SHAVER SHOP GROUP LIMITED

ABN: 78 150 747 649

INTERIM FINANCIAL REPORT

For the Half Year Ended 31 December 2019

SHAVER SHOP GROUP LIMITED
31 DECEMBER 2019

CONTENTS

DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of Shaver Shop Group Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2019. Throughout the report, the consolidated entity is referred to as the "Group", the “Company” or "Shaver Shop".

Directors

The following persons were directors of Shaver Shop Group Limited during the whole of the half-year and up to the date of this report:

Broderick Arnhold
Cameron Fox
Craig Mathieson
Brian Singer
Trent Peterson
Melanie Wilson

Company Secretary

Lawrence Hamson held the position of Company Secretary during the whole of the half-year and up to the date of this report.

Principal activities

During the period, the principal activities of the Group consisted of the retailing of specialist personal care and grooming products both through Shaver Shop's corporate owned stores and franchise stores, as well as online through its websites. There were no significant changes in the nature of the Group's principal activities during the financial half-year.

Rounding of amounts

The Company is of a kind referred to in Class Order 2016/191, issued by the Australian Securities and Investments Commission, relating to ‘rounding-off’. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

Review of operations and financial results summary

Sales for the first half ended 31 December 2019 increased 12.3% to $107.5 million (1H FY2019: $95.7 million). The increase in sales was primarily due to like for like store sales growth of 9.3% together with three more stores operating in the corporate owned network at the end of the financial period (116 stores at 31 December 2019).

Shaver Shop’s net profit after income tax amounted to $7.6 million (1H FY2019: $6.1 million) after subtracting income tax expense of $3.3 million (1H FY2019: $2.6 million) representing an increase of 25.7% on the prior corresponding period.

The increase in reported net profit after income tax was primarily due to:

1. Like for like store sales growth of 9.3% which was underpinned by online sales growth of 61%;
2. The recognition of $0.97 million in due diligence costs in 1H FY2019 associated with the evaluation of a significant acquisition opportunity during the period. Following due diligence, the acquisition did not proceed. No due diligence costs were incurred in 1H FY2020;
3. Operating leverage across the business which led to total operating expenses growing at a slower rate than sales and gross profit; and
4. Three more stores in Shaver Shop’s corporate store network resulting from two franchise buy-backs completed in early FY2020 as well as the opening of one new store at the Newmarket shopping centre in Auckland, NZ.

Non-IFRS measures

The Directors’ Report includes references to normalised and pro-forma results. The Directors believe the presentation of non-IFRS financial measures are useful for the users of this financial report as they provide additional and relevant

DIRECTORS' REPORT

information that reflect the underlying financial performance of the business. Non-IFRS measures contained within this report are not subject to audit or review.

Pro forma results

AASB 16 Leases was adopted and effective for the Group from 1 July 2019. In accordance with the new accounting standard, Shaver Shop has chosen to apply the simplified transition approach and has not restated comparative amounts in its financial statements. To assist users with analysing the financial statements between financial periods, Shaver Shop has developed pro-forma profit and loss results which reflect the results from operations for 1H FY2020 as if the previous lease accounting standard (AASB 117 Leases) applied for that financial period.

Normalising adjustments

There are no normalisation adjustments in 1H FY2020. The normalisation for 1H FY2019 arose as a result of Shaver Shop undertaking significant due diligence in relation to a potential acquisition opportunity that was strategically aligned to Shaver Shop's business. The acquisition did not proceed, however at the time negotiations ceased, due diligence was near completion resulting in transaction related costs of $0.97 million being expensed in 1H FY2019. The normalised results have been derived from Shaver Shop's statutory accounts and adjusted to a normalised basis to more appropriately reflect the ongoing operations of Shaver Shop.

The Company's Statutory Earnings before Interest, Tax, Depreciation and Amortisation ("EBITDA") of the Group for 1H FY2020 was $19.2 million (1H FY2019: $10.0 million).

	Statutory Consolidated	
	1H FY2020 $000	1H FY2019 $000
Profit after income tax from continuing operations (NPAT)	**7,641**	**6,078**
Add back:		
Net finance costs related to bank debt	211	231
Net finance costs related to leases (AASB 16)	879	-
Income tax expense	3,301	2,634
EBIT	**12,032**	**8,943**
Depreciation and amortisation – property, plant & equipment and intangibles	1,391	1,093
Depreciation expense – leased right of use assets (AASB 16)	5,816	-
EBITDA[1]	**19,239**	**10,036**

1 Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) is used as a measure of financial performance by excluding certain variables that affect operating profits but which may not be directly related to the underlying performance of the Group. EBITDA is not a measure of operating income, operating performance or liquidity under A-IFRS. Other companies may calculate EBITDA in a different manner to Shaver Shop. The above EBITDA reconciliation has not been audited.

