Interim Results for the 26 weeks ended 27 January 2008

The UK's only specialist National leather sofa Retailer

Highlights: Major highlights

Paul Briant succession

- Orderly and planned
- Allocation of responsibilities:
  - CEO : Steve Jenkins – effective 4th August 2008
  - Buying : Steve Dowdall – with immediate effect
  - Property : Clive Hatchard – in addition to ongoing CFO role
  - Retail & marketing: Peter Ling – unchanged role
- Extended sensible handover period
  - Full time until 3rd August 2008
  - Further one year consultancy role
  - Will accompany Steve Dowdall on buying trips
  - 50 days per year

The Sleep Depot is being restructured and refinanced

- Will involve changes in existing rental and payment terms
- The Sleep Depot expect to successfully complete the restructuring within a week

Interim Dividend

- Low visibility over sales
- Prudent cash management
- Well positioned to trade through the challenging market

Highlights: 26 weeks to 27 January 2008

- Challenging market conditions - company has retained market share
- Significant downturn in discretionary spend
  - Particular impact on big ticket items
  - Performance is market related; not company specific
- Strong financial position maintained
  - No debt and cash balances of £16.3m
- Management taking sensible actions to conserve cash
  - Curtailed new store openings
  - Mezzanine and refurbishment programme stopped
  - Reduced advertising spend
  - Cost reduction programme
  - Interim dividend cancelled
  - Share buyback programme stopped

Financial review

Financial review

Income statement

	2008 £000 26 wks	2007 £000 26 wks
Turnover	133,298	115,789
Gross profit	55,779	52,280
	41.8%	45.1%
Concession income	3,313	2,714
Operating costs	(54,076)	(46,893)
Operating profit before exceptional items	5,016	8,101
Exceptional item – hedge contract	1,622	(2,636)
Exceptional item – onerous leases	(1,575)	
Interest	482	333
Pre tax profit	5,545	5,798
Tax	(1,966)	(1,892)
Post tax profit	3,579	3,906

Income statement

- Revenue
  - First half delivered sales up 15%
    - Despite Average Order Value down 10.3% to £922
    - Hence, volume increased by 27%
  - First half sales order intake down 4.2% (LFL down 16.1%)
  - Delivered sales boosted by:
    - High order book brought forward
    - Positive sales order intake in Q1 (up 5%)
  - Second half will be lower:
    - Disappointing January Sale
    - Trading expected to remain difficult – negative sales order intake continuing

Income statement

- Gross profit
  - First half down by 3.3%
    - Freight increase represents 1.6%
    - Strong promotions in Q4 last year and Q1 this year
  - Run rate on new orders has recovered since October to circa 43.0%
    - Stock clearance will reduce the delivered margin in H2
- Concession income
  - Increase of 22%
  - Discussed fully in operational review
- Operating costs
  - Increase of £7.1m (15%)
    - £4.5m attributable to new stores
    - £2.5m advertising

Marketing spend in H1 2007

- £14.2m; 10.7% (2007: £11.7m; 10.1%)
- Marketing split: TV (*52%*); National press (*24%*)

Marketing spend in H2 2007

- Recover £3.0m overspend in H1
  - Marketing payback limited in this environment
- Full year circa £22.0m; (2006: £22.5m)
  - £3.0m lower than H2 last year
- New marketing initiatives
  - Direct mail: 10.5m brochures in March
  - New theme for TV adverts
  - Warehouse sale

Income statement

- Exceptional items
  - Credit due to termination of sterling/dollar hedge contract
  - Charge due to increase of empty property provision
    - 3 properties
    - Provision now equivalent to 6 years property costs
    - Leases expire 2016, 2018 and 2025
    - Intention to utilise the properties, or opportunity to sublet, has been delayed by economic conditions
- Interest received
  - Increase from higher average balances and interest rate
- Taxation
  - Effective rate of 35.5% (2007 H1: 32.6%)
  - Increase due to consistent disallowables but lower profitability

Operating Cash Flow – 26 weeks to 27 January 2008

	2008 26 wks £000	2007 26 wks £000
Operating profit before exceptional items	5,016	8,101
Depreciation and other non cash items	1,230	1,151
Tax paid	(1,543)	(1,346)
Movement in working capital	2,704	10,047
Cash generated from operations	7,407	17,953
Interest (net)	488	333
Finance leases	(6)	(4)
Capital expenditure	(3,817)	(5,708)
Cash flow before financing	4,072	12,574
Dividends	(4,370)	(3,609)
Sterling / dollar hedge contract	(5,867)	-
Share purchases	(3,032)	-
	(9,197)	8,965

