13 December 2019

Hollywood Bowl Group plc

Final Results for the year ended 30 September 2019

CUSTOMER-LED STRATEGY CONTINUES TO DRIVE STRONG REVENUE AND PROFIT GROWTH, ENABLING ENHANCED CASH RETURNS TO SHAREHOLDERS

Hollywood Bowl Group plc, ("Hollywood Bowl" or the "Group"), the UK's market leading ten-pin bowling operator, is pleased to announce its audited results for the year ended 30 September 2019 ("FY2019").

Financial Highlights

	12 months ended 30 September 2019	12 months ended 30 September 2018 ("FY2018")	**% Movement**
Total revenues	**£129.9m**	£120.5m	**+7.8%**
Like for like (LFL[1]) revenues	**+5.5%**	+1.8%	
Group adjusted[2] EBITDA	**£38.2m**	£36.2m	**+5.7%**
Group adjusted[2] EBITDA margin	**29.4%**	30.0%	**-60bps**
Operating profit	**£28.4m**	£24.9m	**+14.3%**
Profit before tax	**£27.6m**	£23.9m	**+15.3%**
Basic earnings per share	**14.86p**	12.52p	**+18.7%**
Net debt	**£2.1m**	£2.5m	**-15.7%**
Interim ordinary dividend paid per share	**2.27p**	2.03p	**+11.8%**
Final ordinary dividend per share	**5.16p**	4.23p	**+22.0%**
Special dividend per share	**4.50p**	4.33p	**+3.9%**
Total dividend per share	**11.93p**	10.59p	**+12.7%**

Operational Highlights

- **Ongoing centre refurbishment and rebrand programme delivering strong returns**
  - Six centre refurbishments and a further two AMF rebrands completed in FY2019
  - Total average returns[3] on refurbishments and rebrands of 46.1%, notably above our 33% ROI target
  - Proven long-term capital investment strategy in the portfolio to continue - target of seven to ten rebrands/refurbishments in FY2020

- **Further strong progress in new centre opening programme**
  - Two new centres opened – both performing in line with management expectations including intu Lakeside, the largest bowling centre to be opened in the UK in the last ten years
  - York Hollywood Bowl centre and three 'Puttstars' mini-golf trial centres in Leeds, York and Rochdale to open in FY2020
  - Six further bowling centres in the development pipeline from FY2021 to FY2023

- **All revenue lines in like-for-like growth and 4.5% increase in average spend following ongoing innovation of the customer proposition**
  - Investments in dynamic pricing, bar & diner layouts and further rollout of enhanced amusements offering, increased average spend to £9.64 (FY2018: £9.22)
  - Continued high customer satisfaction levels

- **Positive returns from investment in technology**
  - New scoring system installed in 24 centres; integrated with customer relationship management and re-engagement programmes
  - New mobile-first website driving online revenue growth
  - Latest 'Pins on strings' technology in 11 centres with returns of 25-30%; in line with our expectations

- **Strong balance sheet and continued significant cash generation enabling £17.9m to be returned to shareholders for FY2019**

- Total of £47.7m cash returned to shareholders since IPO representing 19.9% of the Company's market capitalisation at IPO

- **Group well positioned for the future with a positive outlook**
    - Continued execution of clear, customer-led strategy, leading the market in scale, performance and value for money experience
    - Further strong financial performance to be driven by our proven ongoing capital investment programme
    - Solid start to the new financial year with trading in line with the Board's expectations

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

"I am delighted to report another year of strong profitable and cash generative growth, demonstrating the consistent delivery of our proven, customer-led strategy. In addition to driving these further strong returns, we also achieved excellent customer feedback following the ongoing investment in our centres, further innovation of our industry-leading customer proposition and the continued development of our team members. We also increased the size of our portfolio to 60 high-quality, all profitable centres. As a result of this strong financial and operational performance, we are delighted to announce a special dividend for the third consecutive year, which will result in a total of £47.7m being returned to shareholders since IPO.

"In addition to our new bowling centre pipeline, we look forward to the FY2020 launch of three trial Puttstars mini-golf centres, as we look to leverage our operational expertise to offer another family focused, value for money, leisure experience.