The following pro-forma adjustments are required in relation to 1H FY2020 EBITDA to reflect lease costs as if they had been accounted for using the same treatment as for 1H FY2019.

	Consolidated	
	1H FY2020 $000	1H FY2019 $000
EBITDA	19,239	10,036
Lease costs – using pre-1 July 2019 lease accounting standard	(6,381)	-
Pro-forma EBITDA	**12,858**	**10,036**

The following pro-forma adjustment is required in relation to 1H FY2020 Earnings Before Interest and Tax ("EBIT") to reflect lease costs as if they had been accounted for using the same treatment as for 1H FY2019.

	Consolidated	
	1H FY2020 $000	1H FY2019 $000
Pro-forma EBITDA	**12,858**	**10,036**
Depreciation and amortisation – property, plant & equipment and intangibles	(1,391)	(1,093)
Pro-forma EBIT	**11,467**	**8,943**

DIRECTORS' REPORT

The following table sets out the impact of the pro forma adjustments to 1H FY2020 (to reflect the Group's results using the old lease accounting standard – AASB 117) and the normalisation adjustment to the results for 1H FY2019:

	Reported 1H FY2020 $000	Pro Forma Adjustments $000	Pro Forma 1H FY2020 $000	Reported 1H FY2019 $000	Normalisation $000	Normalised 1H FY2019 $000
Sales	**107,492**	**-**	**107,492**	**95,716**	**-**	**95,716**
Cost of goods sold	(62,634)	-	(62,634)	(54,821)	-	(54,821)
Gross profit	**44,858**	**-**	**44,858**	**40,895**	**-**	**40,895**
Gross margin %	***41.7%***	**-**	***41.7%***	***42.7%***	**-**	***42.7%***
Franchise and other revenue	803	-	803	927	-	927
Employee benefits expense	(15,332)	-	(15,332)	(13,724)	-	(13,724)
Occupancy expenses	(1,638)	(6,381)	(8,019)	(7,687)	-	(7,687)
Marketing and advertising expenses	(4,387)	-	(4,387)	(4,711)	-	(4,711)
Other expenses	(5,064)	-	(5,064)	(5,664)	970	(4,694)
Operating expenses	(26,421)	(6,381)	(32,803)	(31,786)	970	(30,816)
EBITDA	**19,239**	**(6,381)**	**12,858**	**10,036**	**970**	**11,006**
EBITDA margin	***17.9%***	-	***12.0%***	***10.5%***	-	***11.5%***
Depreciation and amortisation	(1,391)	-	(1,391)	(1,093)	-	(1,093)
Depreciation – leased right of use assets	(5,816)	5,816	-			
EBIT	**12,032**	**(565)**	**11,467**	**8,943**	**970**	**9,913**
Net finance costs – borrowings/cash	(211)	-	(211)	(231)	-	(231)
Net finance costs – leases	(879)	879	-	-	-	-
Profit before income tax	**10,942**	**314**	**11,256**	**8,712**	**970**	**9,682**
Income tax expense	(3,301)	(94)	(3,395)	(2,634)	(291)	(2,925)
NPAT	**7,641**	**220**	**7,861**	**6,078**	**679**	**6,757**

Shaver Shop receives a tax deduction over five years for the cost of franchise right terminations that occur through its franchise buy-back program. This improves operating cash flow for the Group by reducing income tax payable for the five year tax period following each buyback. Based on the franchise buybacks completed to date, the reduction in cash tax payable for 1H FY2020, FY2020 and each subsequent financial year related to the franchises acquired is set out in the table below.

	1H FY2020 $000	FY2020 $000	FY2021 $000	FY2022 $000	FY2023 $000	FY2024 $000
Reduction in income tax payable	615	1,231	895	435	193	160

The Directors believe the presentation pro-forma and normalised results are useful for the users of this financial report as they reflect the underlying performance of the business on a comparable basis in each reporting period and exclude the impact of expenses that do not form part of Shaver Shop's normal operations.

DIRECTORS' REPORT

The table below compares the pro-forma operating performance of Shaver Shop for 1H FY2020 against its normalised result for 1H FY2019.

	Pro forma 1H FY2020 $000	Consolidated Normalised 1H FY2019 $000	Change %
Revenue	**107,492**	**95,716**	**+12.3%**
Gross Profit	44,858	40,895	+9.7%
Gross Margin	*41.7%*	*42.7%*	*-2.3%*
Franchise & other revenue	803	927	-13.4%
Operating expenses	(32,803)	(30,816)	+6.5%
EBITDA	**12,858**	**11,007**	**+16.8%**
EBITDA Margin	*12.0%*	*11.5%*	*+4.3%*
NPAT	**7,861**	**6,757**	**+16.3%**
Tax benefit associated with franchise buybacks	615	800	-23.1%
NPAT – adjusted for franchise buyback tax benefit ("Cash NPAT")	**8,476**	**7,557**	**+12.2%**
Weighted average shares – basic (millions)	121.7	121.7	-
Basic earnings per share – cents	**6.45**	**5.55**	**+16.3%**
Cash earnings per share – cents (Cash NPAT/weighted avg. shares)	**6.96**	**6.21**	**+12.2%**

