurred in connection with the acquisition of MPD and the cost of fulfilling a marketing contract in Germany which the Board considers one-off in nature.

Operating loss and Adjusted EBITDA (see table 4)

Operating loss was £15.2m for the period decreasing by £1.0m against the prior year. However, when reviewing profitability, the Directors use an adjusted measure of EBITDA in order to give a meaningful year-on-year comparison, and it is a performance criteria for the purposes of both the Executive management's historic annual bonus and LTIP awards (along with other measures including revenue). Whilst we recognise that the measure is an alternative (non-Generally Accepted Accounting Principles ("non-GAAP")) performance measure which is also not defined within IFRS, this measure is important and should be considered alongside the IFRS measures. Operating profit is reconciled to Adjusted EBITDA as set out in table 4 below.

Table 4:

Year ended 31 March (£m)	2019 UK	2019 Europe	2019 Total	2018 UK	2018 Europe	2018 Total	% change UK	% change Europe	% change Total
Operating profit/(loss)	**14.9**	**(30.1)**	**(15.2)**	**11.6**	**(27.8)**	**(16.2)**	**27.7%**	**-7.8%**	**6.5%**
Add adjustments:									
Non-cash share-based payments charge for exceptional LTIP awards	*2.3*	*-*	*2.3*	*3.5*	*-*	*3.5*			
Europe set-up costs	*-*	*-*	*-*	*0.3*	*-*	*0.3*			
Fees incurred on acquisition of MPD	*2.6*	*-*	*2.6*						
Onerous contract	*-*	*1.2*	*1.2*						
Executive restructuring costs	*1.2*	*-*	*1.2*	*1.4*	*0.1*	*1.5*			
Adjusted operating profit	**21.0**	**(28.9)**	**(7.9)**	**16.8**	**(27.7)**	**(10.9)**	**24.6%**	**-3.9%**	**27.8%**
Add: Depreciation and amortisation	*6.4*	*1.1*	*7.5*	*5.8*	*1.8*	*7.6*	*9.4%*	*-38.9%*	*0.7%*
Less: Profit on disposal	*-*	*-*	*-*	*-*	*(0.1)*	*(0.1)*	*n/a*	*n/a*	*n/a*
Adjusted EBITDA	**27.4**	**(27.8)**	**(0.4)**	**22.6**	**(26.0)**	**(3.4)**	**20.9%**	**-6.4%**	**87.6%**
Adjusted EBITDA as % of revenue	**3.7%**	**-18.1%**	**0.0%**	**3.3%**	**-22.5%**	**-0.4%**	**0.4ppts**	**4.4ppts**	**0.4ppts**

Certain financial data have been rounded. As a result of this rounding, the totals of data presented in this document may vary slightly from the actual arithmetic totals of such data.

Adjustments

Exceptional share-based payment charges

LTIP awards were made to a number of senior staff under the Performance Share Plan at the time of the Company's IPO in 2014 and also under the Employee Reward Plan (ERP) in July 2016. The Board considers that the magnitude and timing of these awards are exceptional in nature and so add-back any charge in arriving at Adjusted EBITDA.

AO Sharesave scheme charges and LTIP charges relating to the LTIP awards which are not considered to be exceptional in nature are not adjusted for.

Europe set-up costs

In the prior year, Europe set-up costs were costs incurred in connection with our European expansion strategy and our research into other countries along with strategic post "go-live" activity in AO.de and AO.nl.

Fees incurred on acquisition of MPD

During the current year, the company acquired Mobile Phones Direct Limited. Fees in relation to the transaction were significant in nature and considered by management to outside of the normal trading activity of the Group and have therefore been added back in arriving at Adjusted EBITDA.

Onerous contract

In December 2017, the Group entered into a marketing contract in Germany which was anticipated to generate significant additional revenue. During the current financial year, the performance of this contract has been re-assessed due to significant losses being incurred and the benefits expected from the contract not materialising. The Group is however committed to the contract until December 2020 and whilst management will explore routes to re-negotiate the contract, it is clear that the cost of fulfilling the contract over its life will significantly exceed any benefit gained from it. As a consequence due to its size and the onerous nature of the contract, management consider this to be one off in nature and have added back the cost in the current year in arriving at Adjusted EBITDA.

