Hollywood Bowl Group plc

Final Results for the year ended 30 September 2020

FULL YEAR PERFORMANCE UNDERPINNED BY EXCELLENT FIRST HALF

WELL POSITIONED FOR THE FUTURE

Hollywood Bowl Group plc, ("Hollywood Bowl" or the "Group"), the UK's market leading ten-pin bowling operator, announces its audited results for the year ended 30 September 2020 ("FY2020").

This year included five months of normal trading conditions in the first half and the subsequent five month closure of the estate from March, followed by the reopening in mid-August (subject to localised lockdowns) with trading restricted by capacity limitations, 10pm curfew and smaller group sizes.

Operational Highlights

- Well managed financial and operational response to COVID-19 pandemic
    - Strengthened balance sheet with equity placing, landlord negotiations and increased revolving credit facility
    - Reopening plan executed well as 98% of estate reopened in mid-August with comprehensive new COVID-secure measures

- Consistent customer-focused strategy and ongoing rollout of new initiatives underpinned excellent H1 and successful reopening
    - Renewed focus on “Sales, Service and Safety Superiority” with introduction of a new “Have Fun, Play Safe” campaign with safety initiatives including lane seating dividers, unique bowling balls and a food and drink ordering app
    - Further roll out of digital enhancements, new scoring system now in 44 centres and Pins on Strings now in 18 centres

- Strong customer demand and better than expected performance in August and September upon reopening despite capacity and trading restrictions
    - Traded at 66% of prior year revenue with majority of centres filling permitted 50% lane capacity at peak times
    - Average spend increased by 5.3 per cent to £10.15

- Successful launch of new Puttstars mini-golf concept with three new centres opened in addition to three refurbishments and rebrands and a new Hollywood Bowl centre in York
    - Positive customer feedback and encouraging early trading in line with pre-COVID revenue expectations for Puttstars Leeds (opened March), Puttstars York and Puttstars Rochdale (August)
    - Hollywood Bowl York features latest generation VIP lanes, digital merchandising and leader boards

- Strong balance sheet and cash generation
    - Positive cash generation in both August and September
    - Net debt of £8.7m at 30 September 2020; liquidity of £31.8m

Financial Summary

	12 months ended 30 September 2020 (IFRS 16)	12 months ended 30 September 2019 (pre IFRS 16)	**% Movement**
Total revenues	**£79.5m**	£129.9m	**-38.8%**
Like for like (LFL[1]) revenues	**+0.4%**	+5.5%	
Group adjusted[2] EBITDA	**£29.8m**	£38.2m	**-22.0%**
Operating profit	**£9.9m**	£28.4m	**-65.3%**
Operating profit margin	**12.4%**	21.9%	**-9.5%pts**
Group profit before tax	**£1.2m**	£27.6m	**-95.7%**
Group profit after tax	**£1.4m**	£22.3m	**-93.8%**
Basic earnings per share	**0.90p**	14.86p	**-93.9%**
Net bank debt[3]	**£8.7m**	£2.1m	

Outlook

- Agile response to ongoing localised tier restrictions and national lockdowns – successful reopening of c. 60% of the estate on 2 December supported by localised marketing campaigns

- Safely increased capacity through introduction of new, approved COVID-secure measures, including full height lane seating area dividers across the estate and uniquely identified bowling balls for each lane

- Ongoing roll out of digital enhancements, Pins on Strings and new scoring system

- Conservative approach to capex with five – seven refurbishments planned for FY2021

- Strong new centre pipeline to 2024 with additional opportunities for Puttstars expansion

- Focused on continued investment in the portfolio and roll out of customer innovations

- Continued, strong demand for a family focused, value-for-money and enjoyable experience

Stephen Burns, Chief Executive of Hollywood Bowl Group, commented:

"Our ability to deliver this performance while having the majority of the estate closed for almost half the year demonstrates the strength of our business and the outstanding efforts of our team. I would like to thank those who have collectively supported our response throughout this pandemic, which has enabled us to reopen in a robust position with a renewed focus on the highest levels of safety and customer service.

"Some of the changes we have made as a result of COVID-19 have enhanced our service proposition and we are very encouraged by the customer response to our reopenings both in August and again in December. I am very pleased with the success of our new Puttstars concept and its performance despite opening in the most challenging of circumstances, and we are excited about the opportunity ahead.

"We remain confident in the continued strength of demand and we are optimistic for a gradual return to more recognisable market conditions in 2021. We will maintain our prudent approach but our core focus and longer-term strategy remains unchanged: to deliver the best possible inclusive, affordable, and safe family entertainment experience."

1. LFL revenue is defined as total revenue excluding any new centre openings from the current financial year until they are LFL, closures since the same reporting period in the prior year and any closure period impacted by Covid-19 from 16th March and is used as a key measure of constant centre growth.
2. Group adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) reflects the underlying trade of the overall business and excludes any one-off benefits (VAT rebates for prior years) and costs. It is calculated as statutory operating profit plus depreciation, amortisation, loss on disposal of property, right-of-use assets, plant and equipment and software, and any exceptional costs or income. It is management's view that these are non-recurring benefits and costs. The reconciliation to operating profit is set out below in this section of this announcement. For comparative purposes, Group adjusted EBITDA pre IFRS 16 is £14.0m (-63.4 per cent to FY2019).
3. Net bank debt is defined as bank borrowings from bank facilities (£29.5m) excluding issue costs, less cash and cash equivalents (£20.8m). Under IFRS 16, total net debt would include lease liabilities of £173.8m.

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CHAIRMAN'S STATEMENT

A dynamic response to a challenging year

My Chairman's Statement last year concluded with this paragraph: "I look forward to the year ahead with great enthusiasm and optimism. We are well placed to increase shareholder value through the continued execution of our customer-led strategy, planned effective investment and our highly motivated and engaged team."

Without our highly motivated and engaged team, the year that unfolded could have been significantly worse. I would like to thank the entire team, in particular the senior leadership team of Darryl, Mel, Mat, Laurence and Stephen, for their outstanding efforts in the face of extremely challenging and testing circumstances.

The year can be divided into three distinct parts: normal trading, total closure and then finally reopening and trading with COVID-secure measures and restrictions.

The first five months of the financial year delivered strong financial and operational performance with the continued execution of our customer-led strategy, delivering returns from product innovations, new centre openings and the ongoing refurbishment programme. At that point, revenue was up 12.5 per cent and like-for-like revenue was up 9.4 per cent.

The second five months of the year took us into unprecedented territory, with a total national lockdown. The immediate priorities of team member welfare and liquidity were uppermost in the thoughts of the senior leadership team. A combination of a capital raise through the issue and sale of 7.5m shares and the securing of a £10m revolving credit facility (RCF) under the Coronavirus Large Business Interruption Loan Scheme (CLBILS), plus the low level of net debt present in the Group, created good protection for our medium-term viability.

The Group received further government support under the Coronavirus Job Retention Scheme (CJRS) as it furloughed 98.6 per cent of the total team. This brought the payroll to a manageable level and the remaining team members proved their remarkable adaptability by putting their 'can-do' approach into action in taking on a wider range of duties, including ensuring all centres were COVID-secure prior to opening.

Through the proactive, direct approach to our landlords, we secured agreements that protected our rent position with the majority of our landlords.

The period of closure was put to good use. We used it as an opportunity to take a good look at the business, allowing us to push forward several important projects. We also successfully reviewed our operational structure and agreed processes to ensure that when we reopened, we would hit the ground running with all the required safety measures in place.

Reopening has not been without its challenges. Notwithstanding the significant delay to restrictions being lifted for bowling, and the disappointment at the false start, our comprehensive planning enabled us to reopen successfully.

We continue to put our efforts into engagement with the Department of Digital, Culture, Media & Sport (DCMS) and the Treasury to extend the VAT reduction available to the leisure sector, to bowling operators. We see this as crucial in ensuring a level playing field for leisure operators.

Since reopening with our comprehensive COVID-secure measures, performance to 30 September 2020 exceeded our expectations – trading at 66 per cent of prior year revenue levels. However, the introduction of tiered COVID alert systems in England and Scotland has created further customer confusion which had an impact on trading. We continue to proactively communicate with customers on a location-by-location basis to keep them up to date and, where possible, to reassure them that we are open. Despite all these challenges, we are able to report the Group was cash positive for the final two months of FY2020 and first month of FY2021, prior to the November lockdown.

We have learned more since reopening about how we can operate safely within a COVID-secure environment for our customers and team members, while finding new ways to increase capacity and open more lanes. We continue to listen to customers and team members to adapt, test and trial new ideas – some of which will be rolled out before the end of 2020 based on the excellent feedback we have had.

Despite the pandemic, for the year under review, we reported a profit of £1.4m. In line with previous announcements, we have suspended all dividend payments until such time that we return to trading levels which allow us to confidently reintroduce them.

Despite the disjointed nature of the year, we have adhered to our strategy and continued to invest in, and develop, both our teams and our assets. The most significant development was the opening of the three Puttstars mini-golf centres, in Leeds, York and Rochdale. I am pleased to report that despite the pandemic, the centres have traded in line with pre-COVID expectations. We are excited about the future opportunity for Puttstars and are already exploring additional sites for expansion.

We also opened a new bowling centre in York. This centre is particularly exciting for us. It contains all of our latest digital developments – screens and scoring, including enhanced VIP lanes, demonstrating that there is still opportunity to innovate and develop the customer offer. The new centre is co-located with a Puttstars, which will give us further insight into potential future co-locations.

Our refurbishment programme continues, too. Although our overall refurbishment spend in FY2020 was lower than we had planned as a result of the pandemic, significant investments were made at Crawley, Sheffield and Watford Woodside. These centres now have an inspiring contemporary feel and have also been repurposed for additional machines and/or additional lanes by combining the bar and diner, refinements which also create more space and efficiencies for the customer. In addition to these refurbishments, we have rebranded Carlisle from AMF to Hollywood Bowl which has had a very positive impact on the customer experience.

Investment continues with 'Pins on strings' and the upgrade of the scoring system. Both investments deliver tangible benefits to the customer, through performance and simplicity of use, and ongoing returns for the Group. This level of sustained investment in the existing portfolio of centres underpins our future performance and reinforces the benefits of adopting and executing a clearly defined strategy.

This year has been dominated by COVID-19, the unprecedented impact it has had on the hospitality and leisure sector, and the challenges that we have had to deal with. Throughout this whole period, I remain impressed and inspired by the resilience and adaptability of the wider team within our Group. This was best illustrated by the manner in which we reopened our centres and recommenced trading in August in such an efficient and positive way, with so many examples of a 'can do' attitude and 'above and beyond' personal performance.

Whilst at the time of writing we are not yet able to operate all of our centres due to the government tiered restrictions, I firmly believe that the spirit and enthusiasm of our people makes us well placed to move forward and rediscover the success that has become synonymous with Hollywood Bowl.

PETER BODDY
NON-EXECUTIVE CHAIRMAN
14 DECEMBER 2020

CHIEF EXECUTIVE'S REVIEW

Operational and financial highlights

- Pre-COVID trading ahead of expectations with significant cash generation
- Rapid lockdown of the estate, following UK government announcement;
- All centres closed on 20 March 2020;
- Cost-reduction plans implemented to minimise cash outflows during closure
- Strengthened balance sheet with equity placing completed, net proceeds of £10.5m and £10m CLBILS secured
- Development of COVID-secure operating protocols in preparation for the reopening of the estate during August
- Majority of centres reopened, with significant capacity restrictions, immediately following the lifting of local restrictions (Wales, 4 August; England, 15 August; Scotland, 24 August)
- Revenues from 15 August to 30 September were 66 per cent of prior year on a like-for-like basis (LFL), with full year profit of £1.4m
- Cash flow positive in August, September and October 2020
- Net debt of £8.7m at 30 September 2020; liquidity of £31.8m
- Four new centres opened in FY2020

FY2021 outlook

- Centre reopenings in line with the regional tier system restrictions
- Q1 completion of rollout of new innovative COVID-secure measures

Delivering on our strategy responsibly

The COVID-19 pandemic forced the closure of the entire Hollywood Bowl Group estate on 20 March 2020 and we were one of the few sectors to remain closed through to mid-August, resulting in nearly five months of lost revenue. The Group entered the global crisis in a strong financial position following a successful trading period over the first half of the financial year. We have always maintained a prudent approach to financing; a strategy that proved to be the right one when we entered the crisis with a low leverage with net debt of £14.6m and net debt:Group adjusted EBITDA (pre IFRS 16) of 0.38x at 31 March 2020.