Pro Forma and Normalised Results Summary

In 1H FY2020, Shaver Shop increased sales by 12.3% to $107.5 million. The growth in sales was driven primarily by:

a) Like for like store sales growth of 9.3%. This sales growth was supported by network online sales growth of 61% over the prior corresponding period; and
b) Three additional corporate stores in the network at 31 December 2019. Shaver Shop completed two franchise buy-backs during 1H FY2020 and opened a new store at the Newmarket shopping centre in Auckland, NZ. Shaver Shop now has 122 stores across Australia and New Zealand made up of 116 corporate stores and 6 franchise stores.

Gross profit margins were 41.7% in 1H FY2020, down 100 basis points on the prior corresponding period due to changes in product and supplier mix.

Franchise and other income decreased 13.4% to $0.8 million due to lower franchise royalties being earned following the buy-back of the Doncaster, VIC and Hornsby, NSW franchises in early 1H FY2020. As at 31 December 2019, six (6) franchise stores operated across the store network (31 December 2018: 8).

Shaver Shop's pro forma total operating expenses increased 6.5% to $32.8 million, due primarily to the increase in the number of stores in the network, the full period impact of additional national support office roles as well as the 3.0% annual wage increase required under the General Retail Industry Award.

Shaver Shop's pro forma EBITDA increased 16.8% to $12.9 million compared to normalised EBITDA of $11.0 million generated in the prior corresponding period. The increase in pro forma EBITDA is due to:

a) The growth in sales referred to above;
b) Operating leverage realised across marketing expenditure with higher returns on investment generated through increased use of online and digital marketing activities, together with reduced corporate store employment costs as a percentage of store sales;
c) Partially offset by higher national support office roles to support the company's marketing and e-commerce initiatives.

DIRECTORS' REPORT

Pro forma depreciation and amortisation expense increased $0.3 million to $1.4 million in 1H FY2020 (1H FY2019 - $1.1 million) due to:

a) The completion of 13 full store refits and relocations across the corporate store network since 1 January 2019 including seven full store refits completed in 1H FY2020.
b) The launch of Shaver Shop's customer relationship management and enterprise resource planning platforms in 1H FY2020 together with continued investment in Shaver Shop's website and related technology applications.

Shaver Shop generated pro forma net profit after tax of $7.9 million in 1H FY2020 representing an increase of 16.3% on the normalised net profit after tax of $6.8 million generated in the prior corresponding period.

Cash Flow and Net Debt

In 1H FY2020, Shaver Shop generated operating cash flow of $29.3 million (1H FY2019 - $17.4 million). Shaver Shop is a seasonal business with the first half of the financial year traditionally being stronger from an operating cash flow perspective due to the impact of Christmas and Boxing Day as well as deferred payment terms received from suppliers in relation to stock purchases for this period.

Shaver Shop's net cash position (Cash less Bank Borrowings) at 31 December 2019 was $8.4 million, an increase of $4.2 million in comparison to the 31 December 2018 net cash position of $4.2 million. The Group had a net debt position of $6.4 million at 30 June 2019. Gross debt drawn under the Company's $20.0 million commercial advance facility was $11.0 million at 31 December 2019 up $0.7 million from $10.3 million at 30 June 2019. This leaves Shaver Shop $9.0 million in available capacity in its multi-option debt facility. The Company's multi-option debt facility matures on 31 July 2020.

The Company's debt facility has three key covenants: the leverage ratio (Debt/EBITDA); the net worth ratio ((total assets – total liabilities) / total assets) and the fixed charge cover ratio (EBITDA + Real property lease expenses) / (Real property lease expenses + Interest expense). All banking covenants were within the bank's thresholds in 1H FY2020.

Dividends paid or recommended

On 31 October 2019, the Company paid a final dividend in respect of the 2019 financial year totalling $3.1 million, which represents a dividend of 2.5 cents per share, franked to the extent of 80%.

On 21 February 2020, the directors of the Company declared an interim dividend of 2.1 cents per ordinary share franked at 80% (1H FY2019 – 2.0 cents franked at 80%). The total amount of the dividend is $2.7 million based on the total number of ordinary shares outstanding. The dividend has not been provided for in the half year financial statements.

Events after the reporting date

Subsequent to the end of the financial half, the directors declared an 80% franked dividend of 2.1 cents per share to shareholders of record on 9 April 2020. The dividend payment date is 23 April 2020.

DIRECTORS' REPORT

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

This report is made in accordance with a resolution of the directors.