"We have made a solid start to the new financial year and we expect to make further progress in our ongoing refurbishment programme, investment in technology and continued roll out of customer innovations. I am confident that we will continue to deliver value for all of our stakeholders."

1. LFL revenue growth is total revenue excluding any new centres, closed centres, acquisitions and any leap year effect. New centres are included in the LFL growth calculation for the period after they complete the calendar anniversary of their opening date. The comparable results of these new centres for the prior period are also included. Closed centres are excluded in the year of closure and prior year.
2. 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, loss on disposal of property, plant and equipment and software, and any exceptional costs, and is considered by management to be a measure investors look at to reflect the underlying business. A reconciliation between Group adjusted EBITDA and statutory operating profit is provide in note 3 to the financial statements.
3. Returns are calculated as the incremental EBITDA in the first 12 months post the completion and relaunch of the refurbishment, divided by the capital expenditure spent on the refurbishment. The incremental EBITDA is calculated by comparing the refurbished centres LFL revenue growth post refurbishment, against the centres that have not been invested in during the previous 18 months, and then applying the gross profit % for each revenue line.

Enquiries

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CHAIRMAN'S STATEMENT

Another great year

Following our third full year as a listed business, I am delighted to report another strong financial and operational performance. The Group has continued to make good progress with its customer-led strategy, delivering returns from product innovations, new centre openings and its refurbishment and rebrand programme.

Our unwavering focus on this established strategy, coupled with the continued effective deployment of capital, has resulted in the delivery of like-for-like (LFL)[1] revenue growth of 5.5 per cent, Group adjusted EBITDA[2] growth of 5.7 per cent and profit before tax growth of 15.3 per cent.

A myriad of activities come together to deliver excellent customer experience, but there are key components that drive the successful implementation of our strategy. At the heart of what we do are our team members who operate the centres and the support centre on a daily basis. I am pleased to say that with our industry-leading team member retention figures, we have established ourselves as a great company to work for. But we do not rest on our laurels, and strive to be ranked amongst the very best. This year we have launched a number of initiatives focused on team member engagement and on delivering competitive team member benefits. We are seeing a clear response to this with our continually improving customer experience scores, improvements in team member retention and market-leading financial performance.

We continue to invest in our centres too; in some cases revisiting centres we first invested in some five or more years ago. The returns delivered continue to be excellent, with an average return on refurbishments and rebrands this year of 46.1 per cent. This has been achieved through continued innovation in our refurbishment programme including reconfiguring layouts and maximising the space available. A great example is the recent investment in Leicester, one of our top-performing centres, where, by combining the bar and diner, we created space for two additional lanes, increased the number of amusement machines and improved customer service. Leicester is on track to deliver payback within two years.

Another terrific example of continued investment into our existing portfolio can be seen at our Peterborough centre. We have invested £300,000 to create a more modern and contemporary feel by removing internal walls, opening up the concourse, expanding the amusement offering, adding modern finishes and colours and applying the Hollywood Bowl branding. The result has been a revitalised centre delivering a return above our expectations.

These investments have been combined with product innovations including, but not limited to, ‘Pins on strings’ and a new scoring system. Both initiatives deliver an improved customer experience. ‘Pins on strings’ is a great example of industry norms being challenged and, through careful and methodical installation, we are seeing improving customer experience scores around our core bowling product, operational efficiencies and increased acceptance from even the most hardened league bowlers.

Two new centres have been added during the year – at intu Watford and intu Lakeside. Both are the embodiment of product innovation and evolution, providing the opportunity to test new technology and our ever-improving digital application and strategy. Given the opportunity, I urge you to visit these sites to see the latest iterations in bowling – they are very exciting both for the customer experience they offer and for their financial payback.

As a team, we thrive on the challenge of maximising returns from our strategy. We review the competitive landscape constantly and investigate all opportunities that are for sale or potentially for sale. Currently these are of limited interest, as we believe we can generate higher returns from our organic rollout strategy. We have also developed a new mini-golf concept, ‘Puttstars’, which represents an exciting opportunity to create an additional but complementary aspect to our Hollywood Bowl centres. The three trial sites in Leeds, York and Rochdale, will open in FY2020 and we look forward to reporting on progress.