With no possibility of online trading, takeaway offer or any clear idea as to how long we would be required to remain closed, we needed to act quickly and decisively as a team to protect and bolster the balance sheet. The prolonged period of closure meant zero revenue which resulted in a very challenging time, even for a healthy business such as ours. In response, we made significant operating cost reductions and central cost savings, negotiated hard with our landlords, and secured increased liquidity with a new £10m RCF under CLBILS and £10.5m net proceeds via an equity placing.

Once we had secured financial stability for a sustained period of closure, we led the sector in developing the operational protocols required to reopen the centres. With reduced capacity, the team resourcing, marketing and technology requirements also needed reworking and refining, ensuring that the business reopened with sales, service and safety superiority as the core objectives.

Our response to COVID-19

Our immediate focus at the onset of the pandemic was on securing our properties and reassuring our team, a team I would like to take this opportunity to thank for their incredible hard work and dedication over the course of the last 12 months. One of the good things about running a business that can see unexpected disruptions to trade due to extreme weather, is our tried, tested and well-practised ability to make significant changes to our operating model at short notice.

Prior to the government making any announcements, we monitored what was happening in the countries that were ahead of the UK curve, and started planning for the inevitable lockdown. On 16 March, when the social distancing measures were first introduced, we already had a detailed plan of how we would operate within the guidelines and had trained our team on how to implement the measures. When the full closure was announced, we put phase two of our plan in motion. This phase included an itemised closedown procedure that could be reversed later for a smooth reopening. We quickly 'turned off' all discretionary spending and acted to preserve and raise cash.

We were grateful for the swift response by government and made full use of the CJRS. We chose to pay all our team full pay for the first four weeks of lockdown and paid our salaried teams and management trainees full pay to the end of May, with some enforced holiday to relieve the post-opening burden. We also put in place a plan for salary cuts and deferrals from July, including for executive and non-executive directors, in preparation for a potentially longer lockdown period, giving our team the certainty and clarity they needed to plan their finances.

Refurbishments and new build work were paused and we reviewed all planned projects, prioritising capital spend on projects that guaranteed payback.

We took the decision to pay the March rent quarter in full and to engage early with our landlords in order to agree to defer and, or, waive payments during the period of closure.

The cash flow benefit of these agreements resulted in a cash saving of £6.7m in the year to 30 September 2020, of which £2.1m is waived and not due for repayment.

We further strengthened the balance sheet by raising £10.5m (net proceeds) from a five per cent equity placing and are grateful for the support shown by our shareholders in this capital raise. At the same time, we added a £10m extension to our debt facility through an RCF using CLBILS – which remains undrawn.

Operational and strategic progress

The results for FY2020 were substantially impacted by the five months of closure. Revenues were £79.5m, down 38.8 per cent on last year and Group adjusted EBITDA pre IFRS 16, was £14.0m (FY2019: £38.2m). These figures are despite delivering a fantastic performance over the first half of FY2020, before the COVID-19 crisis, with all revenue lines in LFL growth compared to the same period last year, spend per game up and Group adjusted EBITDA pre IFRS 16 up 2.1 per cent, to £21.6m.

The business resumed trading during August, under the new COVID-secure guidelines, with significant restrictions to capacity and opening hours. Encouragingly, during the final few weeks of the summer school holidays, we had far more demand than we could accommodate. Trading over the final weeks of FY2020 was at 66 per cent of prior year on a LFL basis. This was in spite of the restrictions noted, as well as the 10:00pm curfew, rule of six and tier system, all introduced during September 2020.

While the pandemic stopped us trading, it did not stop us innovating – we executed elements of our strategy to improve the quality of the estate and the experience we offer our customers.

Once construction teams were permitted back on site, during June 2020, we completed the refurbishment of our Crawley centre, which included adding two extra lanes as well as relocating the diner to allow expansion of the amusement area. We also refurbished and rebranded the AMF Carlisle centre in time for reopening. We took the opportunity that lockdown presented to continue the rollout of 'Pins on strings', installing the technology in three centres during June and July, adding to the four installations completed during the first half.

We also did not stop at refurbishments and the rebrand. We opened four new centres – one Hollywood Bowl in York and three new Puttstars centres. York's Hollywood Bowl is located in the new leisure extension to the successful Vangarde Way retail scheme, co-located with our Puttstars, a Cineworld cinema and multiple restaurants. The 28,000 square feet centre has 24 lanes, opened on 18 August 2020 and is trading in line with the rest of the estate.

We had originally planned to further develop the new opening Puttstars pipeline, but the pandemic has impacted a number of property developers which has slowed negotiations. Three new openings have been delayed, with the schemes in Swindon and Colchester now under review. With the changes to the retail landscape and availability of space, we believe there will be new opportunities to backfill the pipeline and remain confident that from FY2022, we will be able to open an average of two new centres per year in line with our stated strategy.

Successful launch of new puttstars mini-golf brand

We are very proud of having opened our new Puttstars concept during FY2020. The three centres were carefully chosen to ensure a robust test of the concept and reflect the different types of property location available for a rollout once the trials proved successful.

Puttstars Leeds opened first. It is a key leisure anchor, alongside an Odeon Luxe and PureGym, in the new Springs retail and leisure development adjacent to Junction 46 of the M1 at Thorpe Park. Puttstars Leeds which occupies 21,000 square feet over two floors, opened its doors just before the national lockdown and reopened during July.

Puttstars Rochdale is sited in a new leisure extension to the Riverside development, immediately beneath a new cinema and close to several restaurants. The centre occupies 18,000 square feet, all on one level and opened for trade in early August.

Our third centre is co-located with the new Hollywood Bowl in York. Like Rochdale, it occupies 18,000 square feet and is on the floor above the bowling centre.

Early trading has been encouraging, with all three centres performing in line with our expectations. The bespoke scoring system, gamification and digital journey combine with an affordable price to offer a unique leisure experience that appeals to a wide demographic. Customer feedback has been overwhelmingly positive and we are very excited about the long-term opportunities the brand presents.

Sustainability

Despite these challenging times, managing our business in a sustainable manner remains a key element of our culture and strategy.

Our customers benefit from our unique offering of affordable, inclusive fun which allows for quality social engagement and has been essential in our communities as we have started to emerge from blanket lockdowns. Our ongoing team engagement and feedback programmes have been vital during the periods of closure and we have maintained strong focus on team wellbeing.

We are always looking for ways to minimise the impact of our operations on the environment and finished our second solar installation in Bentley Bridge with further centres planned for the future. In our refurbishment and new centre openings there is increased focus on the use of sustainable construction supplies and we are making progress towards meeting our 70 per cent recycling target by the end of FY2021.

Outlook

The Hollywood Bowl Group is uniquely positioned. Offering a safe, fantastic value-for-money experience to a wide demographic, the business is resilient in a recession, well capitalised and ready to take full advantage of the opportunities that may present themselves after the pandemic.

I am proud of the way our team has risen to the challenge of creating a safe environment which allows our customers to enjoy the same fun-filled experiences with us. The strong demand for bookings following the opening in August 2020, is very encouraging and the feedback we have received on our new COVID-secure operations has been excellent. We continue to explore new ways of working to increase our capacity at peak times whilst maintaining a safe and compliant environment. Despite the ongoing uncertainty presented by Lockdown 2.0 and the introduction of variable regional opening restrictions, which have meant we are unable to open centres located in the highest tiers, we remain confident in the continued demand for a family focused, value for-money and enjoyable experience.

The longer-term strategy remains unchanged: our high-quality, well-invested estate is primed for growth; the property landscape is changing; the tenant mix is becoming more leisure focused; and we believe our customers will prioritise their leisure pound on all-inclusive, value-for-money, family entertainment experiences.

STEPHEN BURNS
CHIEF EXECUTIVE OFFICER
14 DECEMBER 2020

FINANCE REVIEW

	FY2020 (IFRS 16)	**FY2020 (pre IFRS 16)**	FY2019 (pre IFRS 16)	Movement (pre IFRS 16)
Revenue	**£79.5m**	**£79.5m**	£129.9m	-38.8%
Gross profit	**£67.9m**	**£67.9m**	£111.4m	-39.0%
Gross profit margin	**85.5%**	**85.5%**	85.7%	-0.2%pts
Administrative expenses	**£58.1m**	**£64.6m**	£82.9m	-22.1%
Group adjusted EBITDA[1]	**£29.8m**	**£14.0m**	£38.2m	-63.8%

	FY2020 (IFRS 16)	**FY2020 (pre IFRS 16)**	FY2019 (pre IFRS 16)	Movement (pre IFRS 16)
Group profit before tax	**£1.2m**	**£2.4m**	£27.6m	-91.2%
Free cash flow[2]	**(£4.2m)**	**(£4.2m)**	£15.1m	n/a
Group expansionary capital expenditure[3]	**£8.9m**	**£8.9m**	£8.1m	+9.3%
Average spend per game	**£10.15**	**£10.15**	£9.64	+5.3%

1 Group adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) reflects the underlying trade of the overall business and excludes any one-off benefits (VAT rebates for prior years) and costs. It is calculated as statutory operating profit plus depreciation, amortisation, loss on disposal of property, right-of-use assets, plant and equipment and software, any exceptional costs or income, and also shown pre IFRS 16 as well as adjusted for IFRS 16. The reconciliation to operating profit is set out below in this section of this announcement.

2 Free cash flow is defined as net cash flow pre dividends, bank funding and any equity placing.

3 Group expansionary capital expenditure includes all capital on new centres, refurbishments and rebrands only.

The results for FY2020 are presented on an IFRS 16 and pre IFRS 16 basis to enable a comparison with FY2019. For the purposes of this review, the commentary will clearly state when it is referring to figures on an IFRS 16 or pre IFRS 16 basis.

Total revenue for FY2020 was obviously impacted by the lockdown which started on 20 March 2020. During this lockdown, and until the gradual reopening of the sector, the Group saw no revenues. The majority of the estate reopened on 15 August 2020 and was therefore without revenues for 21.3 weeks of the financial year. For the first half, the Group saw LFL revenue growth of 8.6 per cent, and total revenue growth of 3.3 per cent. Since the reopening of the sector, and with the Group operating within the approved guidelines as outlined in the COVID-19 Response section, it has seen LFL revenues at 66 per cent of the comparable period to 30 September 2020.

The total revenue for FY2020 was £79.5m (FY2019: £129.9m).

Gross profit margin

As a result of the closure, gross profit margin reduced to £67.9m (FY2019: £111.4m), with a margin rate of 85.5 per cent. Gross margin for combined diner and bar was impacted by increased waste as the Group entered lockdown, as well as the late notice of the delayed reopening that was planned for 1 August. In total, £0.2m was written off due to expiration dates of specific food and drink product categories. Excluding this write off, gross margin was in line with the prior year, at 85.7 per cent.