Broderick Arnhold
Director

Melbourne
21 February 2020

Auditor's Independence Declaration

As lead auditor for the review of Shaver Shop Group Limited for the half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Shaver Shop Group Limited and the entities it controlled during the period.

Daniel Rosenberg
Partner
PricewaterhouseCoopers

Melbourne
21 February 2020

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SHAVER SHOP GROUP LIMITED
31 DECEMBER 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	31 December 2019 $	31 December 2018 $
Revenue from continuing operations		**107,491,907**	**95,715,876**
Cost of goods sold		**(62,634,261)**	**(54,820,667)**
Gross profit from corporate owned retail stores		**44,857,646**	**40,895,209**
Franchise and other revenue		**802,503**	**927,402**
Employee benefits expense		**(15,331,761)**	**(13,724,408)**
Depreciation and amortisation expense	12	**(7,206,581)**	**(1,093,286)**
Marketing and advertising expenses		**(4,387,321)**	**(4,711,273)**
Occupancy expenses		**(1,637,879)**	**(7,686,604)**
Other expenses		**(5,063,920)**	**(5,663,699)**
Finance costs (net)	12	**(1,090,314)**	**(231,249)**
Profit before income tax		**10,942,373**	**8,712,092**
Income tax expense		**(3,300,796)**	**(2,634,253)**
Profit for the half-year		**7,641,577**	**6,077,839**
Items that may be reclassified to profit or loss when specific conditions are met			
Exchange differences on translating foreign operations		**(15,716)**	**(43,622)**
Other comprehensive income for the year		**(15,716)**	**(43,622)**
Total comprehensive income for the half-year		**7,625,861**	**6,034,217**
Profit attributable to:			
Members of the parent entity		**7,641,577**	**6,077,839**
Total comprehensive income attributable to:			
Members of the parent entity		**7,625,861**	**6,034,217**
		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the company			
Basic earnings per share (weighted average shares)	13	6.3	5.0
Diluted earnings per share (weighted average shares)	13	6.2	5.0

The accompanying notes form part of these financial statements

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	31 December 2019 $	30 June 2019 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		**19,404,523**	3,942,085
Lease receivables	9	**923,231**	-
Trade and other receivables	9	**5,091,556**	2,127,566
Inventories		**33,147,488**	25,649,085
Current tax receivable	9	**28,078**	1,314,734
TOTAL CURRENT ASSETS		**58,594,876**	33,033,470
NON-CURRENT ASSETS			
Property, plant and equipment	7	**11,166,662**	11,372,247
Right-of-use assets		**28,692,644**	-
Lease receivables	9	**1,772,249**	-
Deferred tax assets		**5,086,966**	4,408,630
Intangible assets	8	**47,922,273**	43,981,432
TOTAL NON-CURRENT ASSETS		**94,640,794**	59,762,309
TOTAL ASSETS		**153,235,670**	92,795,779
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		**39,720,109**	17,157,974
Lease liabilities	9	**9,983,110**	-
Employee benefits		**1,693,281**	1,410,857
Provisions		**91,637**	-
Other liabilities		**-**	663,796
Borrowings	9	**11,018,522**	-
TOTAL CURRENT LIABILITIES		**62,506,659**	19,232,627
NON-CURRENT LIABILITIES			
Borrowings	9	**-**	10,324,099
Lease liabilities	9	**27,052,400**	-
Other liabilities		**-**	3,002,611
TOTAL NON-CURRENT LIABILITIES		**27,052,400**	13,326,710
TOTAL LIABILITIES		**89,559,059**	32,559,337
NET ASSETS		**63,676,611**	60,236,442
EQUITY			
Issued capital	11	**48,872,261**	48,872,261
Reserves		**476,545**	400,080
Retained earnings		**14,327,805**	10,964,101
TOTAL EQUITY		**63,676,611**	60,236,442

The accompanying notes form part of these financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Ordinary Shares $	Retained Earnings $	Other Reserves $	Total $
Balance at 1 July 2019		**48,872,261**	**10,964,101**	**400,080**	**60,236,442**
Change of accounting policy		**-**	**(1,215,131)**	**-**	**(1,215,131)**
Restated balance at 1 July 2019		**48,872,261**	**9,748,970**	**400,080**	**59,021,311**
Profit for the period		**-**	**7,641,577**	**-**	**7,641,577**
Other comprehensive income		**-**	**-**	**(15,716)**	**(15,716)**
Total comprehensive income for the half-year		**-**	**7,641,577**	**(15,716)**	**7,625,861**
Transactions with owners in their capacity as owners:					
Dividends provided for or paid		**-**	**(3,062,742)**	**-**	**(3,062,742)**
Employee share schemes – value of employee services		**-**	**-**	**92,181**	**92,181**
Balance at 31 December 2019		**48,872,261**	**14,327,805**	**476,545**	**63,676,611**

