

NEW LOOK

14 January 2019

New Look announces agreement in principle with a group of senior secured noteholders on terms of balance sheet restructuring

Debt-for-equity swap proposal to reduce long-term debt from £1.35bn to £350m together with a new capital raise of £150m funded by the issuance of new money bonds, delivering material deleveraging and significant financial flexibility to restore long-term profitability

New Look Retail Group Limited (“New Look”, the “Company” or, together with its subsidiaries, the “Group”) is pleased to announce that it has reached an agreement ‘in principle’ with certain of its key financial stakeholders in relation to the main terms of a transaction aimed at deleveraging and strengthening its balance sheet (the “Transaction”).

Given the Company’s high leverage, it has previously stated it would address its balance sheet to restore long-term profitability. The agreement in principle announced today constitutes an important outcome for the Company, as the Transaction would provide the business with a delevered capital structure, significant liquidity and adequate financial flexibility, to support the future development of the business.

Transaction highlights*

- Existing long-term debt to be significantly reduced by c.80% from £1,350m to £350m which together with £150m of new capital raised by the issuance of new money bonds, represents a material deleveraging of the balance sheet
- Initially £80m of interim funding, which will be refinanced by the £150m of new money bonds upon the consummation of the transaction, to pay transaction costs and to provide the Company additional financial resources to support the development of the business
- Strengthened liquidity headroom, providing the Group with sufficient resources to continue investing in the business to drive growth and profitability
- Significant reduction in overall cash debt service costs through a material decrease of annual cash interest payment from £80m to c.£40m, and greater debt servicing flexibility
- No near-term scheduled notes’ maturities, as the reinstated SSN maturity will be extended to 2024, reducing refinancing risk
- Transaction expected to complete in the course of Q1 FY20 (April-June 2019)

** all terms subject to the requisite conditions and approvals*

Alistair McGeorge, Executive Chairman, said:

“Today’s agreement represents a critical step in our turnaround plans and lays the foundations to secure the future and long-term profitability of New Look by materially deleveraging our balance sheet and providing us with the financial flexibility to better attack our future.

“Over the past year we have made significant progress with our wider turnaround plans to rebuild our position in the UK womenswear market and recover the broad appeal of our product whilst implementing significant cost savings and efficiencies.

“However, it has been clear for some time that the Group’s existing level of indebtedness has been constraining our ability to accelerate our turnaround plans and would continue to limit our growth in the future.

“Therefore, today marks an important milestone for the business, our colleagues, our suppliers and all our other stakeholders. A materially delevered balance sheet and a more flexible capital structure will allow us to better navigate the challenging market environment and create a stable operating platform so that we can achieve further progress against our turnaround plans.

“Upon completion of the restructuring, our focus will be to enhance profitability by continuing to provide fantastic product for our customers, building brand equity and grasping new market opportunities.”

Transaction overview

Materially delevered balance sheet and injection of £150m new money

The Company has, as a result of the consequences of recent market developments described below, recently engaged in constructive discussions with a group of holders of the £700,000,000 6.5% senior secured notes due 2022 and €415,000,000 floating rate senior secured notes due 2022 issued by New Look Secured Issuer Plc (collectively, the “SSNs”) (the “Bondholder Committee”) and Brait (its majority shareholder but here acting in its capacity as a significant holder of SSNs) (“Brait”)¹. The agreement in principle is the result of extensive discussions on the available options over the holiday period.

Furthermore, consent has also been obtained from a significant majority of the lenders of the £100,000,000 Revolving Credit Facility (the “RCF Lenders”), the provider of an £100,000,000 Operating Facility, and a majority of the outstanding amount of the £176,700,000 8% Senior Notes due 2023 (the “Senior Notes”), to enable the Group to raise £80m of interim funding to support the business in the short-term, which would strengthen the Group’s liquidity profile and provide sufficient runway to enable a comprehensive restructuring to be implemented. The interim financing will be backstopped by the Bondholder Committee and Brait (the “Backstop Parties”) but will be open to participation by certain other SSN holders.