Exceptional restructuring costs

During the current and previous year and following the change in Chief Executive Officer, the Group has undertaken a restructure of its senior leadership team. The cost of this restructure, including the impact of the acceleration of certain share option charges, is considered to be exceptional in nature due to its size and timing, and has therefore been added back in arriving at Adjusted EBITDA.

Depreciation, amortisation and profit on disposal of fixed assets

These are non-cash costs in relation to the Group's tangible and intangible fixed assets which are added back to operating profit to arrive at EBITDA which is considered to be a relevant proxy for "cash operating profit".

Group Adjusted EBITDA losses reduced to £0.4m (2018: £3.4m losses) after allowing for £27.8m of Europe Adjusted EBITDA losses (2018: £26.0m). In local currency (removing the impact of foreign exchange movements), European losses increased to €31.3m (2018: €29.6m).

UK Adjusted EBITDA for the 12 months to 31 March 2019 was £27.4m (2018: £22.6m) with the key drivers explained above.

Taxation

The tax credit for the year was £1.9m (2018: £0.2m). The effective rate of tax for the year was 9.5% (2018: 1.9%).

The Group is subject to taxes in the UK, Germany and the Netherlands. The Group continues to be able to offset its German losses against profits within the UK through its registered branch structure in Germany. No overseas tax is attributable to Germany and the Netherlands as they continue to develop their operations.

Tax losses from prior years in Germany remain as carried forward losses and continue to be as not recognised for the purposes of deferred tax. However following the changes in the UK loss utilisation rules the tax losses created in the period that are not utilised have been carried forward and recognised for the purposes of deferred tax. The recognition of these losses is on the basis that the carried forward losses created in the period are anticipated to be used by the wider group going forward following the changes in UK loss utilisation rules.

In addition, tax losses brought forward in AO Recycling are being utilised and therefore the deferred tax asset arising on the remaining tax losses carried forward at the end of the year have been treated as a recognised deferred tax asset as the entity will continue to utilise these losses going forward.

Our tax strategy can be found at www.ao.com/corporate.

Retained loss for the year and loss per share

Retained loss for the year was £17.0m (2018: £13.3m). Basic loss per share was 3.78p (2018: 2.93p loss) which is negatively affected by a foreign exchange loss of £3.0m (2018: gain £1.1m) arising from intra-Group funding arrangements.

The foreign exchange (loss)/gain has arisen as a result of the movement in the exchange rate between sterling and the euro in the period. This has impacted the value of intra-Group loans held in GBP in the European entities and EUR loans in the UK giving rise to the £3.0m loss referenced above.

Table 5 below shows the adjusted basic loss per share excluding the foreign exchange gain mentioned above.

Table 5:

Year ended 31 March (£m)	2019	2018
Loss		
Loss attributable to owners of the parent company	(17.5)	(13.4)
Foreign exchange gains on intra-Group loans	3.0	(1.1)
Adjusted loss attributable to owners of the parent company	(14.5)	(14.5)
Number of shares		
Basic and adjusted weighted average number of ordinary shares	463,153,515	458,788,480
Potentially dilutive share options	6,447,240	1,885,206
Diluted weighted average number of shares	469,600,755	460,673,686
Loss per share (in pence)		
Basic loss per share	(3.78)	(2.93)
Diluted loss per share	(3.78)	(2.92)
Adjusted basic loss per share	(3.13)	(3.16)

As the impact of the potentially dilutive shares does not give rise to a reduction in the loss per share, diluted loss per share has been restricted to the basic loss per share.

Cash resources and cash flow

Net cash balances at 31 March 2019 were £28.9m (2018: £56.0m). The reduction in cash is driven by an outflow of working capital of £31.7m, capital expenditure and repayment of borrowings offset by the net inflows in relation to the acquisition of Mobile Phones Direct Limited.

Borrowings (which comprises bank borrowings and finance leases) increased to £38.0m (2018: £14.6m) resulting in net debt at 31 March 2019 of £9.0m (2018: funds £38.3m). The increase in borrowings in the year was mainly due to the new term loan of £24m used to partly fund the acquisition of Mobile Phones Direct Limited and a £3m term loan to partly fund the construction of the new plastics plant in our recycling business.

The Group continues to benefit from the availability of its £60m revolving credit facility with HSBC Bank plc, Lloyds Bank Plc and Barclays Bank Plc in the banking syndicate. The facility is available for general corporate purposes, including UK working capital movements, with the undrawn amount at 31 March 2019 being £56.1m. The amount utilised is in relation to letters of credit and payment guarantees.