	Note	Ordinary Shares $	Retained Earnings $	Other Reserves $	Total $
Balance at 1 July 2018		48,897,435	9,693,804	376,974	58,968,213
Profit for the period		-	6,077,839	-	6,077,839
Other comprehensive income		-	-	(43,622)	(43,622)
Total comprehensive income for the half-year		-	6,077,839	(43,622)	6,034,217
Transactions with owners in their capacity as owners:					
Share buybacks		(25,174)	-	-	(25,174)
Dividends provided for or paid		-	(2,941,841)	-	(2,941,841)
Employee share schemes – value of employee services		-	-	25,000	25,000
Balance at 31 December 2018		48,872,261	12,829,802	358,352	62,060,415

The accompanying notes form part of these financial statements

CONDENSED CONSOLIDATED STATEMENT OF CASHFLOWS

	Note	31 December 2019 $	31 December 2018 $
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers (inclusive of GST)		**115,277,108**	**103,808,363**
Payments to suppliers and employees (inclusive of GST)		**(83,530,945)**	**(84,800,674)**
		31,746,163	**19,007,689**
Interest received		**7,218**	**22,847**
Interest paid – borrowings		**(216,060)**	**(254,096)**
Interest paid – leases		**(879,238)**	**-**
Income taxes paid		**(1,370,705)**	**(1,359,098)**
Net cash inflows from operating activities		**29,287,378**	**17,417,342**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment and intangible assets		**(3,164,558)**	**(1,989,828)**
Landlord contributions to new premises fitouts		**230,000**	**470,000**
Purchase of corporate stores	5	**(2,912,707)**	**(335,478)**
Net cash outflows from investing activities		**(5,847,265)**	**(1,855,306)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from (repayment of) borrowings		**694,423**	**(1,500,000)**
Principal elements of lease payments		**(5,609,356)**	**-**
Payments for share buy-backs		**-**	**(25,174)**
Dividends paid		**(3,062,742)**	**(2,941,841)**
Net cash (outflows) from financing activities		**(7,977,675)**	**(4,467,015)**
Net increase in cash and cash equivalents held		**15,462,438**	**11,095,021**
Cash and cash equivalents at beginning of the half year		**3,942,085**	**2,926,951**
Cash and cash equivalents at end of the half year		**19,404,523**	**14,021,972**

The accompanying notes form part of these financial statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 Basis of Preparation

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2019 has been prepared in accordance with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Act 2001.

The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by Shaver Shop Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

Where necessary, and as a result of a change in the classification of certain expenses during the current year, comparative amounts in the statement of profit and loss have been reclassified for consistency with current year presentation.

(a) New and amended standards adopted by the group

AASB 16 - Leases was introduced during the year and became effective from 1 July 2019. In accordance with the transitional provisions for the new standard, the Group has chosen to not restate comparative figures.

The impact of the adoption of the leasing standard and the new accounting policies are disclosed in note 3 below.

2 Critical Accounting Estimates and Judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving significant estimates or judgements are estimates of goodwill impairment and recoverable amount of inventory.

3 Changes in accounting policies

This note explains the impact of the adoption of AASB 16 *Leases* on the Group’s financial statements that has been applied from 1 July 2019.

The Group has adopted AASB 16 from 1 July 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the modified retrospective transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019.

Adjustments recognised on adoption of AASB 16

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of AASB 117 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 July 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 5.0%.

Where the Group is the lessee under a property head lease and sublets the property to a third party franchisee, the present value of the remaining lease payments, discounted using the incremental borrowing rate was

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

applied to recognise the associated lease liability as at 1 July 2019. The Group has also recognised the associated lease receivable from the sublessee. No right-of-use asset has been recognised where a sublease arrangement exists as the asset has been transferred to the sublessee by virtue of the sublease.

(i) Practical expedients applied

In applying AASB16 for the first time, the group has used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 July 2019
- Excluding initial direct costs for the measurement of the right-of-use-asset at the date of initial application; and
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the group relied on its assessment made applying AASB117 and Interpretation 4 *Determining whether an Arrangement contains a Lease.*

(ii) Measurement of lease liabilities

	$
Operating lease commitments disclosed as at 30 June 2019	34,755,980
Adjustment to convert straight line lease commitments to cash	2,482,392
Cash operating lease commitments as at 30 June 2019	37,238,372
Discounted using the Group's incremental borrowing rate at the date of initial application	(2,772,122)
Add: Contracts reassessed as lease contracts (franchisee leases)	3,171,705
Lease liability recognised as at 1 July 2019	37,637,955
Of which are:	
Current lease liabilities	10,530,223
Non-current lease liabilities	27,107,733
Total lease liability recognised as at 1 July 2019	37,637,955

(iii) Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The recognised right-of-use assets relate to the following types of assets:

	31 December 2019 $	1 July 2019 $
Properties	28,661,829	29,064,363
Equipment	30,815	-
Total right-of-use assets	28,692,644	29,064,363