Cash flow

- Strong cash generation of £7.4m from operations
- Cash conservation programme
  - Reduced store openings
  - Stopped new mezzanine floor installations
  - Cancelled interim dividend
  - Ceased share buyback programme
- Net cash balance of £16.3m at 27 January 2008
  - Minimal cash usage by company – worst case is zero cash usage at break even profitability
  - Existing resources will ensure business trades through a lengthened downturn
  - Expect cash balances of circa £10m at July 2008 year end
- New bank facility to be negotiated to provide additional headroom

Operating review

Operational update: store development

Openings in H1 2007/08

- 14 new stores across UK and ROI
- 16% new space
- Over 1 million sq.ft of traded space

Openings in H2 2007/08

- One new store opened Easter - Yeovil
- Bristol relocation to own store in May

New store roll-out

- Opening programme reduced
  - Stringent evaluation of prospective sites in slower market
  - Only considering top 6 target stores
  - Maximum of 2 store openings in year to July 2009

Operational update: Sleep Depot

Concessions

- 94 concession at 27 January 2008 (2007 H1: 80)
- 255,000 sq.ft (2007 H1: 219,000)
- Annualised income of £6.5m (2007 H1: £5.7m)

The Sleep Depot

- The Sleep Depot represents 186,000 sq.ft and £4.8m annualised revenue from 71 stores
- The Sleep Depot is looking to restructure & refinance:
  - Restore profitability:
    - Close loss making stores; 2 LoL stores
    - Reduce rent – 13% of sales (variable); £1.2m reduction
  - Raise new funds
- If unsuccessful then LoL will utilise extra retail space for additional range:
  - Initially utilise for displaying free stock
  - Launch August bank holiday
  - Require 8% uplift in store sales to recover lost rental income
  - Sales uplift demonstrated in Slough & Leicester stores
- The Sleep Depot expect the Restructuring to be completed within the next week

Operational update: Cost savings

- 90% of costs accounted for by salaries, advertising and property
- Cost savings opportunities in the following areas:
  - Advertising - £3.0m lower in H2
  - Staff numbers
    - Reduced by 32
    - Cutback on interim and temporary staff
    - Ban on non-essential overtime
    - Further review is ongoing
  - Freight costs - £1.5m annual savings
  - Repairs & maintenance
  - Cutbacks on all other general areas of expenditure
- We will continue to cut costs in line with lower activity levels

Retail proposition

Land of Leather retail proposition incorporates:

- Leather only specialist retailer
  - Widest available leather product range
- Lowest prices
  - Bulk stock
  - Far East sourcing
  - No Interest Free subsidy added to prices
  - Low cost structure
- Added value by:
  - Combination offers
  - Motion furniture
  - Free gifts

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Conclusion

- LoL is a good business
  - Improvements - not wholesale changes
  - Profitable
- Management taking positive action
  - Focus on costs and cash management
- Business is well financed
  - £16.3m cash as at half year end
  - Low cash requirement
  - Well positioned to trade through a difficult market for the next 12/18 months
- Sales will recover and profits will bounce back when consumer confidence returns

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Trading performance

LFL figures	2005/6	2006/7	2007/8
Q1	(1.4)%	5.1%	(9.2)%
Q2	10.5%	(4.6)%	(21.8)%
Q3	2.0%	(0.9)%	n/a
Q4	(0.5)%	3.5%	n/a

- Latest trading:
  - LFL - Q3 to date (27.1%); Ytd (18.3%)
  - Total sales – Q3 to date (19.8%); Ytd (8.2%)
  - LFL deteriorated from 16.1% at half year

Financial review

Balance sheet – January

	27 Jan 2008	28 Jan 2007
Intangible fixed assets	20,324	20,103
Tangible fixed assets	28,536	24,048
	48,860	44,151
Inventories	18,722	16,444
Debtors & other current assets	11,989	9,155
Trade creditors	(23,638)	(14,075)
Customer deposits	(16,719)	(16,890)
Other current liabilities	(13,033)	(12,710)
Income tax payable	385	(1,811)
Net working capital	(21,810)	(19,887)
Cash at bank and derivative	16,316	20,042
Debt	-	-
Inducements, provisions and deferred tax	(16,077)	(9,438)
Derivative asset/liability	814	(7,661)
Net assets	27,619	27,207