At our recent year-end centre manager conference – where we report on, and celebrate, the year just completed and launch the year ahead – we talked at length about “continuous improvement” and “incremental marginal gains”. The leadership teams created strategies and actions to implement changes and improvements in our operational model to deliver another year of successful performance. An important aspect of this conference is the celebration of achievements, resulting in a team of winners going to the Disney Institute to discover new ideas for our continuous improvement.

Our position as market leader continues to be reinforced by our performance. The significant cash generation from our business and returns from our ongoing investment programme, have enabled the Board to recommend a special dividend of 4.50 pence per share for FY2019 alongside an increase in the final ordinary dividend to 5.16 pence per share. Along with the interim dividend, this will mean a total dividend of 11.93 pence for FY2019, up 12.7 per cent on FY2018.

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. As well as to our wider team, my thanks go to the senior leadership team of Stephen, Laurence, Mat, Mel and Darryl, whose leadership and example are the personification of the culture and determination to succeed that defines Hollywood Bowl Group.

PETER BODDY
CHAIRMAN
13 December 2019

1. LFL revenue growth is total revenue excluding any new centres, closed centres, acquisitions and any leap year effect. New centres are included in the LFL growth calculation for the period after they complete the calendar anniversary of their opening date. The comparable results of these new centres for the prior period are also included. Closed centres are excluded in the year of closure and prior year.
2. 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, loss on disposal of property, plant and equipment and software, and any exceptional costs, and is considered by management to be a measure investors look at to reflect the underlying business. A reconciliation between Group adjusted EBITDA and statutory operating profit is provided in note 3 to the financial statements.

CHIEF EXECUTIVE'S REVIEW

It is pleasing to report on another very successful year for Hollywood Bowl Group, which continues to be a dynamic and ambitious business that delivers a fantastic value-for-money family entertainment experience to its customers. We maintain a daily focus to improve the quality of our environments and the experience we provide for those who choose to spend their leisure time with us. Our continued growth has been delivered by executing a clear and consistent strategy to provide a customer-led product delivering a best-in-class experience, tailored to the different needs of our customer groups. Our growth provides further evidence of our ability to grow market share, refine our offering through our rebrand and refurbishment programme, and provide an industry-leading competitive socialising experience to a wide customer demographic.

The Group saw all revenue lines increase on a LFL[1] basis for FY2019. Our continued strong sales and profitability has come as a result of:

Revenue Growth

- We grew game volumes by 3.1 per cent in FY2019 and our bowling spend per game increased by 2.6 per cent.
- This was supported by the continued enhancements to our dynamic pricing structure, including offering deeper discounts for the lower demand periods.
- Bar & diner spend per game grew by a combined 3.1 per cent last year as a result of the bar product changes made during the second half of last year. This, coupled with investment in our diner layouts, helped extend customer dwell time.
- Continued innovation and investment in our ancillary product offering helped drive an increase in overall spend per game from £9.22 to £9.64 in FY2019.

Innovation

- New competitive gaming concepts in both video and the redemption offer, coupled with a fantastic plush product range following a strong cinema film slate, helped drive amusement spend per game up 10.6 per cent year-on-year.
- Learnings from the cashless trials put in place last year continue to drive returns, with contactless change machines reducing the barriers to play.

Customer Engagement

- The way we attract new customers and re-engage with existing guests through our digital marketing and Customer Relationship Management (CRM) activity. Our programmatic advertising campaign has driven increased revenues and improved return on spend ratios against last year. Our automated and tactical email campaigns also delivered increased revenues driven by the expansion of our database, which now stands at over two million contacts, improved targeting and further investment in the digital marketing team.
- Continuing to provide the highest levels of customer service. This drives up spend per game, the quality of our database and customers' propensity to recommend Hollywood Bowl to their friends. Our overall customer satisfaction levels have increased once again this year which has helped drive up spend per game.