Working capital (see table 6)

At 31 March 2019, the Group had net current liabilities of £27.5m (31 March 2018: net current assets of £0.7m) principally as a result of the reductions in cash noted above and the timing of loan payments as we move into FY20.

Movements in working capital in the year were as follows:

As at 31 March 2019, UK inventories were £60.7m (2018: £42.1m) reflecting an increase in sales volumes and an increase in stock as part of our Brexit mitigation risk planning. UK average stock days stay consistent against the prior year at 27 days (2018: 27 days).

UK trade and other receivables (both non-current and current) were £188.0m as at 31 March 2019 (2018: £91.5m) principally reflecting an increase in accrued income in respect of commissions due on product protection plans as a result of the higher retail volumes and the accrued income relating to the commission receivable from the Mobile Network Operators following the acquisition of MPD.

UK trade and other payables increased to £223.1m (2018: £140.9m) primarily reflecting the increased inventory noted above and the impact from the acquisition of Mobile Phones Direct Limited (increased trade payables and payments on account from the Mobile Network Operators).

At 31 March 2019, European inventories were £15.6m (2018: £11.1m) principally as a result of the increase in sales volumes in both territories during the year. Trade and other receivables reduced to £9.5m (2018: £11.2m) due principally to the timing of receipt of rebates

Trade and other payables decreased to £14.0m (2018: £15.1m), impacted by the timing of supplier payments around year end.

Table 6:

	2019			2018		
	UK	**Europe**	**Total**	**UK**	**Europe**	**Total**
Inventories	60.7	15.6	76.3	42.1	11.1	53.2
As % of COGS	10.2%	10%	10.2%	7.8%	9.3%	8.1%
Trade and other receivables	188.0	9.5	197.5	91.5	11.2	102.7
As a % of revenue	25.1%	6.2%	21.9%	13.4%	9.7%	12.9%
Trade and other payables	(223.1)	(14.0)	(237.1)	(140.9)	(15.1)	(156.0)
As a % of COGS	37.5%	9.0%	31.6%	26.3%	12.7%	23.8%
Net working capital	**25.7**	**11.1**	**36.8**	**(7.3)**	**7.2**	**(0.1)**
Change in net working capital	33.0	3.9	36.9	9.0	5.4	14.4

Capital expenditure

Total capital expenditure in the year was £5.2m (2018: £5.5m). The expenditure in 2019 principally comprised costs in relation to the commencement of construction of the new plastics plant in our Recycling business (together with continued investment in the current recycling site), fit-out costs in relation to additional corporate office space. The prior year included expenditure in relation to our new office in Manchester, continued investment in our recycling facility in Telford and the purchase of a number of delivery vehicles in Germany

As announced the Group has commenced building a plastics refinement facility due to be operation in FY20 and is planning to open a second fridge recycling facility by the end of FY20. We therefore expect capital expenditure levels in the coming year to be higher than usual.

Mark Higgins
Group Chief Financial Officer
3 June 2019

CONDENSED CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2019

	Note	31 March 2019 £m	31 March 2018 £m
Revenue	2	**902.5**	**796.8**
Cost of sales		(750.2)	(655.0)
Gross profit		**152.3**	**141.8**
Administrative expenses		(169.0)	(159.8)
Other operating income		1.5	1.8
Operating loss		**(15.2)**	**(16.2)**
Finance income	4	2.5	4.8
Finance costs	5	(6.2)	(2.1)
Loss before tax		**(18.9)**	**(13.5)**
Tax credit	7	1.9	0.2
Loss for the period		**(17.0)**	**(13.3)**
Loss for the year attributable to:			
Owners of the parent company		(17.5)	(13.4)
Non-controlling interest		0.5	0.1
		(17.0)	**(13.3)**
Loss per share (pence)			
Basic loss per share	6	**(3.78)**	**(2.93)**
Diluted loss per share	6	**(3.78)**	**(2.92)**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2019

	31 March 2019 £m	31 March 2018 £m
Loss for the period	(17.0)	(13.3)
Items that may be subsequently recycled to Income Statement		
Exchange differences on translation of foreign operations	2.4	(1.0)
Total comprehensive loss for the period	**(14.6)**	**(14.3)**
Loss for the year attributable to:		
Owners of the parent company	(15.1)	(14.4)
Non-controlling interest	0.5	0.1
	(14.6)	**(14.3)**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 March 2019