Administrative expenses

Administrative expenses, on a pre IFRS 16 basis, were £64.6m, a decrease of £18.4m (22.1 per cent) on the corresponding period in the prior year. During the four full months of lockdown, the Group saw a reduction of 59.5 per cent in administrative expenses, excluding depreciation and amortisation. This was principally due to the reduction in employee costs with the support of the CJRS, rent savings as agreed with landlords, and the business rates suspension from 1 April 2020.

Mitigating actions to reduce costs

Upon closure of our centres, we were able to reduce the estate running costs significantly: maintenance was reduced (to health and safety requirements only) until late July when preparing the sites for reopening; utilities were reduced, although not to zero as standing charges were still incurred; costs from our external cleaning company were reduced to zero.

In addition to the cost savings noted above, we reduced marketing spend significantly, with minimal spend focused on our social media channels and existing database communication.

During the closure period, we reviewed our support centre structure to ensure we were set up in the most efficient way to exit the lockdown and continue to drive the Group's strategy. This review led to a reduction of 14 per cent in our headcount, an annualised saving of £0.4m in Corporate costs.

Some of these savings were offset by one-off expenses to ensure that centres were opened in a COVID-secure way as stipulated by the guidelines. These costs included the development and rollout of COVID-secure protocols and measures; investment to develop our own COVID track and trace app; and an app-based food and drink ordering system. The total cost of these was £0.2m. Corporate costs decreased by £3.3m in FY2020 (FY2019: £11.9m).

Support from UK government initiatives

- Compared to the prior year, the 12-month business rates relief, from April 2020 to March 2021, provides a cash saving of £7.3m, with £3.9m for FY2020 and the rest to be seen in FY2021. From a profit and loss income statement perspective, the total amount is split equally between FY2020 and FY2021.
- The HMRC Time to Pay arrangement for the March 2020 VAT quarter results in a deferred cash benefit of £2.1m. Based on recent government legislation, this will now be paid over 11 equal monthly instalments, starting in March 2021.

- The CJRS meant that we were able to furlough 98.6 per cent of our team from 23 March to shortly before the centres reopened, in phases, from 4 August 2020. The Group took the decision to pay all hourly paid team members the higher of the furlough rate and their contracted hours for the first four weeks of lockdown, and then moved onto the furlough scheme rules post that period. For all salaried team members, the Group elected to top up salaries to 100 per cent of salary for March, April and May, and then moved to the government scheme of 80 per cent of salary for the rest of the lockdown period. The total support claimed from the CJRS in the period was £8.2m, of which £7.7m cash was received in FY2020, with the September claim being received in full, post year end.
- We have a strong relationship with our landlords which was further enhanced with full payment of the March rent quarter. This meant that, in April, we were able to engage with our landlords on how to work in partnership to ensure an equitable solution for the June and September quarters. We were able to agree with the vast majority rent-free periods of varying lengths, as well as some lease regears which we had been working on previously. For those landlords that have not engaged, we have taken advantage of the Corporate Insolvency and Governance (CIG) Bill, and deferred rent payments for June and September quarters. The total value of this deferment is £1.3m, exclusive of VAT, and we continue to look for engagement on these units over the coming months. These deferments did not impact the IFRS 16 income statement charge for FY2020 but did reduce the cash rent outflow, thereby supporting operating cash flow. If no agreements are reached, this deferred amount will be due for payment on 31 December 2020, unless the CIG Bill is extended.
- The above actions resulted in Group cash rent for June of £1.0m and £1.3m in September, which is a saving of £3.6m and £3.2m respectively. Of these savings, £0.7m in June and £0.8m in September, is deferred and will be due for payment as noted above.

Excluding property lease assets depreciation, the depreciation charge was £10.1m, compared to £9.0m in FY2019, as a result of the continued capital investment programme, including new centres, refurbishments and centre scoring technology rollout. Post the adoption of IFRS 16, depreciation has increased from £9.0m in FY2019 to £19.4m in FY2020.

Centre employee costs were £15.0m for FY2020, a decrease of £10m on an overall Group basis on the same period in the prior year. Excluding the CJRS benefit, we would have expected employee costs to increase by 3.1 per cent due to a combination of National Minimum/Living Wage increases and new centre openings.

Following the adoption of IFRS 16, administrative expenses exclude property rents and include the depreciation of property right-of-use assets. On this statutory basis, administrative expenses decreased by £24.9m (30.0 per cent) compared with FY2019.

Group adjusted EBITDA and operating profit

During H1, Group adjusted EBITDA pre IFRS 16, continued to grow, albeit impacted by the COVID-19 enforced closure, and increased by 2.4 per cent compared to the prior year period, to £21.6m. However, the closure of all centres from 20 March until the phased reopening from 4 August, resulted in FY2020 Group adjusted EBITDA, pre IFRS 16, of £14.0m (FY2019: £38.2m).

	FY2020 £'000	FY2019 £'000
Operating profit	**9,861**	28,444
Depreciation	**19,418**	9,041
Amortisation	**507**	502
Loss on property, right-of-use assets, plant and equipment and software disposal	**22**	596
Exceptional items	**–**	(380)
Group adjusted EBITDA under IFRS 16	**29,808**	38,203
IFRS 16 adjustment[1]	**(15,840)**	–
Group adjusted EBITDA pre IFRS 16	**13,968**	38,203

1 IFRS 16 adoption has an impact on EBITDA, with the removal of rent from the calculation. For Group adjusted EBITDA pre IFRS 16, it is deducted for comparative purposes and is used by investors as a key measure of the business.

Management use EBITDA adjusted for exceptional items and IFRS 16 rent adjustment (Group adjusted EBITDA pre IFRS 16) as a key performance measure of the business.

Statutory operating profit reduced to £9.9m in FY2020, a reduction of £18.6m compared to the same period last year for the reasons noted above in respect of COVID-19.

Exceptional costs

There were no exceptional costs for the period. The VAT rebate shown in the period to FY2019 relates to a one-off retrospective reclaim in respect of unclaimed input VAT on professional fees.

Share-based payments

During the first half of the year, the Group granted further Long Term Incentive Plan (LTIP) shares to the senior leadership team, including the CEO and CFO. These awards vest in three years providing continuous employment during this period and the attainment of certain performance conditions relating to earnings per share (EPS). The Group also started a new Sharesave scheme, open to all team members, in February 2020.

The Group recognised a total charge of £729,829 (FY2019: £633,075) in relation to the Group's share-based payment arrangements.

None of these non-cash costs are classified as exceptional costs.

Finance costs

Finance costs increased to £8.8m in FY2020 (FY2019: £1.0m) comprising the implied interest relating to the lease liability under IFRS 16 of £7.8m and £1.0m associated with our bank borrowing facilities.

Taxation

The Group has incurred a tax credit of £0.2m compared to a charge of £5.3m in the comparable period in the prior year.

Earnings

Statutory profit before tax for the year was £1.2m, a decrease of £26.4m on the corresponding period in FY2019 due to the factors discussed above. The impact of IFRS 16 on FY2020 is to reduce profit before tax by £1.2m.

The Group delivered profit after tax of £1.4m (FY2019: £22.3m) and basic earnings per share were 0.90 pence (FY2019: 14.86 pence).

Financing

As highlighted previously, all centres were closed on 20 March, in line with government guidance.

In light of the COVID-19 uncertainty, the Group conducted an equity placing of 7,500,000 new ordinary shares (representing five per cent of the issued share capital) which raised £10.9m gross proceeds (£10.5m net of costs).

The Group also agreed with its lending bank, Lloyds, to a combination of liquidity-enhancing amendments to its borrowing facility. These included a £10m extension of the Group's RCF under CLBILS, a number of covenant test relaxations and waivers (listed below), and an additional year to extend the current facility out to September 2022. The RCF under the CLBILS remains undrawn.

• Leverage covenants extended to:	
– September 2020	2.25x
– December 2020	waived
– March 2021	waived
– June 2021	1.50x
– September 2021 until June 2022	1.50x
• Cash cover covenant waived for September 2020, December 2020 and March 2021	

New liquidity and Group adjusted EBITDA (pre IFRS 16) covenant tests have been agreed for December 2020 and March 2021:

- Liquidity including balance sheet cash and any unutilised RCFs at least £17m.
- TTM Group adjusted EBITDA pre IFRS 16, minimum of -£3m.

Cash flow and net debt

Net debt at 30 September 2020 is £8.7m (FY2019: £2.1m), consisting of £20.8m cash at bank and £29.5m gross debt.

	FY2020 £'000	FY2019 £'000
Group adjusted EBITDA	**29,808**	38,203
Movement in working capital	**(3,546)**	969
Maintenance capital expenditure	**(4,862)**	(8,606)
Taxation	**(3,116)**	(5,517)
Payment of capital elements of leases	**(3,500)**	–
Adjusted operating cash flow (OCF)[1]	**14,785**	25,050

Adjusted OCF conversion	**49.6%**	65.6%
Expansionary capital expenditure	**(8,852)**	(8,098)
Exceptional items	**–**	390
Net bank loan interest paid	**(858)**	(711)
Lease interest paid	**(7,770)**	–
Debt repayments	**(1,500)**	(1,500)
Free cash flow (FCF)[2]	**(4,195)**	15,131
Drawdown on RCF	**4,000**	–
Dividends paid	**(14,489)**	(15,244)
Equity placing (net of fees)	**10,541**	–
Net cash flow	**(4,144)**	(1,113)

1 Adjusted operating cash flow is calculated as Group adjusted EBITDA less working capital, maintenance capital expenditure, taxation and payment of capital element of leases. This represents a good measure for the cash generated by the business after taking into account all necessary maintenance capital expenditure to ensure the routine running of the business. This excludes one-off exceptional items, net interest paid, debt drawdowns and any debt repayments.

2 Free cash flow is defined as net cash flow pre dividends, bank funding and any equity placing.

The Group's free cash flow was significantly impacted by the closure of its centres, although the impact would have been greater if not for the considerable work undertaken on managing capital expenditure through lockdown, and more notably the negotiations undertaken with the Group's landlords.

Capital expenditure

Total net capital expenditure was down £3.0m year on year (17.9 per cent) on the comparable period in the prior year, to £13.7m.

At the start of the first lockdown, there were a number of capital projects underway and therefore already committed to. These included the new Puttstars centres in both York and Rochdale, the new Hollywood Bowl in York, and refurbishments in Crawley and Carlisle. These projects were all completed within a week of the English centres being permitted to open (15 August), and we also used the closure of centres to install 'Pins on strings' in two further centres. It is anticipated that all of these projects will generate returns in line with Board expectations. Four centres opened in FY2020, resulting in net capital spend on new centres of £7.7m, an increase of £2.3m on FY2019.

Dividend

As part of its COVID-19-related actions, the Board is not recommending any dividend for FY2020.

The Group operates a highly cash generative business model, and therefore once the overall impact of COVID-19 and the subsequent recovery has been more clearly established, the Board believes it will be in a position to reinstate its dividend policy. The RCF available under the CLBILS would need to be closed for dividends to recommence.

IFRS 16

The Group has applied IFRS 16 as at 1 October 2019. A right-of-use asset and a lease liability is included on the balance sheet, and interest and depreciation has been charged to the consolidated income statement instead of existing rental expenses.

IFRS 16 has no effect on how the business is run, and there will be no change to the Group's cash flow and growth plans due to its adoption.

The Group has adopted the modified retrospective method. Under this method, comparative data is not restated and the cumulative effect of applying IFRS 16 is recognised in retained earnings at the date of initial application.