Market

Hollywood Bowl Group remains the UK's top ten-pin bowling operator, trading from 60 high-quality, all profitable, family entertainment centres located throughout the length and breadth of the country. Competitive socialising has cemented itself as its own sub-sector in the leisure market over the last two years, and we are well positioned to capitalise on this trend. Bowling is unique in that it appeals to a wide demographic, has a relatively low price point which makes it a family-accessible activity and is simple to understand and play (albeit tricky to truly master!), which makes it appealing to all ages.

Our strong covenant, reinvestment profile and portfolio track record make us an attractive tenant for landlords. With the increase in space available from the market realignment in retail and casual dining, continued consumer interest and relatively low penetration rates compared with cinema, our opportunity to continue to grow the overall bowling market is strong.

Enhancing our estate and customer experience

The quality of our estate is a Hollywood Bowl hallmark. We completed six refurbishments and two AMF rebrands in the year and are on track to deliver on our targeted 33 per cent return on investment. From the learnings made over the last cycle of investment, we have made a number of changes to the latest centres to benefit from a refurbishment; combining the bar and diner, creating a smoother customer journey and freeing up space for enlarged amusement areas. This also enabled us to add additional bowling lanes in two centres this year, with similar plans for three other centres in FY2020, including Sheffield pre-Christmas 2019.

We opened two new centres during the period. Hollywood Bowl Watford, located at the intu shopping centre scheme, boasting 14 lanes over 20,000 square feet, was opened in December 2018. We also celebrated the opening of our 60th Hollywood Bowl site, at intu Lakeside, in March 2019. At 34,000 square feet and 24 lanes, Lakeside is the largest bowling centre to be opened in the UK in the last ten years. Both centres are trading well and in line with our expectations. The centre in Lakeside saw the first trial installation of 'Hyper Bowl' across six lanes. Hyper Bowl is an innovative product that has different game formats and scoring technology. We plan to install Hyper Bowl as an option across all the lanes at our centre in Norwich in FY2020 to fully test the concept.

Investment in people
Hollywood Bowl is a people business, from our customers to our team, and the attraction and retention of top talent is at the top of the leadership agenda. I am incredibly fortunate to be supported by an entrepreneurial team who look for continuous improvement in our customer offering, and I thank them for their hard work and determination over the last twelve months.

Our industry-leading top talent programmes have helped support our growth this year, with 48 per cent of all management roles filled internally and 184 team members joining one of our management development programmes. With record low unemployment, competition for team members for entry-level roles continues to be high within the market. As a consequence, we have improved our pay and reward structures to ensure we are offering a competitive basic salary with the opportunity to earn service and profit-related bonuses throughout the organisation.

Investment in technology
We continue to innovate, enhancing the customers' digital journey adding to their 'real world' bowling fun. We have made some big improvements to our proposition this year including the launch of a new mobile-first website which has supported continued revenue growth through our online sales channel. The rollout of our new scoring system continues at pace, with 24 centres now benefiting from the technology that joins the scoring system in-centre with our CRM capabilities; 50 per cent of the estate will have the new system by the end of calendar year 2019, with the rollout to be completed across the estate over the next 18 months. Our in-centre digital merchandising has been well received by our customers, with digital leader boards linked to the scoring system, dynamic advertising of products and data capture kiosks adding to the overall experience and atmosphere of our contemporary environments.

We have installed the latest pinsetter technology, version three of the 'Pins on strings' machine, in a further four centres this year after working in partnership with the manufacturer to iron out early issues. We will continue to install this machine in those centres where the freefall pinsetters are reaching the end of their useful economic life, and have plans for installation in a further six centres over the coming year. The returns we have seen from this investment are in line with guidance at 25-30 per cent.

Supporting our growth in bowling revenue has been the dynamic pricing technology we built into our website and contact centre booking channels. Version four of the initiative launched in 2017 was rolled out to the estate in July 2019.

Strategy and new centre openings
We have a strong pipeline of new bowling and mini-golf centres secured, with an average of two new centres per year to be opened through to FY2023 as anchor leisure tenants. We have also been working hard with our landlords to extend a number of our leases, securing tenure and protecting our property cost exposure.