	Note	At 31 March 2019 £m	At 31 March 2018 £m
Non-current assets			
Goodwill		27.6	13.5
Other intangible assets		16.9	1.2
Property, plant and equipment		26.8	28.0
Trade and other receivables		79.4	47.9
Derivative financial asset		0.8	2.2
Deferred tax asset		3.6	1.7
		155.0	**94.5**
Current assets			
Inventories		76.3	53.2
Trade and other receivables		118.0	54.8
Derivative financial asset		-	0.2
Corporation tax receivable		0.6	0.2
Cash and cash equivalents	8	28.9	56.0
		223.8	**164.4**
Total assets		**378.8**	**258.9**
Current liabilities			
Bank overdraft	8	-	(3.1)
Trade and other payables		(230.1)	(156.0)
Borrowings	8	(12.2)	(4.2)
Derivative financial liability		(0.6)	(0.4)
Provisions		(8.3)	-
		(251.3)	**(163.7)**
Net current (liabilities)/assets		**(27.5)**	**0.7**
Non-current liabilities			
Borrowings	8	(25.7)	(10.4)
Trade and other payables		(7.0)	-
Derivative financial liability		(2.9)	(3.4)
Deferred tax liability		(2.7)	-
Provisions		(2.6)	(1.8)
Total liabilities		**(292.3)**	**(179.3)**
Net assets		**86.6**	**79.6**
Equity attributable to owners of the parent			
Share capital		1.2	1.1
Share premium account		103.7	103.7
Other reserves		29.0	5.3
Retained losses		(46.4)	(28.9)
Total		**87.5**	**81.2**
Non-controlling interest		**(0.9)**	**(1.6)**
Total equity		**86.6**	**79.6**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2019

			Other reserves								
	Share capital £m	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Share-based payments reserve £m	Translation reserve £m	Other reserve £m	Retained losses £m	**Total** **£m**	Non-controlling interest £m	**Total** **£m**
Balance at 31 March 2017	**1.1**	**55.7**	**4.4**	**0.5**	**3.8**	**(5.6)**	**(2.1)**	**(15.6)**	**42.2**	(1.7)	**40.5**
Loss for the year	-	-	-	-	-	-	-	(13.4)	**(13.4)**	0.1	**(13.3)**
Share-based payments charge net of tax	-	-	-	-	5.4	-	-	-	**5.4**	-	**5.4**
Foreign currency gain on consolidation	-	-	-	-	-	(1.0)	-	-	**(1.0)**	-	**(1.0)**
Issue of shares (net of expenses)	-	48.0	-	-	-	-	-	-	**48.0**	-	**48.0**
Movement between reserves	-	-	-	-	(0.1)	-	-	0.1	-	-	-
Balance at 31 March 2018	**1.1**	**103.7**	**4.4**	**0.5**	**9.1**	**(6.6)**	**(2.1)**	**(28.9)**	**81.2**	**(1.6)**	**79.6**
Loss for the year	-	-	-	-	-	-	-	**(17.5)**	**(17.5)**	**0.5**	**(17.0)**
Share-based payments charge net of tax	-	-	-	-	**4.0**	-	-	-	**4.0**	-	**4.0**
Foreign currency gain on consolidation	-	-	-	-	-	2.4	-	-	**2.4**	-	**2.4**
Issue of shares (net of expenses)	-	-	**17.8**	-	-	-	-	-	**17.8**	-	**17.8**
Acquisition of non-controlling entity	-	-	-	-	-	-	**(0.4)**	-	**(0.4)**	0.3	**(0.1)**
Balance at 31 March 2019	**1.2**	103.7	22.2	**0.5**	13.1	(4.2)	(2.5)	(46.4)	**87.5**	(0.9)	**86.6**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 March 2019