A summary of the impact on the Group consolidated income statement and consolidated statement of financial position (balance sheet), is as below:

	FY2020 £'000
Administrative expenses:	
• Rent[1]	**15,840**
• Depreciation	**(9,300)**
• Gain on lease surrenders	**6**
Net reduction to administrative expenses	**6,546**

	FY2020 £'000
Finance costs (interest)	(7,770)
Net decrease to profit before tax	(1,224)

1 IFRS 16 adoption has an impact on EBITDA, with the removal of rent from the calculation.

Impact on the Group consolidated statement of financial position

	FY2020 £'000
Assets	135,176
Deferred tax asset	5,611
Lease liability	(173,804)
Retained earnings	(33,017)

Going concern

As part of the adoption of the going concern basis, the Group has considered the Group's cash flow, liquidity and business activities, as well as the uncertainty caused by the COVID-19 outbreak. All of the Group's centres were closed for trade from 20 March 2020 with a phased reopening from 4 August 2020, with the majority of the centres reopening on 15 August.

As part of the review and the potential impact of the COVID-19 outbreak on the Group's cash flows and liquidity over the next 12 months, a base case and multiple downside scenarios were prepared. Under each scenario, mitigating actions are within management control and can be initiated as they relate to discretionary spend. The actions include reduced employee costs, maintenance and marketing spend, as well as reducing all non-essential and non-committed capital expenditure. The Group also agreed with its lending bank, Lloyds, to a combination of liquidity-enhancing amendments to its borrowing facility. These include a £10m extension of the Group's RCF under CLBILS, a number of covenant test relaxations and waivers, and an additional year to extend the current facility out to September 2022.

The base case has FY2021 revenues at levels of between -45 per cent and -15 per cent of FY2020 (five months actual and seven months budget), excluding the English lockdown in November 2020, closed centres due to local tier trading restrictions, as well as taking into account the impact of socially distanced operations.

Under this base case scenario, in FY2021 the Group continues to remain profitable with sufficient liquidity and no covenant breaches.

As detailed in note 2 to the Financial Statements, the most severe downside scenario modelled would still provide sufficient liquidity to pass the liquidity and cash cover covenant tests. However, under this severe downside, the TTM Group adjusted EBITDA (pre IFRS 16) loan covenant, whilst not breached, would be challenged at March 2021. In the event this covenant is breached, an extension of this covenant would need to be negotiated with Lloyds Bank plc, which particularly given the cash position of between £18m and £22m, as well as the Group's success negotiating recent covenant waivers, would likely be attained.

Nevertheless in the event of extended lockdown measures impacting the Group's operations, the possibility of a covenant breach at the end of March 2021 cannot be discounted, and as such represents a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

Taking the above and the principal risks faced by the Group into consideration, and the Directors expectation that they could negotiate an extension to the covenant should the need arise, the Directors are satisfied that the Group has adequate resources to continue in operation for the foreseeable future, a period of at least 12 months from the date of this report. Accordingly, the Group continues to adopt the going concern basis in preparing these Financial Statements.

LAURENCE KEEN
CHIEF FINANCIAL OFFICER
14 DECEMBER 2020

FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDING 30 SEPTEMBER 2020

	Note	**30 September 2020 £'000**	30 September 2019 £'000
Revenue		**79,473**	129,894
Cost of sales		**(11,543)**	(18,542)
Gross profit		**67,930**	111,352
Administrative expenses	5	**(58,069)**	(82,908)
Operating profit		**9,861**	28,444
Underlying operating profit		**9,861**	28,064
Exceptional items	4	**–**	380
Finance income	7	**78**	167
Finance expenses	7	**(8,743)**	(1,023)
Profit before tax		**1,196**	27,588
Tax expense	8	**189**	(5,303)
Profit for the year attributable to equity shareholders		**1,385**	22,285
Other comprehensive income		**–**	–
Total comprehensive income for the year attributable to equity shareholders		**1,385**	22,285
Basic earnings per share (pence)	9	**0.90**	14.86
Diluted earnings per share (pence)	9	**0.90**	14.79

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2020

	Note	**30 September 2020 £'000**	30 September 2019 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**48,220**	47,365
Right-of-use assets	11	**135,176**	–
Goodwill and intangible assets	12	**78,173**	78,457
Deferred tax asset	16	**5,295**	–
		266,864	125,822
Current assets			
Cash and cash equivalents		**20,784**	24,929
Trade and other receivables	13	**1,720**	8,014
Corporation tax receivable		**285**	–
Inventories		**1,340**	1,212
		24,129	34,155
Total assets		**290,993**	159,977
LIABILITIES			
Current liabilities			
Trade and other payables	14	**9,940**	18,464
Lease liabilities	11	**14,404**	–
Loans and borrowings	15	**5,205**	1,380
Corporation tax payable		**–**	2,517
		29,549	22,361
Non-current liabilities			

	Note	**30 September 2020 £'000**	30 September 2019 £'000
Other payables	14	**814**	6,846
Lease liabilities	11	**159,400**	–
Loans and borrowings	15	**23,833**	25,383
Deferred tax liabilities	16	**–**	596
Provisions		**3,903**	3,150
		187,950	35,975
Total liabilities		**217,499**	58,336
NET ASSETS		**73,494**	101,641
Equity attributable to shareholders			
Share capital		**1,575**	1,500
Share premium		**10,466**	–
Merger reserve		**(49,897)**	(49,897)
Retained earnings		**111,350**	150,038
TOTAL EQUITY		**73,494**	101,641

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2020

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Equity at 30 September 2018	1,500	–	(49,897)	143,335	94,938
Dividends paid	–	–	–	(16,244)	(16,244)
Share-based payments	–	–	–	662	662
Profit for the period	–	–	–	22,285	22,285
Equity at 30 September 2019	1,500	–	(49,897)	150,038	101,641
Adjustment on initial application of IFRS 16 (note 2)	–	–	–	(31,696)	(31,696)
Taxation on IFRS 16 transition adjustment (note 2)	–	–	–	5,388	5,388
Adjusted balance at 1 October 2019	1,500	–	(49,897)	123,730	75,333
Shares issued during the year	75	10,466	–	–	10,541
Dividends paid	–	–	–	(14,489)	(14,489)
Share-based payments	–	–	–	724	724
Profit for the period	–	–	–	1,385	1,385
Equity at 30 September 2020	**1,575**	**10,466**	**(49,897)**	**111,350**	**73,494**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

	Note	**30 September 2020 £'000**	30 September 2019 £'000
Cash flows from operating activities			
Profit before tax		**1,196**	27,588
Adjusted by:			
Depreciation of Property, plant and equipment	10	**7,247**	9,041
Depreciation of right-of-use assets	11	**12,171**	–
Amortisation of intangible assets	12	**507**	502

	Note	30 September 2020 £'000	30 September 2019 £'000
Net interest expense		**8,665**	856
Loss on disposal of property, plant and equipment and software		**22**	596
Share-based payments		**724**	662
Operating profit before working capital changes		**30,532**	39,245
(Increase)/decrease in inventories		**(128)**	42
Decrease/(increase) in trade and other receivables		**1,727**	(1,444)
(Decrease)/increase in payables and provisions		**(5,868)**	1,718
Cash inflow generated from operations		**26,263**	39,561
Interest received		**85**	160
Income tax paid – corporation tax		**(3,117)**	(5,518)
Bank interest paid		**(943)**	(871)
Lease interest paid		**(7,770)**	–
Net cash inflow from operating activities		**14,518**	33,332
Cash flows from investing activities			
Purchase of property, plant and equipment		**(13,492)**	(16,390)
Purchase of intangible assets		**(223)**	(311)
Net cash used in investing activities		**(13,715)**	(16,701)
Cash flows from financing activities			
Repayment of bank loan		**(1,500)**	(1,500)
Drawdown of borrowings		**4,000**	–
Payment of capital elements of leases		**(3,500)**	–
Issue of shares		**10,541**	–
Dividends paid		**(14,489)**	(16,244)
Net cash used in financing activities		**(4,948)**	(17,744)
Net change in cash and cash equivalents for the period		**(4,145)**	(1,113)
Cash and cash equivalents at the beginning of the period		**24,929**	26,042
Cash and cash equivalents at the end of the period		**20,784**	24,929

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The financial information set out above does not constitute the company's statutory accounts for the years ended 30 September 2020 or 2019, but is derived from these accounts. Statutory accounts for 2019 have been delivered to the registrar of companies, and those for 2020 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. However the auditors' report on the statutory accounts for 2020 included a reference to the material uncertainty related to going concern.

Hollywood Bowl Group plc (together with its subsidiaries, 'the Group') is a public limited company whose shares are publicly traded on the London Stock Exchange and is incorporated and domiciled in England and Wales. The registered office of the Parent Company is Focus 31, West Wing, Cleveland Road, Hemel Hempstead, HP2 7BW, United Kingdom. The registered Company number is 10229630.

The Group's principal activities are that of the operation of ten-pin bowling and mini-golf centres as well as the development of new centres and other associated activities.

The Directors of the Group are responsible for the consolidated Financial Statements.

2. ACCOUNTING POLICIES

Basis of preparation

The consolidated Financial Statements have been prepared on a going concern basis under the historical cost convention.

The Company has elected to prepare its Financial Statements in accordance with FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland. On publishing the Parent Company Financial Statements here together with the Group Financial Statements, the Company has taken advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and statement of comprehensive income and related notes that form a part of these approved Financial Statements.

Judgements made by the Directors, in the application of these accounting policies, that have significant effect on the Financial Statements and estimates with a significant risk of material adjustment in the next year are discussed below.

New standards adopted in the year

During the year the Group has adopted IFRS 16 for the first time. The nature and effect of the impact of this are outlined in the leases section in Note 11.

Earnings per share

The calculation of earnings per Ordinary share is based on earnings after tax and the weighted average number of Ordinary shares in issue during the year.

The adjusted earnings per share figures have also been calculated based on earnings before adjusting items that are significant in nature and/or quantum and are considered to be distortive (see notes 4 and 9). These have been presented to provide shareholders with an additional measure of the Group's year-on-year performance.

For diluted earnings per share, the weighted average number of Ordinary shares in issue is adjusted to assume conversion of all dilutive potential Ordinary shares. The Group has one type of dilutive potential Ordinary shares, being those unvested shares granted under the Long Term Incentive Plans.

Standards issued not yet effective

At the date of authorisation of this financial information, certain new standards, amendments and interpretations to existing standards applicable to the Group have been published but are not yet effective, and have not been adopted early by the Group. These are listed below:

Standard/interpretation	Content	Applicable for financial years beginning on/after
IAS 1 Classification of liabilities as current or non-current'	In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments are not expected to have a material impact on the Group.	1 October 2023
IAS 16 Property, plant and equipment: Proceeds before intended use	In May 2020, the IASB issued Property, Plant and Equipment: Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The amendment is not expected to have a material impact on the Group.	1 October 2022
IFRS 17 Insurance contracts	In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. The amendment is not expected to have a material impact on the Group.	1 October 2023
IFRS 3 Reference to the conceptual framework	In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendment is not expected to have a material impact on the Group.	1 October 2022
IAS 37 Onerous contracts	In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.	1 October 2022

	The amendment is not expected to have a material impact on the Group.	
Interest rate benchmark reform: Phase 2	The amendments address issues that might affect IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 as a result of the reform of an interest rate benchmark. The amendment is not expected to have a material impact on the Group.	1 October 2021

Going concern

In assessing the going concern position of the Group for the Consolidated Financial Statements for the year ended 30 September 2020, the Directors have considered the Group's cash flow, liquidity and business activities, as well as the uncertainty caused by the COVID-19 outbreak. All of the Group's centres were closed for trade from 20 March 2020 with a phased reopening from 4 August 2020, with the majority of the centres reopening on 15 August. At 30 September 2020, the Group had cash balances of £20.8m and undrawn financing facilities of £11m.