Based on the terms of the Transaction, and subject to the requisite approvals and participation levels required, total gross debt would be significantly reduced from £1,350m to £350m, resulting in a materially de-levered balance-sheet. The Group would also be supported by a new £150m capital raise via the issuance of new money bonds (the ‘New Money Bonds’) (which are also being backstopped by the Backstop Parties), which would refinance the interim financing, pay transaction costs and to provide additional liquidity to the business and further strengthen the Group’s operating flexibility.

The Company believes that this, in combination with the reinstatement of a more flexible capital structure and increased liquidity, would secure New Look’s future and allow the Group to better navigate the challenging market environment, create a stable operating platform and have full control over its business strategy.

Lower overall cash debt service costs, greater debt servicing flexibility and reduced refinancing risk

The New Money Bonds will pay 8% per annum cash interest, plus 4% per annum payment-in-kind (and any cash interest may be toggled to payment-in-kind at the Company's election, provided that there shall be an incremental 2% per annum payment-in-kind interest for the portion of interest which has been toggled). This would provide enhanced flexibility to the Group whilst recognising the support of the noteholders provided pursuant to the New Money Bonds and the restructuring. The new financing will have a 5 year tenor from the closing date of the transaction and will rank *pari-passu* with the reinstated SSNs described below.

Debt-for-equity conversion details

Providers of the New Money Bonds would also receive 72% of the equity of the Group post-restructuring, which will be allocated on a pro-rata basis based on respective participations in the New Money Bonds.

The existing SSNs are intended to be exchanged into £250m new SSNs, which will rank *pari-passu* to the New Money Bonds and will have the same economic terms as the New Money Bonds. The reinstated SSNs would also receive 20% of the Group's equity post-restructuring, allocated on a pro-rata basis to existing holdings of SSNs.

The existing Revolving Credit Facility and Operating Facilities would be reinstated at par and their priority ranking as to security enforcement proceeds would not be affected by the Transaction.

Post-transaction, 5% of the equity would be reserved for the Management's incentive plan. Certain other stakeholders in the structure may share up to 3% of the equity post-transaction (of which 2% will be assigned to the Eligible Holders of the Senior Notes²) subject to the final outcome of the implementation and other diligence and tax analysis which will need to be completed prior to completion of the overall restructuring.

Financial performance update

Conditions in the UK retail market have continued to be very challenging in FY19. Despite the difficult market conditions, the Company's like-for-like (LFL) performance showed a positive trend from Q1 FY19 through to mid-November, driven by the turnaround measures launched at the start of the year.

Total UK LFLs (UK Retail and UK E-commerce) improved from -4.2% in Q1 to -2.3% in Q2, with broadly flat UK Retail store LFLs in H1 FY19 offset by declining E-commerce sales as a result of the Company's change in strategy to focus on profitable sales rather than absolute sales growth, plus the impact of the upgrade to the E-commerce platform in September FY18.

Core clothing in stores outperformed the BRC by +5.6pts in H1 FY19, with further progress continuing into Q3, with Accessories also improving relative to the BRC. Combined with the annualisation of the changes to E-commerce at the start of Q3 Total UK LFLs improved to +4.8% in October and +8.9% in November. This was despite continued challenges on Footwear which still performed poorly compared to the Company's expectations and the market.

However, in late November and December increased headwinds, driven by a decline in footfall and a subsequent increase in the level of promotional activity to stimulate trade across the market, resulted in Total UK LFL sales of -5.7% for December (resulting in Q3 Total UK LFLs of +0.9%). The decline in total UK sales was further impacted by the loss of stores as a result of landlord enforced

closures from the CVA. However, the exit rights now sit with the Company³ and therefore the Group believes it now has the ability to flex its cost base and business model from stores to online more easily than competitors if required.