	2019 £m	2018 £m
Cash flows from operating activities		
Loss for the period	(17.0)	(13.3)
Adjustments for:		
Depreciation and amortisation	7.5	7.6
Finance income	(2.5)	(4.8)
Finance costs	6.2	2.1
Profit on disposal of property, plant and equipment	-	(0.1)
Taxation credit	(1.9)	(0.2)
Increase in provisions	0.1	0.3
Share-based payment charge	4.0	5.5
Operating cash flows before movement in working capital	**(3.6)**	**(2.9)**
Increase in inventories	(16.3)	(8.4)
Increase in trade and other receivables	(10.2)	(21.5)
(Decrease)/Increase in trade and other payables	(5.2)	17.1
Total movement in working capital	**(31.7)**	**(12.8)**
Taxation received	0.8	0.3
Cash used in operating activities	**(34.5)**	**(15.4)**
Cash flows from investing activities		
Acquisition of subsidiary (net of cash acquired)	(5.9)	-
Acquisition of shares in non-controlling entity	(0.4)	-
Proceeds from sale of property, plant and equipment	-	0.1
Acquisition of property, plant and equipment	(4.5)	(4.8)
Acquisition of intangible assets	(0.5)	(0.5)
Cash used in investing activities	**(11.2)**	**(5.2)**
Cash flows from financing activities		
Movement in bank overdraft	(3.1)	3.1
Proceeds from new borrowings	27.0	1.1
Interest paid	(0.9)	(1.0)
Repayments of borrowings	(1.2)	(0.9)
Payment of finance lease liabilities	(3.1)	(3.2)
Proceeds from issue of new shares	-	50.0
Costs in relation to share issue	-	(1.9)
Net cash from financing activities	**18.6**	**47.2**
Net (decrease)/increase in cash	**(27.0)**	**26.6**
Cash and cash equivalents at beginning of period	**56.0**	**29.4**
Exchange gains on cash & cash equivalents	(0.1)	-
Cash and cash equivalents at end of period	**28.9**	**56.0**

NOTES TO THE FINANCIAL INFORMATION

1. Basis of preparation

The financial information has been prepared under International Financial Reporting Standards (IFRSs) issued by the IASB and as adopted by the European Union (EU).

Whilst the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs), this announcement does not itself contain sufficient information to comply with IFRSs.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 March 2019 or 2018, but is derived from those accounts. Statutory accounts for 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered following the Company's Annual General Meeting. The auditor has reported on those accounts; the report was unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under section 498(2) or (3) Companies Act 2006.

Certain financial data have been rounded. As a result of this rounding, the totals of data presented in this document may vary slightly from the actual arithmetic totals of such data.

Going concern

Notwithstanding net current liabilities of £27.5m as at 31 March 2019, a loss for the year then ended of £17.0m and operating cash outflows for the year of £34.5m, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the company will have sufficient funds, through its existing cash balances and the Revolving Credit Facility (RCF) of £56.1m (which is net of letters of credit and payment guarantees of £3.9m) to meet its liabilities as they fall due for that period.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Non statutory measures

One of the Group’s key performance indicators is Adjusted EBITDA as defined in page 3. EBITDA is adjusted for exceptional items that do not reflect the underlying trading of the business. Such adjustments are:

Exceptional share-based payment charges

LTIP awards were made to a number of senior staff under the Performance Share Plan at the time of the Company’s IPO in 2014 and also under the Employee Reward Plan (ERP) in July 2016. The Board considers that the magnitude and timing of these awards are exceptional in nature and so add-back any charge in arriving at Adjusted EBITDA.

AO Sharesave scheme charges and LTIP charges relating to the LTIP awards which are not considered to be exceptional in nature are not adjusted for.

Europe set-up costs

In the prior year, Europe set-up costs were costs incurred in connection with our European expansion strategy and our research into other countries along with strategic post “go-live” activity in AO.de and AO.nl.

Exceptional restructuring costs

During the current and previous year and following the change in Chief Executive Officer, the Group has undertaken a restructure of its senior leadership team. The cost of this restructure, including the impact of the acceleration of certain share option charges, is considered to be one-off in nature due to its size and timing, and has therefore been added back in arriving at Adjusted EBITDA.

Fees incurred on acquisition of subsidiary

During the current year, the company acquired Mobile Phones Direct Limited. Fees in relation to the transaction were significant in nature and considered by management to outside of the normal trading activity of the Group and have therefore been added back in arriving at Adjusted EBITDA.

Onerous contract

In December 2017, the Group entered into a marketing contract in Germany which was anticipated to generate significant additional revenue. During the current financial year, the performance of this contract has been re-assessed due to significant losses being incurred and the benefits expected from the contract not materialising. The Group is however committed to the contract until December 2020 and whilst management will explore routes to re-negotiate the contract, it is clear that the cost of fulfilling the contract over its life will significantly exceed any benefit gained from it. As a consequence due to its size and the onerous nature of the contract, management consider this to be exceptional in nature and have added back the cost in the current year in arriving at Adjusted EBITDA.