(iv) Adjustments recognised in the balance sheet on 1 July 2019

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

	$
Assets	
Lease receivables	3,171,075
Right-of-use assets	29,064,363
Deferred tax assets	520,979
Liabilities	
Lease liabilities – AASB 16	37,637,955
Deferred lease incentive liability – AASB 117	(2,450,892)
Deferred rent liability – AASB 117	(1,215,515)
Equity	
Retained earnings	(1,215,131)

The Group leases retail sites for its corporate and franchise store locations across Australia and New Zealand. Rental contracts are typically made for fixed periods of 3-7 years and in limited situations contain an option to renew at the end of the initial term. Lease terms are negotiated on an individual basis.

Until 1 July 2019, leases for retail sites were treated as operating leases in accordance with AASB117. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of amounts assessed to be included as lease payments under AASB16. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

In line with accounting standard guidance, where leases have a fixed escalation rate, the fixed rate has been applied when accounting for the lease payments. No rate has been applied to leases that increase at the rate of CPI or leases that have a variable escalation rate.
Right-of-use assets are measured at cost comprising the initial measurement of the lease liability and other components as required under AASB16.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Payments associated with leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Low-value assets comprise IT-equipment and small office related items.

The Group holds the head lease for all franchise and corporate stores. Franchise stores sites are sublet by the Group to the respective franchisee. The present value of the remaining lease payments, discounted using the incremental borrowing rate is applied to recognise the associated lease liability to recognise the Group's obligation under the head lease. The Group also recognises an associated lease receivable from the franchisee which represents the present value of the remaining lease payments from the franchisee. No right-of-use asset is recognised where a sublease arrangement exists as the asset has been transferred to the franchisee by virtue of the sublease arrangement.

4 Profit and loss information

Income tax

Income tax expense is recognised based on management's estimate of the weighted average effective annual tax rate expected for the full financial year. The estimated average annual tax rate used for the period to 31 December 2019 is 30.1%, compared to 30.2% for the six months ended 31 December 2018.

Franchise Buy Backs

Shaver Shop has received a private ruling from the Australian Tax Office in respect of deductions for the amount relating to the termination of the franchise licence forming part of the purchase consideration paid for the buy-back of franchise stores. The tax ruling confirms that this amount is to be deducted in equal portions over a five year period following the date of purchase.

For each franchise store, a portion of the purchase consideration equal to the total tax benefit to be received over the five years is recorded as a deferred tax asset. The deferred tax asset is then released over five years in accordance with the deduction schedule for each acquired franchise store with the effect of reducing income tax payable for each period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5 Business Combinations

The company acquired one franchise store on 2 July 2019 and one on 5 August 2019 for a total consideration of $2,912,707.

The acquisition is expected to increase the Group's retail sales and synergies are expected to arise after the Group's acquisition of this store.

Details of the purchase consideration, the net assets acquired and the resulting goodwill are as follows:

	Total
	$
Purchase consideration:	
- Cash	2,912,707
Assets or liabilities acquired:	
Inventories	255,925
Trade payables	(13,218)
Deferred tax asset	801,000
Total net identifiable assets acquired and liabilities assumed	**1,043,797**
Goodwill	**1,869,000**

The goodwill is attributable to the retail stores bought back, strong profitability in trading personal grooming products and synergies expected to arise after the Group's acquisition of these stores. The goodwill is not expected to be deductible for tax purposes.

Revenue of the acquired franchise stores included in the consolidated revenue of the Group since the respective acquisition dates amounted to $1.9 million.

Had the results of the acquired franchise stores been consolidated from 1 July 2019, the additional revenue of the Group would have been approximately $0.1 million for the half-year ended 31 December 2019.

Acquisition related costs the franchise buy backs were not material and are included in other expenses in the profit and loss statement.

6 Segment information

The Group operates within one reportable segment, being retail store sales of specialist personal grooming products through their corporate stores and royalty income from franchise stores. The chief operating decision maker for the Group is the Chief Executive Officer. The retail stores and franchise royalty income has been aggregated into one reportable segment as they have similar growth rates as franchise store revenue increases at a similar rate to corporate stores. Total revenue disclosed in the consolidated statement of comprehensive profit and loss all relates to this one reportable segment. The Group is not reliant on any single customer. As at 31 December 2019, the Group operated 109 Corporate Stores in Australia (2018: 107) and 7 Corporate Stores in New Zealand (2018: 6) for a total of 116 Corporate Stores. In addition to this, at 31 December 2019 there were 6 franchised stores (2018: 8). Sales and profit derived from outside Australia are not material to disclose.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7 Property, plant and equipment