This resulted in marginal EBITDA generation during the third quarter, which necessarily impacted adversely on liquidity, particularly given that this period is usually the most cash generative over the course of the fiscal year. EBITDA for FY19 is projected to be £84m EBITDA from the core business⁴ and a £(27)m EBITDA loss from non-core business⁴, below initial forecasts. As a consequence of recent developments, in light of current difficult market environment, also considering additional uncertainties related to Brexit, it is necessary for the Company to address the Group's capital structure and strengthen its liquidity profile so that the business can react to market challenges and accelerate the implementation of its turnaround strategy.

New Look continues to make good progress in delivering improved operational stability, having already identified and implemented a number of well-defined turnaround measures to improve business performance and restore growth. £78m of cost savings have already been identified and actioned in FY19.

Management has identified several well-defined turnaround measures aimed at improving business performance and restoring growth and profitability, with the main initiatives being focused on the following key pillars:

1. Revised business strategy and positioning, returning to proven broader appeal product and value led pricing
2. Realign and improve the supply chain, re-establishing focus on speed and agility lower markdowns and improving inventory management
3. Focus on a cohesive multi-channel business model, aligning pricing and products across stores and online, with online platform driving footfall to stores
4. Continue identifying measures that would allow further efficiencies and cost-savings
5. Focus on people, investing in the Company's employees, improving internal communication and engagement, and actioning structural changes

The Company has already achieved significant progress against these measures, including:

1. The re-launch of the brand, with initial attention on key clothing areas since April 2018, has led to significantly improved gross profit and the Company maintaining its leading market position in the 18 to 44 age range, and, according to the BRC, outperforming the UK clothing market by 5.6 pts YTD (9M FY19)
2. The Company has significantly reduced its stock and increased the 'Open to Buy' option by c.30% every month
3. The multichannel strategy is already delivering strong results: the click and collect sales mix increased to 41% in H1 FY19, driving footfall into stores, whilst, according to the BRC, the online platform outperformed the UK online clothing market by 1.7 pts during Q3 FY19.

The implementation of the envisaged turnaround strategy and completion of the Transaction would provide the Group with a sustainable capital structure, as net leverage would decrease from 16x today⁵ to c.5x post-restructuring⁵ and c.3x by 2021.

As part of the Transaction the Group would also achieve further financial flexibility through a material decrease of cash interest payment from £80m to c.£40m. In addition, the Company will be able to entirely toggle cash interest payments on the reinstated SSNs and New Money Bonds to non-cash payment-in-kind at its own discretion.

Next steps

The Group is targeting the completion of the Transaction in the course of Q1 FY20 and will continue working with the Bondholder Committee, Brait and its other stakeholders to finalise and implement it, including execution of the definitive documentation in relation to the Bridge Facility and satisfaction of the conditions precedent to its utilisation. In the meantime it should however be noted that successful consummation of the Transaction will be subject to a number of conditions, approvals and other matters which are required in the near-term. A further announcement will be made in due course.

¹ Collectively these parties represent today over 50% of the outstanding SSNs.

² In exchange for conversion of their Senior Notes subject to a requisite majority of the Senior Noteholders agreeing to support the transaction.

³ Except C stores where the Landlord also has the right of termination

⁴ Core business includes UK Retail, Ecommerce, ROI and 3PE. Non-core includes China, France, Belgium, Poland, Franchise and Others.

⁵ Based on £84m Estimated Adjusted Core EBITDA as at FY19. Assumes nil cash available pre-transaction and illustrative cash post-transaction of £95m.

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About New Look

New Look is a leading UK multichannel retail fashion brand offering exciting, on-trend, value fashion for women, men and teenage girls.

Our flexible fast-fashion business is built on an agile global supply chain with the ability to respond quickly to trends. We focus on delivering value for money and 'newness', with hundreds of new lines landing every week. Our ranges of apparel, footwear and accessories are designed with broad age appeal and global relevance. They are delivered by our great people in stores and support centres, who ensure we deliver great service - wherever, whenever and however customers choose to engage with us.