2. Revenue

An analysis of the Group's revenue is as follows:

	2019			**2018**			**% change**		
Year ended 31 March (£m)	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**
Product revenue	628.4	151.1	779.5	600.2	114.4	714.6	*4.7%*	*32.1%*	*9.1%*
Service revenue	30.1	1.6	31.8	26.2	1.4	27.6	*14.9%*	*14.3%*	*15.2%*
Commission revenue	61.2	0.3	61.5	26.6	0.1	26.7	*130.0%*	*180.9%*	*130.3%*
Third party logistics	15.3	0.0	15.3	16.0	0.0	16.0	*(4.4)%*	-	*(4.4)%*
Recycling	14.3	0.1	14.5	11.7	0.1	11.8	*22.2%*	*17.3%*	*22.9%*
Revenue	749.3	153.2	902.5	680.8	116.0	796.8	*10.1%*	*32.1%*	*13.3%*

3. Segmental analysis

The Group has two reportable segments, online retailing of domestic appliances to customers in the UK and online retailing of domestic appliances to customers in Europe (excluding the UK).

Operating segments are determined by the internal reporting regularly provided to the Group's Chief Operating Decision Maker. The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors and has determined that the primary segmental reporting format of the Group is geographical by customer location, based on the Group's management and internal reporting structure.

a. Income statement

The following is an analysis of the Group's revenue and results by reportable segments.

Year ended 31 March (£m)	2019			2018		
	UK	**Europe**	**Total**	**UK**	**Europe**	**Total**
Total revenue	749.3	153.2	902.5	680.8	116.0	796.8
Cost of sales	(594.5)	(155.7)	(750.2)	(536.2)	(118.8)	(655.0)
Gross profit/(loss)	**154.9**	**(2.6)**	**152.3**	**144.6**	**(2.8)**	**141.8**
Administrative expenses	(141.0)	(28.0)	(169.0)	(134.3)	(25.5)	(159.8)
Other operating income	1.0	0.5	1.5	1.3	0.5	1.8
Operating profit/(loss)	**14.9**	**(30.1)**	**(15.2)**	**11.6**	**(27.8)**	**(16.2)**
Finance income	2.5	-	2.5	4.0	0.8	4.8
Finance cost	(3.4)	(2.8)	(6.2)	(2.0)	(0.1)	(2.1)
Profit/(loss) before tax	**14.0**	**(32.9)**	**(18.9)**	**13.6**	**(27.1)**	**(13.5)**
Tax credit	1.5	0.4	1.9	0.4	(0.2)	0.2
Profit/(loss) after tax	**14.5**	**(31.5)**	**(17.0)**	**14.0**	**(27.3)**	**(13.3)**

The Group uses alternative performance measures which are not defined within IFRS, as well as IFRS measures. One of these is adjusted EBITDA which is defined in note 1

The reconciliation of operating profit/(loss) to Adjusted EBITDA is as follows:

	2019			2018		
£m	**UK**	**Europe**	**Total**	**UK**	**Europe**	**Total**
Operating profit/(loss)	**14.9**	**(30.1)**	**(15.2)**	**11.6**	**(27.8)**	**(16.2)**
Depreciation	5.3	1.1	6.4	4.9	1.7	6.6
Amortisation	1.1	-	1.1	0.9	0.1	1.0
Profit on disposal of non-current assets	-	-	-	-	(0.1)	(0.1)
EBITDA	**21.3**	**(29.0)**	**(7.7)**	**17.4**	**(26.1)**	**(8.7)**
Non-cash share-based payments charge for exceptional LTIP awards	2.3	-	2.3	3.5	-	3.5
Europe set-up costs	-	-	-	0.3	-	0.3
Fees incurred on acquisition	2.6	-	2.6			
Onerous contract	-	1.2	1.2			
Executive restructuring costs	1.2	-	1.2	1.4	0.1	1.5
Adjusted EBITDA	27.4	(27.8)	(0.4)	**22.6**	**(26.0)**	**(3.4)**

b. Geographical analysis

Revenue by location is the same as that shown in section (a) by reportable segment. Information on non-current assets and share based payments by geographical location is shown in section (c).

c. Other information

2019 (£m)	Additions Intangible assets	Additions PP&E	Depreciation	Amortisation	Profit on disposal
UK	0.5	5.1	5.3	1.1	0.0
Europe	0.0	0.1	1.1	0.0	0.0
	0.5	**5.2**	**6.4**	**1.1**	**0.0**

In addition, the Group acquired intangible and tangible fixed assets on the acquisition of Mobile Phones Direct Limited of £16.5m.