We are pleased with the progress we have made developing our new indoor mini-golf concept, 'Puttstars'. We believe we have a real opportunity to leverage our knowledge and experience of indoor leisure to create something truly differentiated for our core customer groups as we look to expand our value-for-money offering and benefit from a larger share of the leisure pound. We have agreed leases on three locations – in Thorpe Park, Leeds; York; and Rochdale – that will each open in FY2020 to allow us to robustly test the concept.

Brexit
Continued political uncertainty has had a number of low-level impacts on our business, mainly in the areas of refurbishments, food imports and the recruitment of team members for entry-level roles. But given our low level of reliance on a transient European workforce and the UK or non-European sourcing of the majority of our products, as well as our value-for-money price point, we do not believe the impact of Brexit to be material to our business operations.

Outlook
We are a dynamic and ambitious business and have a well-thought-out, and proven, long-term capital investment strategy to continue the refurbishment of our estate with a target of seven to ten investments in FY2020, as well as the opening of one new bowling centre and three mini-golf centres, that will continue to enhance the quality of our portfolio. Investment in technology will further boost our industry-leading proposition. I am confident that our plan for the coming year will continue our strong growth trajectory, enhance our customer experience even further, strengthen the business and deliver value for our shareholders and other stakeholders.

STEPHEN BURNS
CHIEF EXECUTIVE OFFICER
13 December 2019

1. LFL revenue growth is total revenue excluding any new centres, closed centres, acquisitions and any leap year effect. New centres are included in the LFL growth calculation for the period after they complete the calendar anniversary of their opening date. The comparable results of these new centres for the prior period are also included. Closed centres are excluded in the year of closure and prior year.

FINANCE REVIEW

	30 September 2019	30 September 2018	**Movement**
Number of centres	**60**	58	**+2**
Average spend per game	**£9.64**	£9.22	**+4.5%**
Revenue	**£129.9m**	£120.5m	**+7.8%**
Gross profit margin	**85.7%**	86.1%	**-0.4%pts**
Group adjusted EBITDA[1]	**£38.2m**	£36.2m	**+5.7%**
Group profit before tax margin	**21.2%**	19.9%	**+1.3%pts**
Group profit before tax	**£27.6m**	£23.9m	**+15.3%**
Net debt	**£2.1m**	£2.5m	**-15.7%**
Group adjusted operating cash flow[2]	**£25.1m**	£24.7m	**+1.2%**
Group expansionary capital expenditure[3]	**£8.1m**	£4.3m	**+87.6%**

1. 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, loss on disposal of property, plant and equipment and software, and any exceptional costs, and is considered by management to be a measure investors look at to reflect the underlying business. A reconciliation between Group adjusted EBITDA and statutory operating profit is provided in note 3 to the financial statements.
2. Group adjusted operating cash flow is calculated as Group adjusted EBITDA less working capital movements, less corporation tax paid and maintenance capital expenditure.
3. Group expansionary capital expenditure includes all capital on new centres, refurbishments and rebrands only.

The Group has delivered excellent results for the year to 30 September 2019, with total revenues of £129.9m (+7.8 per cent), Group Adjusted EBITDA[1] of £38.2m (+5.7 per cent) and a record profit after tax of £22.3m (+18.6 per cent).

The Group's highly cash-generative business model continued to deliver strong results, with Group adjusted operating cash flow[2] of £25.1m (FY2018: £24.7m). The increase was driven by a higher Group adjusted EBITDA[1] offset in part by the expected increase of £2.2m, in maintenance capital. This increase comprised the rollout of the new scoring system to 24 centres, as well as the 'Pins on strings' installations in four existing centres, during FY2019. Free cash flow ('FCF') of £14.7m was generated in the year, representing a conversion of 66.1 per cent of profit after tax. FCF is defined as net cash flow pre dividends and exceptional items.

Growth drivers

We are pleased to have delivered record revenues in the year of £129.9m and continue to be encouraged by the LFL performance of the whole estate, as well as our new centres. The total 7.8 per cent revenue growth has been driven through LFL revenues growing at 5.5 per cent as well as 3.1 per cent from new centre openings, offset by the closure of our AMF centre in Gravesend in July 2018 (0.9 per cent).