	31 December 2019 $	30 June 2019 $
PLANT AND EQUIPMENT		
Capital works in progress		
At cost	**757,760**	2,100,992
Plant and equipment		
At cost	**16,111,577**	13,969,285
Accumulated depreciation	**(5,943,357)**	(4,929,956)
Total plant and equipment	**10,168,220**	9,039,329
Computer equipment		
At cost	**627,497**	542,405
Accumulated depreciation	**(395,883)**	(320,287)
Total computer equipment	**231,614**	222,118
Improvements		
At cost	**14,798**	14,798
Accumulated depreciation	**(5,730)**	(4,990)
Total leasehold improvements	**9,068**	9,808
Total property, plant and equipment	**11,166,662**	11,372,247

Movements in Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial half year:

	Capital Works in Progress $	Plant and Equipment $	Computer Equipment $	Improvements $	Total $
Half-Year ended 31 December 2019					
Opening net book amount	**2,100,992**	**9,039,329**	**222,118**	**9,808**	**11,372,247**
Additions	**2,880,523**	**373,330**	**-**	**-**	**3,253,853**
Transfers	**(4,223,755)**	**1,758,839**	**86,396**	**-**	**(2,378,520)***
Depreciation expense	**-**	**(1,005,658)**	**(76,854)**	**(740)**	**(1,083,259)**
Foreign exchange movements	**-**	**2,381**	**(46)**	**-**	**2,335**
Closing net book amount	**757,760**	**10,168,220**	**231,614**	**9,068**	**11,166,662**

* Reclassed to Intangible Assets

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8 Intangible Assets

The intangible assets held by the group increased primarily as a result of the acquisition of franchise stores. See Note 5.

	31 December 2019 $	30 June 2019 $
Goodwill		
Cost	**43,943,264**	42,074,264
Software		
Cost	**3,925,246**	1,546,726
Accumulated amortisation and impairment	**(806,268)**	(535,140)
Net carrying value	**3,118,978**	1,011,586
Brand names		
Cost	**1,454,315**	1,453,303
Accumulated amortisation and impairment	**(594,284)**	(557,721)
Net carrying value	**860,031**	895,582
Total Intangibles	**47,922,273**	43,981,432

Movements in carrying amounts of intangible assets

	Software $	Brand names $	Goodwill $	Total $
Half-Year ended 31 December 2019				
Opening net book amount	1,011,586	895,582	42,074,264	43,981,432
Additions	2,378,520*	-	1,869,000	4,247,520
Amortisation	(271,128)	(36,317)	-	(307,445)
Foreign exchange movements	-	766	-	766
Closing net book amount	3,118,978	860,031	43,943,264	47,922,273

* Reclassed to Intangible Assets

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

9 Financial assets and liabilities

This table provides a summary of the Group's financial instruments, how they are classified and measured and reference to relevant disclosures in the financial statements. The Group holds the following financial instruments at the end of the financial reporting period.

	31 December 2019 $	30 June 2019 $
Financial assets		
Cash and cash equivalents	**19,404,523**	3,942,085
Trade and other receivables	**5,091,556**	2,127,566
Lease receivable – current	**923,231**	-
Income tax receivable	**28,078**	1,314,734
Lease receivable – non-current	**1,772,249**	-
	27,219,637	7,384,385

	31 December 2019 $	30 June 2019 $
Financial liabilities		
Trade and other payables	**39,720,109**	17,157,974
Borrowings – current	**11,018,522**	-
Lease liabilities – current	**9,983,110**	-
Lease liabilities – non-current	**27,052,400**	-
Borrowings – non current	**-**	10,324,099
	87,774,141	27,482,073

The Group holds the head lease for all corporate and franchise stores. For franchise stores, it sublicences the location to the franchisee under the same terms as the head lease. In accordance with the new AASB 16 Leases accounting standard the Group has recognised a lease liability together with an offsetting lease receivable for leases associated with franchise stores. Right-of-use assets associated with lease liabilities are not considered a financial asset.

The Group holds a $20.0 million multi-option facility with a $1.0 million facility to support its bank guarantees. The facilities have an expiry date of 31 July 2020. Interest is payable on the commercial advance facility at the rate of BBSY +1.55%, and on the trade-finance facility at a rate of BBSY +1.10%.

As at 31 December 2019, total debt drawn under the multi-option facility was $11.0 million, leaving $9.0 million in unused facilities.

The Company's debt facility has three key covenants: the leverage ratio (Debt/EBITDA); the net worth ratio ((total assets – total liabilities) / total assets) and the Fixed Charge Cover ratio ((EBITDA + real property lease expenses)/(interest expense +real property lease expenses)). All banking covenants were within the bank's thresholds in 1H FY2020.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10 Dividends

	31 December 2019 $	30 June 2019 $
Final 2019 80% franked ordinary dividend of 2.5 cents (2018: 2.4 cents fully franked)	**3,062,742**	2,941,843
Proposed interim 2020 80% franked ordinary dividend of 2.1 cents per share (2019: 2.0 cents 80% franked)	**2,654,914**	2,510,627

The proposed interim dividend for 2020 was declared after the end of the reporting period and therefore has not been provided for in the condensed consolidated financial statements.