2018 (£m)	Additions Intangible assets	Additions PP&E	Depreciation	Amortisation	Profit on disposal
UK	0.5	4.2	4.9	0.9	-
Europe	-	0.8	1.7	0.1	(0.1)
	0.5	**5.0**	**6.6**	**1.0**	**(0.1)**

Due to the nature of its activities, the Group is not reliant on any individual major customers or group of customers.

No analysis of the assets and liabilities of each operating segment is provided to the Chief Operating Decision Maker in the monthly board presentation, therefore no measure of segmental assets or liabilities is disclosed in this note.

4. Finance income

Year ended 31 March (£m)	2019	2018
Foreign exchange gains on intra-Group loans	0.0	1.1
Movement in valuation of put and call option	0.2	1.8
Unwind of discounting on long term receivables	2.3	1.9
Total	**2.5**	**4.8**

5. Finance costs

Year ended 31 March (£m)	2019	2018
Interest on obligations under finance leases	0.7	0.5
Foreign exchange loss on intra-group loans	3.0	-
Unwind of discount on long term payables	0.2	-
Movement in valuation of put and call option	1.8	1.1
Other finance costs	0.5	0.5
Total	**6.2**	**2.1**

6. Loss per share

The calculation of the basic and diluted loss per share is based on the following data:

Year ended 31 March (£m)	2019	2018
Loss		
Loss for the purposes of basic and diluted earnings per share being loss attributable to the owners of the parent company	(17.5)	(13.4)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic loss per share	463,153,515	458,788,480
Potentially dilutive shares options	6,447,240	1,885,206
Weighted average number of diluted ordinary shares	469,600,755	460,673,686
Loss per share (pence)		
Basic loss per share	(3.78)	(2.93)
Diluted loss per share	(3.78)	(2.92)

As the impact of potentially dilutive shares does not result in a dilution of the loss per share, diluted loss per share above is capped at the basic loss per share.

Adjusted loss per share

The basic loss per share is positively affected by foreign exchange gains arising from intra-group funding arrangements therefore an adjusted loss per share has been calculated below excluding this impact. The foreign exchange loss (2018- gain) has arisen as a result of the significant movement in the exchange rate between Sterling and the Euro in the period. This has impacted the value of intra-group loans held in GBP in the European entities giving rise to the £3.0m loss (2018: £1.1m gain) referenced below.

Year ended 31 March (£m)	2019	2018
Loss		
Loss attributable to owners of the parent company	(17.5)	(13.4)
Foreign exchange loss/(gain) on intra-group loans	3.0	(1.1)
Adjusted loss attributable to owners of the parent company	(14.5)	(14.5)
Number of shares		
Basic, and adjusted weighted average number of ordinary shares	463,153,515	458,788,480
Potentially dilutive shares options	6,447,240	1,885,206
Weighted average number of diluted ordinary shares	469,600,755	460,673,686
Loss per share (in pence)		
Basic loss per share	**(3.78)**	**(2.93)**
Diluted loss per share	**(3.78)**	**(2.92)**
Adjusted basic loss per share	**(3.13)**	**(3.16)**

7. Taxation

Year ended 31 March (£m)	2019	2018
Corporation tax:		
Current year	0.2	-
Adjustments in respect of prior years	-	(0.2)
	0.2	**(0.2)**
Deferred tax		
Current year	(1.8)	(0.3)
Adjustments in respect of prior years	(0.3)	0.3
Total tax credit	**(1.9)**	**(0.2)**

Corporation tax is calculated at 19% (2018: 19%) of the taxable loss for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The credit for the year can be reconciled to the loss in the income statement as follows:

Year ended 31 March (£m)	2019	2018
Loss before tax on continuing operations	(18.9)	(13.5)
Tax at the UK corporation tax rate of 19% (2017: 19%)	(3.6)	(2.6)
Ineligible expenses	1.6	0.3
Income not taxable	-	(0.5)
Movement in unrecognised tax	-	2.0
Research & Development tax credit	0.2	-
Difference in overseas and UK tax rates	(0.3)	(0.3)
Impact of difference in current and deferred tax rates	0.1	-
Share based payments	0.4	0.8
Prior period adjustments	(0.3)	0.1
Tax credit for the year	**(1.9)**	**(0.2)**