As part of the review of the potential impact of the COVID-19 outbreak on the Group's cash flows and liquidity over the next 12 months, a base case and multiple downside scenarios were prepared. Under each scenario, mitigating actions are within management control and can be initiated as they relate to discretionary spend. The actions include reduced employee costs, maintenance and marketing spend, as well as reducing all non-essential and non-committed capital expenditure. The Group also agreed with its lending bank, Lloyds Bank plc, to a combination of liquidity-enhancing amendments to its borrowing facility. These include a number of covenant test relaxations and waivers, as well as an additional year to extend the current facility out to September 2022.

The base case has FY2021 revenues at levels of between -45 per cent and -15 per cent of FY2020 (five months actual performance and seven months budget), excluding the English lockdown in November 2020, closed centres due to local tier trading restrictions, as well as taking into account the impact of socially distanced operations. Under this base case scenario, in FY2021 the Group continues to be profitable with sufficient liquidity and no covenant breaches.

The most severe downside scenario was prepared using the following key assumptions:

- revenue assumed at 11 percentage points down on the base case for FY2021;
- the centres closed due to local tier trading restrictions that commenced on 2 December 2020, to remain closed until the end of February 2021;
- in line with the revenue reduction, reduced employee costs. When centres are forced to close, taking advantage of the CJRS and no additional top up pay for centre teams;
- reduced maintenance and marketing spend, as well as reducing all non-essential and non-committed capital expenditure in FY2021; and
- no dividend payments in FY2021.

The most severe downside scenario modelled would still provide sufficient liquidity within its cash position, but under this severe downside, the TTM Group adjusted EBITDA (pre IFRS 16) loan covenant would be challenged at March 2021. In the event this covenant is breached, an extension of this covenant would need to be negotiated with Lloyds Bank plc. The Directors believe this is likely to be attained, particularly given the strong cash position of the Group in this scenario being between £18m and £22m, depending on capital expenditure, as well as its strong relationship and success on obtaining covenant waivers with its lending bank recently. The Group would also have access to £11m in undrawn RCFs.

Nevertheless in the event of extended lockdown measures impacting the Group's operations, the possibility of a covenant breach at the end of March 2021 cannot be discounted, and as such represents a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern, in which case it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Taking the above and the principal risks faced by the Group into consideration, and the Directors expectation that they could negotiate an extension to the covenant should the need arise, the Directors are satisfied that the Group has adequate resources to continue in operation for the foreseeable future, a period of at least twelve months from the date of this report. Accordingly, the Group continues to adopt the going concern basis in preparing these financial statements.

Leases

IFRS 16 Leases replaces existing guidance under IAS 17 and introduces a fundamental change to the recognition, measurement, presentation and disclosure of leases for lessees.

The Group adopted IFRS 16 with effect from 1 October 2019. The Group applied the standard using the modified retrospective approach and thus comparative information has not been restated and is presented, as previously reported, under IAS 17.

The new standard results in all property and amusement machine leases being recognised on the Statement of Financial Position as, from a lessee perspective, there is no longer any distinction between operating and finance leases. Under IFRS 16, an asset is based on the right to use a leased item over a long-term period and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The Group leases properties, which under IAS 17 were classified as a series of operating lease contracts with payments made (net of any incentives received from the lessor) charged to profit or loss as arising over the period of the lease.

The Group obtains control over amusement machines using extended credit terms over four years. For financial years up to 30 September 2019, these were accounted for as property, plant and equipment under IAS 16, with an associated creditor with respect to the extended credit. Upon adoption of IFRS 16, the Group has re-assessed the amusement machines contract as meeting the definition of a lease. Accordingly, these amusement machines have been accounted for under IFRS 16 from 1 October 2019.

From 1 October 2019, under IFRS 16, leases are recognised as a right-of-use asset with a corresponding lease liability from the date at which the leased asset becomes available for use by the Group.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

Lease liabilities are measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable and variable lease payments that depend on an index or a rate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments).

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Use of a single discount rate to a portfolio of leases with reasonably similar characteristics for amusement machines.
- Short-term leases (leases of less than 12 months) and leases with less than 12 months remaining as at the date of adoption of the new standard are not within the scope of IFRS 16.
- Leases for which the asset is of low value (IT equipment and small items of office equipment) are not within the scope of IFRS 16.
- Exclusion of initial direct costs from the measurement of the right-of-use asset on transition.
- The use of hindsight in determining the lease term when the contract included options to extend the lease.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases previously classified as ‘operating leases’ under the principles of IAS 17 Leases. For all leases, these liabilities were measured at the present value of the remaining lease payments, discounted using the Group’s incremental borrowing rate as of 1 October 2019, specific to each type of asset. This ranged from 4.05 per cent to 5.53 per cent for property leases and 2.90 per cent for amusement machine leases.

The associated right-of-use assets were measured using the approach set out in IFRS 16.C8(b)(i), whereby right-of-use assets are measured at their carrying amount as if the standard had been applied since the lease commencement date, but discounted using the Group’s incremental borrowing rate at the date of initial application.

Under IFRS 16, the right-of-use assets are tested for impairment in accordance with IAS 36 Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous leases. An impairment assessment of the cash-generating unit (CGU) assets was performed on transition at 1 October 2019 with no initial impairment charge identified.

The effect of the accounting policy change on the Consolidated Statement of Financial Position at implementation on 1 October 2019 was:

	As at 30 September 2019 £’000	**IFRS 16 adjustments £’000**	**As at 1 October 2019 £’000**
Assets			
Property, plant and equipment	47,365	(6,312)	41,053
Right-of-use assets	–	136,337	136,337

	As at 30 September 2019 £'000	IFRS 16 adjustments £'000	As at 1 October 2019 £'000
Prepayments	7,240	(4,561)	2,679
Deferred tax asset	–	5,388	5,388
Total assets	**54,605**	**130,852**	**185,457**
Liabilities			
Lease liabilities – current	–	10,965	10,965
Lease liabilities – non-current	–	156,417	156,417
Lease incentives – current (within other payables)	219	(219)	–
Lease incentives – non-current (within other payables)	2,437	(2,437)	–
Rent-free creditor (within accruals)	1,269	(1,269)	–
Amusement machine creditor – current (within other payables)	2,652	(2,652)	–
Amusement machine creditor – non-current (within other payables)	3,645	(3,645)	–
Total liabilities	**10,222**	**157,160**	**167,382**
Retained earnings	150,038	(31,696)	118,342
Retained earnings – deferred tax	–	5,388	5,388
Total retained earnings	**150,038**	**(26,308)**	**123,730**

The adoption of IFRS 16 reduced opening retained earnings as at 1 October 2019 by £26.3m.

The table below presents a reconciliation from operating lease commitments disclosed at 30 September 2019 to lease liabilities recognised at 1 October 2019:

	£'000
Operating lease commitments disclosed at 30 September 2019	245,557
Increased rent reviews[1]	131
Effect of discounting[2]	(84,527)
Amusement machines[3]	6,221
Lease liabilities recognised as at 1 October 2019	**167,382**
Of which are:	
Current lease liabilities	10,965
Non-current lease liabilities	156,417
Lease liabilities recognised as at 1 October 2019	**167,382**

1 A number of outstanding rent reviews have been finalised since the end of FY19; these were not included in the operating lease commitments disclosed at 30 September 2019.

2 Previously, disclosures of lease commitments were undiscounted whilst under IFRS 16 lease commitments are discounted based on the Group's incremental borrowing rate.

3 Previously, amusement machines were accounted for under IAS 16 Property, plant and equipment.

During the year ended 30 September 2020, the application of IFRS 16 resulted in increased adjusted EBITDA, as reported in the Consolidated Income Statement and Statement of Comprehensive Income, of £15.8m in comparison to treatment under IAS 17 for property and IAS 16 for amusement machines. There was an increase to operating profit of £6.5m. The differences have arisen as operating lease payments under IAS 17 were replaced by a depreciation charge on right-of-use assets, and adjustments to rent free periods and other lease incentives. Profit before taxation therefore decreased by a total of £1.2m with the inclusion of £7.8m of finance costs under the new standard.

The table below reconciles operating profit between IAS 17 and the new standard, IFRS 16:

	£'000
Add: Operating lease costs under IAS17[1]	15,840
Impact on adjusted EBITDA for the year ended 30 September 2020	**15,840**
Less: Depreciation of right-of-use assets for leases previously recognised as operating leases under IAS 17[2]	(9,300)
Add: Gain on lease surrenders	6
Impact on operating profit for the year ended 30 September 2020	**6,546**
Less: Finance costs associated with lease liabilities	(7,770)
Impact on profit before tax for the year ended 30 September 2020	**(1,224)**

1 The Group has applied the practical expedient to all rent concessions that meet the conditions in paragraph 46B of the COVID-19-related rent concessions amendment to IFRS 16 published in May 2020 (see further detail below). This figure includes £1.4m of rent savings recognised in profit or loss to reflect changes in lease payments that arose as a result of COVID-19-related rent concessions.

2 This is net of £2.9m of depreciation that would have been charged if the amusement machine assets were still accounted for under IAS 16 Property, Plant and Equipment.

On application of IFRS 16, there will be no impact on cash flows, except in relation to tax payments. The presentation of cash flows will change. Cash flows from operating activities will increase, but this will be offset by an increase in lease capital payments.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Amendments to IFRS 16: COVID-19 Related Rent Concessions

On 28 May 2020, the IASB issued COVID-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19-related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The practical expedient was adopted by the Group and the impact on the consolidated Financial Statements is outlined in note 11.

Summary of critical accounting estimates and judgements

The preparation of the consolidated Group Financial Statements requires management to make judgements, estimates and assumptions in applying the Group's accounting policies to determine the reported amounts of assets, liabilities, income and expenditure. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis, with revisions applied prospectively.

Judgements made by the Directors in the application of these accounting policies that have a significant effect on the consolidated Group Financial Statements are discussed below.

Critical accounting judgements

Determining the incremental borrowing rate used to measure lease liabilities

The Group cannot readily determine the interest rate implicit in the lease therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. Judgement is applied in determining the components of the IBR used for each lease including risk-free rates, the Group's credit risk and any lease specific adjustments.

IBRs depend on the term and start date of the lease. The IBR is determined based on a series of inputs including: the risk-free rate based on government bond rates and a credit risk adjustment based on the average credit spread from commercial bank lenders.

Key sources of estimation uncertainty

The key estimates are discussed below:

Property, plant and equipment and right-of-use asset impairment reviews

Plant and equipment and right-of-use assets are reviewed for impairment when there is an indication that the assets might be impaired by comparing the carrying value of the assets with their recoverable amounts. The recoverable amount of an asset or a CGU is typically determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates.

The key assumptions in the value-in-use calculations include growth rates of revenue and expenses, and discount rates. Due to the ongoing COVID-19 pandemic, there is an increased level of uncertainty in all of the above assumptions such that a reasonably possible change in these assumptions could lead to a material change in the carrying value of the assets.

Further information in respect of the Group's property, plant and equipment and right-of-use assets is included in notes 10 and 11 respectively.

3. RECONCILIATION OF OPERATING PROFIT TO GROUP ADJUSTED EBITDA

	30 September 2020 £'000	30 September 2019 £'000
Operating profit	**9,861**	28,444
Depreciation of property, plant and equipment (note 10)	**7,247**	9,041
Depreciation of right-of-use assets (note 11)	**12,171**	–
Amortisation of intangible assets (note 12)	**507**	502
Loss on disposal of property, plant and equipment, right-of-use assets and software (notes 10-12)	**22**	596
EBITDA	**29,808**	38,583
Exceptional items (note 4)	**–**	(380)
Group adjusted EBITDA	**29,808**	38,203

Group adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) reflects the underlying trade of the overall business. It is calculated as operating profit plus depreciation, amortisation and loss on disposal of property, plant and equipment, right-of-use assets and software and any exceptional items.