11 Issued Capital

	31 December 2019 $	30 June 2019 $
126,462,494 (June 2019: 125,531,498) Ordinary shares	**48,872,261**	48,872,261

Movements in share capital

	31 December 2019 $	30 June 2019 $
At the beginning of the reporting period	**48,872,261**	48,897,435
Shares bought back through on market buy-back	**-**	(25,174)
At the end of the reporting period	**48,872,261**	48,872,261

Number of shares outstanding	31 December 2019 No.	30 June 2019 No.
At the beginning of the reporting period	**125,531,498**	125,062,692
Unvested LTIP shares issued in period	**2,300,000**	1,990,000
Unvested LTI Plan shares forfeited and cancelled in the period	**(1,369,004)**	(1,465,694)
Shares bought back through on market buy-back	**-**	(55,500)
At the end of the reporting period	**126,462,494**	125,531,498

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12 Expenses

	31 December 2019 $	30 June 2019 $
Depreciation and amortisation		
Property, plant and equipment	**1,083,259**	1,055,912
Right-of-use assets	**5,815,877**	-
Intangible assets	**307,445**	37,374
Total depreciation and amortisation	**7,206,581**	1,093,286
Finance costs (net)		
Interest expense on borrowings and trade finance facilities	**216,059**	254,096
Interest income on deposits	**(7,218)**	(22,847)
Interest expense on lease liabilities	**952,089**	-
Interest income on lease receivables	**(70,616)**	-
Total finance costs (net)	**1,090,314**	231,249

13 Earnings per Share

	31 December 2019 $	31 December 2018 $
Profit from continuing operations	**7,641,577**	6,077,839
Earnings used to calculate basic EPS from continuing operations	**7,641,577**	6,077,839

As at 31 December 2019, there are 4,665,302 (2018: 3,734,306) shares issued under the Company's Long Term Incentive Plan. These have vesting criteria and therefore are only included in diluted share calculations.

Calculation of weighted average number of diluted shares

	31 December 2019 No.	31 December 2018 No.
Weighted average number of ordinary shares used for calculating basic earnings per share	**121,797,192**	121,797,192
Adjustment for weighted average number of LTI Plan shares issued (unvested shares)	**1,979,178**	118,967
Weighted average number of ordinary shares issued and potential ordinary shares used in calculating diluted earnings per share	**123,776,370**	121,916,159

The LTI Plan Shares are only included in the calculation of the weighted average number of fully diluted shares outstanding when their exercise is below the average market price of the shares in the period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The average market price of the Company's shares for the six months ending 31 December 2019 was above the exercise price of the FY2017, FY2019 and FY2020 LTI Plan shares. Accordingly, these shares have been included in the calculation of diluted earnings per share. The FY2018 LTI Plan shares remained out of the money during the six months ended 31 December 2019 and have not been included. These Plan shares could potentially be included in the number of fully diluted shares outstanding in the future.

Because the average market price of the Company's shares for the period ended 31 December 2018 was below the exercise price of the FY2017 and FY2018 LTI Plan Shares, only the FY2019 LTI Plan shares were included in the calculation of diluted earnings per share for the 1H FY2019 period.

14 Events After Reporting Date

Subsequent to the end of the financial half, the directors declared a dividend of 2.1 cents per share franked to the extent of 80% to shareholders of record on 9 April 2020. The dividend payment date is 23 April 2020.

DIRECTORS' DECLARATION

In the directors' opinion:

a) the financial statements and notes, as set out on pages 7 to 22 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Accounting Standards, the *Corporations Regulations 2001*, and other mandatory professional reporting requirements, and

   (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date and

b) there are reasonable grounds to believe that Shaver Shop Group Limited will be able to pay its debts as and when they become due and payable.

In the Directors' opinion, there are reasonable grounds to believe that the Company and its subsidiary which have entered into a Deed of Cross Guarantee will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

This declaration is made in accordance with a resolution of the directors.

Broderick Arnhold
Director

Melbourne
21 February 2020

Independent auditor's review report to the members of Shaver Shop Group Limited

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Shaver Shop Group Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the condensed consolidated balance sheet as at 31 December 2019, the condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and condensed consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Shaver Shop Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Shaver Shop Group Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Matters relating to the electronic presentation of the reviewed half-year financial report

This review report relates to the half-year financial report of the Company for the half-year ended 31 December 2019 included on Shaver Shop Group Limited's web site. The Company's directors are responsible for the integrity of the Shaver Shop Group Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed half-year financial report to confirm the information included in the reviewed half-year financial report presented on this web site.

PricewaterhouseCoopers

Daniel Rosenberg
Partner

Melbourne
21 February 2020