The increase in LFL revenues, which was seen across all revenue streams, was driven by a combination of growth in game volumes and an increase in average spend per game year-on-year. A total of 13.1m games (FY2018: 12.9m) were played in LFL centres, with LFL average spend per game at £9.61 (FY2018: £9.24).

Total bowling revenue was £64.0m, up 5.7 per cent year-on-year, reflecting increased volume, the continued benefits we have seen from our evolution of dynamic pricing, as well as a small average headline price increase where we have earned the right to do so through our investment programme. This increase was only marginal, as the headline price for an adult game increased from £6.12 to £6.24 (+1.9 per cent), maintaining our position as the cheapest and best value of the three largest branded operators.

Food and drink revenue was £35.0m, up 6.3 per cent on the prior year, as we saw more people choose to spend in this area following the introduction of our new menu and our enhanced bar and diner experience. We are also pleased to see our amusement revenues grow to £30.4m, up 14.0 per cent year-on-year, which followed on from a very strong FY2018. This continues to be an area where innovation is key and we will continue to work with our partners to drive this further in FY2020. Our investment strategy continues to pay back, in both financial terms and customer satisfaction. The benefit of being in the right location, with the right team driving the performance in centres, means we are able to continue to make these transformational investments, with an average spend of £322,000 and paybacks above our target of 33 per cent. During FY2019, we reviewed a number of centres' space utilisation across day parts, which resulted in two centres adding two lanes each, removing the existing bar and diners, creating a new combined offer, which in turn increased the amusements capacity. We are reviewing the portfolio to see where this model can be replicated, with two further centres planned for additional lanes in FY2020.

LFL is defined throughout as excluding any new centre openings and closed centres. New centres are included in the LFL growth calculation for the period after they complete the calendar anniversary of their opening date. The comparable results of these new centres for the prior period are also included. Closed centres are excluded in the year of closure and prior year.

Gross profit
Gross profit in the year was up 7.3 per cent, to £111.4m driven through revenue growth in all revenue streams. Gross profit margin of 85.7 per cent was in line with our expectations. This marginal reduction was due to higher growth of our amusement revenue, 6.0 percentage points above the overall LFL growth, with a lower than average margin percentage. Cost of sales includes the cost of food and drink, as well as amusements.

Administrative expenses
Administrative expenses increased by 5.1 per cent on the prior year, to £82.9m (FY2018: £78.9m).

LFL centre administrative expenses increased by £2.6m (4.7 per cent), driven in the main by an increase in employee costs. New centres contributed an increase of £2.0m. These increases were partly netted off by a decrease in depreciation of £1.5m.

The largest cost within administrative expenses continues to be property costs - £30.6m, of which rent accounts for £14.9m (2018: £14.1m). Property costs increased by £1.1m, with LFL only accounting for £0.4m of this, and the balance coming from new centres.

Centre employee costs are the second largest cost within administrative expenses and increased from £22.3m to £25.0m for the 12-month period to 30 September 2019. On a LFL basis, employee costs increased by £2.1m, driven by higher centre level bonuses (£0.8m) and the effect of the April 2019 National Living/National Minimum Wage increases, as well as other centre level inflationary increases (£1.3m). We expect constant centre employee costs in FY2020 to increase by 3.8 per cent.

Corporate costs were in line with our expectations at £11.9m, with the increase year-on-year driven through higher training costs, bonuses due to Group performance and the higher profit share payout on our London O2 management agreement.

Group adjusted EBITDA and operating profit
LFL EBITDA continued to grow and increased by 6.2 per cent (£2.6m) compared with the prior period. This, along with new centres contributing £1.1m and the adjustments noted above, resulted in Group adjusted EBITDA of £38.2m (FY2018: £36.1m), an increase of 5.7 per cent year-on-year. Since listing on the Main Market in September 2016, EBITDA has grown by 30.2 per cent.