Management use Group adjusted EBITDA as a key performance measure of the business and it is considered by management to be a measure investors look at to reflect the underlying business.

4. EXCEPTIONAL ITEMS

Exceptional items are disclosed separately in the Financial Statements where the Directors consider it necessary to do so to provide further understanding of the financial performance of the Group. They are material items or expenses that have been shown separately due to the significance of their nature or amount:

	30 September 2020 £'000	30 September 2019 £'000
VAT rebate[1]	**–**	380
	–	380

1 In FY19 the Group was able to make a non-recurring retrospective reclaim in respect of overpaid VAT relating to transaction fees.

5. PROFIT FROM OPERATIONS

Profit from operations includes the following:

	30 September 2020 £'000	30 September 2019 £'000
Amortisation of intangible assets	**507**	502
Depreciation of property, plant and equipment	**7,247**	9,041
Depreciation of right-of-use assets	**12,171**	–
Operating leases:		
– Property	**–**	14,991
– Other	**50**	50

	30 September 2020 £'000	30 September 2019 £'000
Loss on disposal of property, plant and equipment, right-of-use assets and software	**22**	596
Loss/(gain) on foreign exchange	**23**	(61)
Auditor's remuneration:		
– Fees payable for audit of these Financial Statements	**155**	100
Fees payable for other services		
– Audit of subsidiaries	**45**	35
– Audit of subsidiaries relating to prior year	**20**	–
– Review of interim Financial Statements	**–**	25
– Other services	**14**	9
	234	169

6. STAFF NUMBERS AND COSTS

The average number of employees (including Directors) during the period was as follows:

	30 September 2020	30 September 2019
Directors	**6**	6
Administration	**65**	67
Operations	**1,970**	1,996
Total staff	**2,041**	2,069

The cost of employees (including Directors) during the period was as follows:

	30 September 2020 £'000	30 September 2019 £'000
Wages and salaries	**16,563**	28,045
Social security costs	**1,371**	2,072
Pension costs	**297**	350
Share-based payments	**695**	662
Total staff cost	**18,926**	31,129

FY20 staff costs includes £8,232,000 (FY19: £nil) of CJRS government grant received.

7. FINANCE INCOME AND EXPENSES

	30 September 2020 £'000	30 September 2019 £'000
Interest on bank deposits	**78**	164
Other interest	**–**	3
Finance income	**78**	167
Interest on bank borrowings	**904**	930
Other interest	**5**	55
Finance costs on lease liabilities	**7,770**	–
Unwinding of discount on provisions	**64**	38
Finance expense	**8,743**	1,023

8. TAXATION

	30 September 2020 £'000	30 September 2019 £'000
The tax expense is as follows:		
– UK corporation tax	**339**	5,134
– Adjustment in respect of prior years	**(24)**	60
Total current tax	**315**	5,194
Deferred tax:		
Origination and reversal of temporary differences	**39**	123
Effect of changes in tax rates	**(546)**	(14)
Adjustment in respect of prior years	**3**	–
Total deferred tax	**(504)**	109
Total tax (credit)/expense	**(189)**	5,303

Factors affecting current tax charge/(credit):
The tax assessed on the profit for the period is different to the standard rate of corporation tax in the UK of 19 per cent (30 September 2019: 19 per cent). The differences are explained below:

	30 September 2020 £'000	30 September 2019 £'000
Profit excluding taxation	**1,196**	27,588
Tax using the UK corporation tax rate of 19% (2019: 19%)	**227**	5,242
Change in tax rate on deferred tax balances	**(546)**	(14)
Non-deductible expenses	**58**	89
Tax exempt revenues	**93**	(74)
Adjustment in respect of prior years	**(21)**	60
Total tax (credit)/expense included in profit or loss	**(189)**	5,303

The Group's standard tax rate for the year ended 30 September 2020 was 19 per cent (30 September 2019: 19 per cent).

The FY2019 adjustment in respect of prior years for current taxation of £60,000 relates to an Advance Thin Capitalisation Agreement tax liability. This was settled with HMRC during the prior year.

At Budget 2020, the government announced that the corporation tax main rate for the years starting 1 April 2020 and 2021 would remain at 19 per cent. As such, the rate used to calculate the deferred tax balances as at 30 September 2020 has increased from 17 per cent to 19 per cent.

9. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of Hollywood Bowl Group plc by the weighted average number of shares outstanding during the year, excluding invested shares held pursuant to Long Term Incentive Plans.

Diluted earnings per share is calculated by adjusting the weighted average number of Ordinary shares outstanding to assume conversion of all dilutive potential Ordinary shares. During the years ended 30 September 2020 and 30 September 2019, the Group had potentially dilutive shares in the form of unvested shares pursuant to Long Term Incentive Plans.

	30 September 2020	30 September 2019
Basic and diluted		
Profit for the year after tax (£'000)	**1,385**	22,285
Basic weighted average number of shares in issue for the period (number)	**153,401,639**	150,000,000
Adjustment for share awards	**935,738**	676,861

	30 September 2020	30 September 2019
Diluted weighted average number of shares	**154,337,377**	150,676,861
Basic earnings per share (pence)	**0.90**	14.86
Diluted earnings per share (pence)	**0.90**	14.79

Adjusted underlying earnings per share
Adjusted earnings per share is calculated by dividing adjusted underlying earnings after tax by the weighted average number of shares issued during the year.

	30 September 2020	30 September 2019
Adjusted underlying earnings after tax (before exceptional costs) (£'000)	**1,385**	21,905
Basic adjusted earnings per share (pence)	**0.90**	14.60
Diluted adjusted earnings per share (pence)	**0.90**	14.54

Adjusted underlying earnings after tax is calculated as follows:

	30 September 2020 £'000	30 September 2019 £'000
Profit before taxation	**1,196**	27,588
Exceptional items (note 4)	**–**	(380)
Adjusted underlying profit before taxation	**1,196**	27,208
Add/(less) taxation	**189**	(5,303)
Adjusted underlying earnings after tax	**1,385**	21,905

10. PROPERTY, PLANT AND EQUIPMENT

	Long leasehold property £'000	Short leasehold property £'000	Lanes and pinspotters £'000	Amusement machines £'000	Plant & machinery, fixtures and fittings £'000	Total £'000
Cost						
At 1 October 2018	1,251	18,311	8,561	14,912	25,699	68,734
Additions	–	5,321	1,594	2,981	6,751	16,647
Disposals	(10)	(34)	(85)	(1,531)	(3,039)	(4,699)
At 30 September 2019	1,241	23,598	10,070	16,362	29,411	80,682
Adjustment on initial application of IFRS 16 (note 2)	–	–	–	(16,362)	–	(16,362)
Additions	–	5,125	2,537	–	6,780	14,442
Disposals	(1)	(71)	(338)	–	(34)	(444)
At 30 September 2020	**1,240**	**28,652**	**12,269**	**–**	**36,157**	**78,318**
Accumulated depreciation						
At 1 October 2018	207	6,492	3,668	8,173	9,117	27,657
Depreciation charge	48	2,201	413	2,687	3,692	9,041
Disposals	(10)	(29)	(60)	(810)	(2,472)	(3,381)
At 30 September 2019	245	8,664	4,021	10,050	10,337	33,317
Adjustment on initial application of IFRS 16 (note 2)	–	–	–	(10,050)	–	(10,050)
Depreciation charge	48	2,417	647	–	4,135	7,247
Disposals	(1)	(70)	(321)	–	(24)	(416)

	Long leasehold property £'000	Short leasehold property £'000	Lanes and pinspotters £'000	Amusement machines £'000	Plant & machinery, fixtures and fittings £'000	Total £'000
At 30 September 2020	**292**	**11,011**	**4,347**	**–**	**14,448**	**30,098**
Net book value						
At 30 September 2020	**948**	**17,641**	**7,922**	**–**	**21,709**	**48,220**
At 30 September 2019	996	14,934	6,049	6,312	19,074	47,365
At 30 September 2018	1,044	11,819	4,893	6,739	16,582	41,077

Plant & machinery, fixtures and fittings includes £nil (30 September 2019: £1,228,000) of assets in the course of construction, relating to the development of new centres.

Impairment

Impairment testing is carried out at the CGU level. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Each individual centre is considered to be a CGU.

Each CGU is tested for impairment at the balance sheet date if any indicators of impairment have been identified. The UK government restrictions implemented as a result of the COVID-19 pandemic are considered an impairment trigger. An initial impairment test was performed on all 64 centres. A detailed impairment test based on a base case was then performed on two centres, where the excess of recoverable amount over the value-in-use calculation was sensitive to changes in the key assumptions.

Property, plant and equipment and right-of-use assets for two centres have been tested for impairment by comparing the carrying value of each CGU with its recoverable amount determined from value-in-use calculations using cash flow projections based on financial budgets approved by the Board covering a three-year period.

Cash flows beyond this three-year period are extrapolated using the estimated growth rates stated in the key assumptions. The key assumptions used in the value-in-use calculations are:

	2020	2019
Discount rate (pre-tax)	**8.5%**	8.5%
Growth rate (beyond three years)	**2.0%**	2.0%

The base case has FY2021 revenues at levels of between -45 per cent and -15 per cent of FY2020 (five months actual performance and seven months budget), excluding the English lockdown in November 2020, as well as taking into account the impact of socially distanced operations. In line with the revenue reductions the employee costs were reduced, taking advantage of the CJRS and no additional top up for centre teams. Maintenance and marketing spend, as well as all non-essential and non-committed capital expenditure were reduced in FY2021.

Discount rates reflect management's estimate of return on capital employed required and assessment of the current market risks. This is the benchmark used by management to assess operating performance and to evaluate future capital investment proposals. These discount rates are derived from the Group's weighted average cost of capital. Changes in the discount rates over the years are calculated with reference to latest market assumptions for the risk-free rate, equity risk premium and the cost of debt.

Sensitivity to changes in assumptions

The estimate of the recoverable amounts associated with the two centres affords reasonable headroom over the carrying value of the property, plant and equipment and right-of-use assets under the base case. Management have sensitised the key assumptions in the impairment tests of the two centres under the base case.

A reduction in revenue of six percentage points down on the base case for FY2021 to FY2023 and an increase in the discount rate applied to the cash flows of the CGU of one per cent would not cause the carrying value to exceed its recoverable amount. Detailed impairment testing for the two centres showed that the growth rate (beyond three years) would need to be -1% per annum for the assets recoverable amounts to be equal to the value-in-use calculations. Therefore, management believe that any reasonable possible change in the key assumptions would not result in an impairment charge.

11. LEASES

Group as a lessee

The Group has lease contracts for property and amusement machines used in its operations. The Group's obligations under its leases are secured by the lessor's title to the leased assets. The Group is restricted from assigning and subleasing the leased assets. There are several lease contracts that include variable lease payments.

The Group also has certain leases of equipment with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

Right-of-use assets	**Property £'000**	**Amusement machines £'000**	**Total £'000**
Cost			
At transition on 1 October 2019	130,227	6,110	136,337
Lease additions	1,762	1,995	3,757
Lease surrenders	–	(443)	(443)
Lease modifications	7,710	–	7,710
At 30 September 2020	**139,699**	**7,662**	**147,361**
Accumulated depreciation			
At transition on 1 October 2019	–	–	–
Depreciation charge to profit or loss	9,481	2,690	12,171
Depreciation charge to PPE	261	–	261
Lease surrenders	–	(247)	(247)
At 30 September 2020	**9,742**	**2,443**	**12,185**
Net book value			
At 30 September 2020	**129,957**	**5,219**	**135,176**
At 30 September 2019	–	–	–

Set out below are the carrying amounts of lease liabilities and the movements during the period:

Lease liabilities	**Property £'000**	**Amusement machines £'000**	**Total £'000**
At transition on 1 October 2019	161,161	6,221	167,382
Lease additions	1,762	1,995	3,757
Accretion of interest	7,609	161	7,770
Lease modifications	7,710	(203)	7,507
Payments[1]	(11,142)	(1,470)	(12,612)
At 30 September 2020	**167,100**	**6,704**	**173,804**
Current	11,438	2,966	14,404
Non-current	155,662	3,738	159,400
	167,100	**6,704**	**173,804**

1 As a result of COVID-19 rent concessions, £3,591,000 of property payments and £1,376,000 of amusement machine payments noted above were deferred during the year and are netted off the payments. A further £1,400,000 of rent savings were taken to profit or loss as a credit to variable lease payments within administrative expenses.