8. Net Funds

	2019 £m	2018 £m
Cash and cash equivalents at year end	28.9	56.0
Bank Overdraft	-	(3.1)
Net cash and cash equivalents at year end	28.9	52.9
Borrowings – Repayable within one year	(12.2)	(4.2)
Borrowings – Repayable after one year	(25.7)	(10.4)
Net (debt)/funds	**(9.0)**	**38.3**

At 31 March 2019, AO Limited, a direct subsidiary of AO World Plc, had undrawn amounts on its Revolving Credit Facility of £56.1m. The total facility is £60m. The amount drawn at the year-end was in relation to letters of credit. The Revolving Credit Facility expires in June 2021.

During the year, AO Limited entered into a term loan agreement under which it borrowed £24m to partly fund the acquisition of Mobile Phones Direct Limited. This is repayable in quarterly instalments starting on 1 April 2019 with a final repayment date in June 2021 in line with the Revolving Credit Facility noted above.

In addition, AO Recycling Limited entered into a £3m term loan to part fund the capital expenditure required for the development of its new Plastics Plant. The loan is repayable in September 2019 which is to be funded by the conversion of the loan into a finance lease for the completed plant.

9. Acquisition of Mobile Phones Direct Limited

On 17 December 2018, the Group acquired all of the ordinary shares in Mobile Phones Direct Limited for £39.6m, satisfied in cash and the issue of shares in AO World plc. The company is the leading pure-play online retailer of mobile phones and network airtime contracts and the acquisition adds a significant complimentary category to the existing AO Group's offering. In the period from acquisition to 31 March 2019 the subsidiary contributed profit before tax of £1.4m to the consolidated loss before tax for the year. If the acquisition had occurred on the first day of the accounting period, Group revenue would have been £1bn and loss before tax would have been £15.8m. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on the first day of accounting period.

The acquisition had the following effect on the Group's assets and liabilities.

£m	Book value	Fair value adjustments	Fair value of assets/(liabilities) acquired
Tangible fixed assets	0.2	-	0.2
Intangible fixed assets	0.4	15.9	16.3
Inventory	6.6	(0.1)	6.5
Trade Receivables	0.7	(0.1)	0.6
Prepayments and accrued income	83.9	(2.6)	81.3
Cash	15.8	-	15.8
Trade payables	(29.4)	-	(29.4)
Corporation tax	(0.3)	0.5	0.2
Deferred tax	(0.0)	(2.7)	(2.7)
Other creditors	(50.9)	(1.0)	(51.9)
Accruals and deferred income	(2.3)	(0.1)	(2.4)
Provisions	(7.4)	(1.6)	(9.0)
	17.3	**8.2**	**25.5**
Purchase consideration			**39.6**
Residual goodwill			**14.1**

Purchase consideration comprised:

	£m
Cash	21.8
Fair value of shares issued	17.8
Total consideration	39.6

The Company issued 13,095,104 shares to the sellers of Mobile Phones Direct Limited as part of the consideration. The fair value of the shares was determined with reference to the average share price of AO World plc shares over the five day period prior to the signing of the sale and purchase agreement. The fair value price was £1.3616

The net cash-flow from the acquisition is as follows:

	£m
Cash consideration	21.8
Less: cash acquired with the business	(15.8)
Net cash on acquisition of subsidiary	5.9

Goodwill has arisen on the acquisition primarily because of the value in relation to the relationships with the mobile networks, which, as not separable from the business, cannot be treated as acquired intangible assets. In addition, no value is attributable to future synergies in the identifiable assets acquired.

Fair values determined on a provisional basis

The fair value adjustments noted above have been determined on a provisional basis and in line with relevant accounting standards will be finalised in the twelve month hindsight period. The main fair value adjustments relate to; the recognition of intangible fixed assets (and the associated deferred tax liability) not previously recognised by MPD in relation to marketing assets, customer assets and technology assets; a reassessment of the recoverability of accrued income; and the reassessment of the level of clawback provision required in relation to disconnected contracts.

Acquisition related costs

The Group incurred acquisition related cost of £2.6m related to adviser fees. These costs have been included in administrative expenses in the group's consolidated statement of comprehensive income and due to their size have been added back as exceptional items in arriving at Adjusted EBITDA.

Ends