The following are the amounts recognised in profit or loss:

	2020 £'000
Depreciation expense of right-of-use assets	12,171
Interest expense on lease liabilities	7,770
Expense relating to leases of low-value assets (included in administrative expenses)	50

	2020 £'000
Variable lease payments (included in administrative expenses)	110
COVID-19 rent savings (included in administrative expenses)	(1,400)
Total amount recognised in profit or loss	**18,701**

Variable lease payments relate to revenue-based rent top-ups at three centres.

Impairment testing is carried out as outlined in note 10.

12. GOODWILL AND INTANGIBLE ASSETS

	Goodwill £'000	Brand[1] £'000	Trademark[1] £'000	Software £'000	Total £'000
Cost					
At 1 October 2018	75,034	3,360	798	1,455	80,647
Additions	–	–	–	311	311
Disposals	–	–	–	(129)	(129)
At 30 September 2019	75,034	3,360	798	1,637	80,829
Additions	–	–	–	223	223
Disposals	–	–	–	–	–
At 30 September 2020	**75,034**	**3,360**	**798**	**1,860**	**81,052**
Accumulated amortisation					
At 1 October 2018	–	684	216	1,099	1,999
Amortisation charge	–	168	50	284	502
Disposals	–	–	–	(129)	(129)
At 30 September 2019	–	852	266	1,254	2,372
Amortisation charge	–	168	50	289	507
Disposals	–	–	–	–	–
At 30 September 2020	**–**	**1,020**	**316**	**1,543**	**2,879**
Net book value					
At 30 September 2020	**75,034**	**2,340**	**482**	**317**	**78,173**
At 30 September 2019	75,034	2,508	532	383	78,457
At 30 September 2018	75,034	2,676	582	356	78,648

1 This relates to the Hollywood Bowl brand and trademark only.

Impairment testing is carried out at the CGU level on an annual basis. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Each individual centre is considered to be a CGU. However, for the purposes of testing goodwill for impairment, it is acceptable under IAS 36 to group CGUs, in order to reflect the level at which goodwill is monitored by management. The whole Group is considered to be one CGU, for the purposes of goodwill impairment test, on the basis of the level at which goodwill is monitored by management and historical allocation of goodwill upon acquisition.

The recoverable amount of the CGU is determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by the Board covering a three-year period. Cash flows beyond this period are extrapolated using the estimated growth rates stated in the key assumptions. The key assumptions used in the value-in-use calculations are:

	2020	2019
Discount rate (pre-tax)	**8.5%**	8.5%
Growth rate (beyond three years)	**2.0%**	2.0%

As part of the review of the potential impact of the COVID-19 outbreak on the cash flows of the CGU, a base case was prepared. The base case has FY2021 at levels of between -45 per cent and -15 per cent of FY2020 (5 months actual and 7 months budget), closed centres due to local tier restrictions, as well as taking into account the impact of socially distanced operations. In line with the revenue reductions the employee costs were reduced, taking advantage of the CJRS and no additional top up for centre teams. Maintenance and marketing spend, as well as all non-essential and non-committed capital expenditure were reduced in FY2021. Discount rates reflect management's estimate of return on capital employed required and assessment of the current market risks. This is the benchmark used by management to assess operating performance and to evaluate future capital investment proposals. These discount rates are derived from the Group's weighted average cost of capital. Changes in the discount rates over the years are calculated with reference to latest market assumptions for the risk-free rate, equity risk premium and the cost of debt.

Sensitivity to changes in assumptions

Management have sensitised the key assumptions in the impairment tests of the CGU under the base case scenario.

The key assumptions used and sensitised were forecast growth rates and the discount rates, which were selected as they are the key variable elements of the value-in-use calculation. The combined effect of a reduction in revenue of six percentage points on the base case for FY2021 to FY2023, an increase in the discount rate applied to the cash flows of the CGU of one per cent and a reduction of one per cent in the growth rate (beyond three years), would reduce the headroom by £176.0m. This scenario would not cause the carrying value to exceed its recoverable amount. Therefore, management believe that any reasonable possible change in the key assumptions would not result in an impairment charge.

13. TRADE AND OTHER RECEIVABLES

	30 September 2020 £'000	30 September 2019 £'000
Trade receivables	**143**	734
Other receivables	**48**	40
Prepayments	**1,529**	7,240
	1,720	8,014

Trade receivables have an ECL against them that is immaterial. There were no overdue receivables at the end of any period.

14. TRADE AND OTHER PAYABLES

	30 September 2020 £'000	30 September 2019 £'000
Current		
Trade payables	**2,909**	3,189
Other payables	**1,251**	3,493
Accruals and deferred income	**4,229**	8,735
Taxation and social security	**1,551**	3,047
Total trade and other payables	**9,940**	18,464

	30 September 2020 £'000	30 September 2019 £'000
Non-current		
Other payables	**814**	6,846

Accruals and deferred income includes a staff bonus provision of £410,000 (30 September 2019: £2,913,000). Deferred income includes £148,000 (30 September 2019: £472,000) of customer deposits received in advance, all of which is recognised in the income statement during the following financial year.

Non-current other payables includes lease incentives received of £nil (30 September 2019: £2,437,000) which were expected to be released to the income statement on a straight-line basis over the remaining term of each lease, which ranged from 1 to 25 years. In FY2019, this also included extended credit of £4,409,000 from an amusement machine supplier. These are both now accounted for as part of IFRS 16 leases (see note 2).

15. LOANS AND BORROWINGS

	30 September 2020 £'000	30 September 2019 £'000
Current		
Bank loan	**5,205**	1,380
Borrowings (less than 1 year)	**5,205**	1,380
Non-current		
Bank loan	**23,833**	25,383
Borrowings (greater than 1 year)	**23,833**	25,383
Total borrowings	**29,038**	26,763

Bank borrowings have the following maturity profile:

	30 September 2020 £'000	30 September 2019 £'000
Due in less than 1 year	**5,500**	1,500
Less issue costs	**(295)**	(120)
	5,205	1,380
Due 2 to 5 years	**24,000**	25,500
Less issue costs	**(167)**	(117)
Total borrowings	**29,038**	26,763

The bank loans are secured by a fixed and floating charge over all assets. The loans carry interest at LIBOR plus a variable margin.

	30 September 2020 £'000	30 September 2019 £'000
Loans and borrowings brought forward	**26,763**	28,143
Repayment during the year	**(1,500)**	(1,500)
Drawdown during the year	**4,000**	–
Issue costs	**(350)**	–
Amortisation of issue costs	**125**	120
Loans and borrowings carried forward	**29,038**	26,763

On 7 May 2020, the Group amended its facility with Lloyds Bank plc to add an additional £10m under the CLBILS.

On 21 September 2020, the Group extended its £35m facility with Lloyds Bank plc for a further year, resulting in a revised expiry date of 2 September 2022. The next repayment of £0.3m is due on 31 December 2020 and every six months up to 30 June 2022. The remaining balance will be repayable on the expiry date of 2 September 2022.

As at 30 September 2020, the outstanding loan balance, excluding the amortisation of issue costs, was £29,500,000 (30 September 2019: £27,000,000). In addition, the Group had an undrawn £1m revolving credit facility and undrawn £10m CLBILS facility at 30 September 2020 (30 September 2019: £5m undrawn RCF). All loans carry interest at LIBOR plus a margin, which varies in accordance with the ratio of net debt divided by EBITDA and cash flow cover. The margin at 30 September 2020 was 2.0 per cent (30 September 2019: 1.75 per cent). The Group considers this feature to be a non-financial variable that is specific to a party to the contract and hence not treated as an embedded derivative.

During the year, the Group drew down £4m of its RCF facility with Lloyds Bank plc.

The terms of the facility include the following Group financial covenants:

(i) that the ratio of consolidated total net debt to EBITDA in respect of any relevant period shall not exceed 1.25:1 up to 31 March 2020, 1.50:1 for the quarter ending 30 June 2020, 2.25:1 for the quarter ending 30 September 2020, waived for the quarters ending 31 December 2020 and 31 March 2021, and 1.50:1 for the quarter ending 30 June 2021 and thereafter; and

(ii) that the ratio of consolidated cash flow to consolidated debt service in respect of any relevant period shall not be less than 1:1 (waived for the quarters ending 30 June 2020, 30 September 2020, 31 December 2020 and 31 March 2021).

New covenants were introduced for 31 December 2020 and 31 March 2021:

(i) Liquidity, including balance sheet cash and undrawn RCFs, at least £17m; and

(ii) Trailing twelve-month Group adjusted EBITDA pre IFRS 16 a minimum of -£3m.

The Group operated within these covenants during the period and the previous period.

16. DEFERRED TAX ASSETS AND LIABILITIES

	30 September 2020 £'000	30 September 2019 £'000
Deferred tax assets and liabilities		
Deferred tax assets	**6,115**	824
Deferred tax liabilities	**(820)**	(1,420)
	5,295	(596)

	30 September 2020 £'000	30 September 2019 £'000
Reconciliation of deferred tax balances		
Balance at beginning of period	**(596)**	(487)
Deferred tax (charge)/credit for the period	**500**	(109)
IFRS 16 transition adjustment	**5,388**	–
Adjustment in respect of prior years	**3**	–
Balance at end of period	**5,295**	(596)

The components of deferred tax are:

	30 September 2020 £'000	30 September 2019 £'000
Deferred tax assets		
Fixed assets	**5,740**	562
Other temporary differences	**375**	262
	6,115	824
Deferred tax liabilities		
Property, plant and equipment	**(376)**	(446)
Intangible assets	**(444)**	(426)
Capital gain	**–**	(548)
	(820)	(1,420)

Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to the periods when the assets are realised or liabilities settled, based on tax rates enacted or substantively enacted at 30 September 2020.

The capital gain relates to a site sold in 2010, where the gain crystallised during the year.

17. RELATED PARTY TRANSACTIONS

30 September 2020 and 30 September 2019

During the period, and the previous period, there were no transactions with related parties.

18. DIVIDENDS PAID AND PROPOSED

	30 September 2020 £'000	30 September 2019 £'000
The following dividends were declared and paid by the Group:		
Final dividend year ended 30 September 2018 – 4.23p per Ordinary share	**–**	6,344
Special dividend year ended 30 September 2018 – 4.33p per Ordinary share	**–**	6,495
Interim dividend year ended 30 September 2019 – 2.27p per Ordinary share	**–**	3,405
Final dividend year ended 30 September 2019 – 5.16p per Ordinary share	**7,739**	–
Special dividend year ended 30 September 2019 – 4.50p per Ordinary share	**6,750**	–
	14,489	16,244
Proposed for approval by shareholders at AGM (not recognised as a liability at 30 September 2020)		
Final dividend year ended 30 September 2020 – 0.00p per Ordinary share (2019: 5.16p)	**–**	7,739
Special dividend year ended 30 September 2020 – 0.00p per Ordinary share (2019: 4.50p)	**–**	6,750

Stephen Burns	Laurence Keen
Chief Executive Officer	Chief Financial Officer
14 December 2020	14 December 2020

PRINCIPAL RISKS – EFFECTIVE RISK MANAGEMENT

Our approach to risk

When we look at risk, we specifically consider the effects it could have on our business model, our culture and therefore our ability to deliver our long-term strategic.

We consider both short- and long-term risks within a timeframe of up to three years. We consider social, operational, technical, governance and environmental risks, as well as financial risks.

Risk appetite

This describes the amount of risk we are willing to tolerate as a business. We have a higher appetite for risks accompanying a clear opportunity to deliver on the strategy of the business.

We have a low appetite for, and tolerance of, risks that have a downside only, particularly when they could adversely impact health and safety or our values, culture or business model.

Our risk management process

The Board is ultimately responsible for ensuring that a robust risk management process is in place and that it is being adhered to. The main steps in this process are:

- Department heads formally review their risks on a six-monthly basis to compile their department risk register. They consider the impact each risk could have on the department and overall business, as well as the mitigating controls in place. They assess the likelihood and impact of each risk.
- The Executive team reviews each departmental risk register. Any risks which are deemed to have a level above our appetite are added to/retained on the Group risk register (GRR) which provides an overview of such risks and how they are being managed. The GRR also includes any risks the Executive team is managing at a Group level. The Executive team determines mitigation plans for review by the Board.
- The Board challenges and agrees the Group's key risk, appetite and mitigation actions twice yearly and uses its findings to finalise the Group's principal risks.
- The principal and emerging risks are taken into account in the Board's consideration of long-term viability as outlined in the viability statement.
- We acknowledge that risks and uncertainties of which we are unaware, or which we currently believe are immaterial, may have an adverse effect on the Group.

COVID-19

The COVID-19 pandemic, the associated lockdown and the closure of our business significantly impacted our financial year. Our colleagues, customers and suppliers have all experienced significant disruption with numerous personal and operational challenges arising. The pandemic and the social and macroeconomic impact it brought has created a risk event for the Group, which has been considered as set out in the viability statement.

In our initial response phase to COVID-19, our priority was to safeguard the health and wellbeing of our colleagues and customers, and to mitigate the closure of our centres. We moved into a resilience phase early in the lockdown period following extensive modelling of the financial impact of COVID-19. It was necessary to impose tighter control over liquidity, which informed our decisions on a series of measures, including the furloughing of colleagues and negotiating payment terms with our suppliers, as well as landlords in regard to rental payments. Resilience will remain central to our risk management focus throughout 2021; however, in readiness for the easing and removal of lockdown restrictions, we are preparing for the recovery phase and, ultimately, new ways of working.

Where the impact of the pandemic has exacerbated a principal risk, we have incorporated a commentary on the COVID-19 mitigation being taken.

Our principal risks are described below, along with a summary of our mitigation activities.

Risk management activities

Risks are identified via: operational reviews by senior management; internal audits; control environments; our whistleblowing helpline; and independent project analysis.

The internal audit team provides independent assessment of the operation and effectiveness of the risk framework and process in centres, including the effectiveness of the controls, reporting of risks and reliability of checks by management.

We have undertaken an extensive review of the organisation’s risk profile to verify that current and emerging risks have been identified and considered by management.

Each risk has been scaled as shown on the risk heat map below:

Risk type	Risk and impact	Mitigating factors
FINANCIAL 1 **REVENUE RISK** **Increasing**	• Adverse economic conditions may affect Group results. • A decline in spend on discretionary leisure activity could lead to a reduction in profits. • Lack of free cash flow may impact on the refurbishment strategy. • A prolonged period of uncertainty as a result of the COVID-19 pandemic could cause significant disruption to business operations.	• An economic contraction is likely, impacting consumer confidence and discretionary income. The Group has the lowest price per game of the branded operators and whilst it would suffer in such a recession, the Board is comfortable that the majority of centre locations are based in high-footfall areas which should stand up to a recessionary decline. • Along with appropriate financial modelling and available liquidity, a focus on opening new centres only with appropriate property costs, as well as capital contributions, remains key to the Group’s new centre-opening strategy. Recent new openings continue to provide strong returns. • We have an unrelenting focus on service, safety, quality and value, and are continuing to invest in our centres. Plans are developed to mitigate many cost increases. • During the COVID-19 pandemic and period of closure, management identified and implemented measures to preserve cash, reduce discretionary spend and facilitate reopening expediently to minimise revenue loss, as well as utilising the CJRS. • We have developed a comprehensive framework of protocols for operating our centres in a COVID-secure way. This framework was developed in line with government guidelines for the wider hospitality and leisure sectors and also includes specific protocols for bowling. We have introduced enhanced cleaning protocols and equipment, capacity limits within each centre and appropriate social distancing measures in all areas of our spacious centres. To provide further confidence and guidance to our customers, we have implemented a comprehensive communication plan (‘Have Fun – Play Safe’) providing customers with information, videos and FAQs via email, on our website and in the centres themselves.

FINANCIAL 2 **COVENANT BREACH RISK**	• Adversely impacted by a failure to review funding arrangements when	• The pandemic has elevated this risk, and financial resilience has therefore become central to our decision-making and will remain key for the foreseeable future. • Appropriate financial modelling has been undertaken to support the

Increasing	they become due, or a failure to meet banking covenants. • Covenant breach would result in a review of banking arrangements and potential liquidity issues.	assessment of the business as a going concern. The Group has headroom on the current facility with net debt and cash flow cover below its covenant levels, as shown in the monthly Board packs. We prepare short-term and long-term cash flow, EBITDA and covenant forecasts to ensure risks are identified early. Tight controls exist over the approval for capital expenditure and expenses. • Early in the period of the first lockdown due to the pandemic, the Group was able to access substantial liquidity (£10.5m) through an equity placing and an incremental RCF of £10m through the CLBILS, as well as agree relaxing of various financial covenants (as set out in the Finance Review section of this announcement). The Group has also agreed a one-year extension on its current credit facility. • The Group was able to take advantage of the government support for business through CJRS, business rates holiday and the VAT deferment scheme (for the March 2020 quarter). In addition, the Group worked in partnership with landlords and key suppliers to reduce cash outflow through a mixture of payment waivers and deferrals. • The Directors consider that the combination of events required to lower the profitability of the Group to the point of breaching bank covenants is unlikely, but not implausible. In the event that the Group fails to meet one or more of its covenants, the Directors believe it likely that an agreement could be reached with its lending bank, to waive or amend covenants further. However, no such commitment for further covenant waivers is currently in place with the lending bank.

FINANCIAL 3 **BREXIT RISK** **Unchanged**	• The result of Brexit could cause disruption to business conditions and increase input costs for certain food and drink due to additional import costs.	• Collaborative relationships with key suppliers, Brakes and Molson Coors, to help identify any potential cost increases under both a ‘no deal’ Brexit and a continued EU relationship. • The COVID-19 pandemic puts extra financial pressure on the Group’s suppliers, however, given their size and liquidity, it is management’s belief that all should survive this period. • Minimal fresh ingredients, which are likely to see the largest financial cost impact, in the business. • Increased stock holdings on all identified risk lines upon consultation with suppliers.

OPERATIONAL 1 **CORE SYSTEMS RISK** **Unchanged**	• Failure in the stability or availability of information through IT systems could affect Group business and operations. • Customers not being able to book through website. • Inaccuracy of data could lead to incorrect business decisions being made.	• All core systems (non-cloud based) are backed up to our disaster recovery centre. • The reservation/CRM systems, provided by a third party, are hosted by Microsoft Azure Cloud for added resilience and performance. This also has full business continuity provision and scalability for peak trading periods. • The reservations system also has an offline mode, so customers could still book but the CCC and online booking facility would be down. A back-up system exists for CCC to take credit card payments offline. A full audit process exists for offline functionality. • The business has migrated to Microsoft365 for added resilience and to ensure that email is always available for communications. • All technology changes which affect core systems are authorised via change control procedures. • The Group undertakes periodic strategic reviews of its core system set up with associated market comparisons of available operating systems to ensure that it has the most appropriate technology in place.

OPERATIONAL 2 **SUPPLIER RISK**	• Operational business failures from key suppliers (non-IT). • Unable to provide customers with a full	• The Group has key suppliers in food and drink under contract to tight service level agreements (SLAs). Other suppliers that know our business could be introduced, if needed, at short notice. Centres hold between 14 and 21 days of food, drink and amusement product. Regular reviews and updates are held with external partners to identify any perceived risk and its

Unchanged	experience.	resolution.
OPERATIONAL 3 **AMUSEMENT SUPPLIER RISK** **Unchanged**	• Any disruption which affects Group relationship with amusement suppliers. • Customers would be unable to utilise a core offer in the centres.	• Regular key supplier meetings between our Head of Amusements, and Namco and Inspired Gaming. There are quarterly meetings between the CEO, CFO and Namco. • Namco is a long-term partner that has a strong UK presence and supports the Group with trials, initiatives and discovery visits. • Namco also has strong liquidity which should allow for a continued relationship post any consumer recession.
OPERATIONAL 4 **CENTRE MANAGER RETENTION RISK** **Decreasing**	• Loss of key personnel – centre managers. • Lack of direction at centre level with effect on customers. • More difficult to execute business plans and strategy, impacting on revenue and profitability.	• The Group runs centre manager in training (CMIT) and assistant manager in training (AMIT) programmes annually, which identify potential centre talent and develop staff ready for these roles. Centre managers in training run centres, with assistance from the regional support manager as well as experienced centre managers from across the region, when a vacancy needs to be filled at short notice. • The centre manager bonus scheme has been reviewed for FY2021 to ensure it is still a strong recruitment and retention tool. Small amends to make it more attractive include a long-term retention plan, as well as quarterly payouts. • Wellbeing guides were issued across the business during the pandemic, as well as frequent Group Zoom Q&A sessions and updates via our team member app, to ensure team engagement.
OPERATIONAL 5 **FOOD SAFETY RISK** **Unchanged**	• Major food incident including allergen or fresh food issues. • Loss of trade and reputation, potential closure and litigation.	• Food and drink audits are undertaken in all centres based upon learnings of prior year and food incidents seen in other companies, as well as for health, safety and legal compliance. STRIKES training, which includes allergen and intolerance issues, to be reviewed, understood and complied with. • Allergen information has been updated and remains a focus for the centres. This was enhanced further in the new menu, along with an online allergens list. A primary local authority partnership is in place with South Gloucestershire covering health and safety, as well as food safety.
TECHNICAL 1 **GDPR & CYBER SECURITY RISK** **Unchanged**	• Data protection or GDPR breach. • Obtaining all customer email addresses and impact on reputation with customer database. The Group does not hold any customer payment information.	• The Group's IT networks are protected by firewalls and secure passwords. Vulnerability scans are frequently run on firewalls to ensure their integrity. • A data protection officer has been in position for 36 months and has attended external courses to continue to build knowledge. • All team members have been briefed via online presentations. A training course on GDPR awareness was created on STRIKES and all team members have to complete pre being able to work on shift. • A cyber security partner is in place to handle any cyber security breaches and will work with the Group on a priority basis – 365x24x7 – if necessary. • Regular penetration testing is conducted through a third-party cyber security company.
REGULATORY 1 **COMPLIANCE RISK** **Unchanged**	• Failure to adhere to regulatory requirements such as listing rules, taxation, health and safety, planning regulations and other laws.	• Expert opinion is sought where relevant. We run continuous training and development for appropriately qualified staff. • The Board has oversight of the management of regulatory risk and ensures that each member of the Board is aware of their responsibilities. • Compliance documentation for centres to complete for health and safety, and food safety, are updated and circulated twice per year. Adherence to company/legal standards is audited by the internal audit team.

- Potential financial penalties and reputational damage.