Management use EBITDA adjusted for exceptional items (Group adjusted EBITDA[1]) as a key performance measure of the business. With the introduction of IFRS 16 in FY2020, management will be reviewing this measure and its effectiveness as a guide to its investors, given the fact that property rent will be excluded. The Group plans to adopt IFRS 16 using the modified retrospective approach – see below for more detail.

Depreciation and amortisation decreased by £1.5m to £9.5m. As part of the introduction of 'Pins on strings' within the estate, we have reviewed the useful economic life of our current mechanical pinspotters to ensure that we are depreciating them appropriately. This review has led to management determining a shorter life for these assets, and therefore an accelerated depreciation charge in the year of £245,899 for FY2019. This, in turn, should mean there is no write-off necessary when the mechanical pinspotters are removed.

Operating profit margin increased to 21.9 per cent from 20.6 per cent in the prior year, whilst operating profit grew to a record £28.4m in FY2019, up 14.3 per cent compared with the same period last year.

	30 September 2019 £'000	30 September 2018 £'000
Operating profit	**28,444**	24,892
Depreciation	**9,041**	10,494
Amortisation	**502**	504
Loss on property, plant and equipment and software	**596**	148
EBITDA	**38,583**	36,038
Exceptional items	**(380)**	118

Group adjusted EBITDA	**38,203**	36,156

Exceptional costs

Exceptional costs for the period continue to be recognised in adherence with the policy stated in the FY2018 Annual Report. The VAT rebate shown in the period relates to a one-off retrospective reclaim in respect of unclaimed input VAT on professional fees.

	30 September 2019 £'000	30 September 2018 £'000
VAT rebate[1]	**380**	–
Non-recurring expenditure on strategic projects[2]	**–**	(118)
	380	(118)

1. The Group was able to make a non-recurring retrospective reclaim in respect of unclaimed input VAT on professional fees.
2. Costs (comprising legal and professional fees) relating to an aborted acquisition.

Share-based payments

During 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 certain performance conditions are attained relating to earnings per share (EPS), as outlined in the remuneration report. The Group recognised a charge of £633,075 (FY2018: £403,537) in relation to these non-cash share-based payments.

We opened our second Sharesave scheme to all team members in February 2019, which will vest in three years subject to continued employment. The Group recognised a charge of £28,707 (FY2018: £15,498) in relation to the Sharesave scheme. None of the non-cash costs are classified as exceptional costs.

Finance costs

Finance costs decreased from £1.1m to £1.0m as a result of margin reductions in line with the bank quarterly covenant tests. The Group currently has gross debt of £27.0m with a further £1.5m to be repaid during FY2020. The Group has an undrawn revolving credit facility of £5.0m and capital expenditure facility of £5.0m. The current facilities agreement matures in September 2021.

Taxation

The tax charge for the year increased to £5.3m, as a result of the higher profits. This charge represents an effective tax rate on statutory profit before tax of 19.2 per cent.

Earnings

Profit before tax for the year was £27.6m, which was £3.7m (+15.3 per cent) higher than the comparable period in the prior year, as a result of the factors discussed above.

The Group delivered an increased profit after tax of £22.3m (2018: £18.8m) and basic earnings per share was 14.86 pence (FY2018: 12.52 pence).

Capital expenditure

Total net capital expenditure for the year amounted to £16.7m (FY2018: £11.0m), including £5.4m (net of landlord contributions) compared with £1.0m (net of landlord contributions) in the prior year, in relation to the opening of two new centres as well as some costs for the FY2020 openings (£1.3m).

During FY2019 we also continued with our refurbishment and rebrand programme, spending a total of £2.7m on the eight centres that were invested in. As highlighted at the FY2018 results, the Group is rolling out a new scoring system across the estate, with 24 centres benefiting during this financial year. We rolled out the new 'Pins on strings' version to four further existing centres this year. Combined, these two initiatives cost £2.6m. This now gives us the confidence to continue with the 'Pins on strings' rollout, and at least six further existing centres will receive these machines during FY2020, adding to the 11 centres already so equipped. Both the scoring and 'Pins on strings' capital expenditures are classified within maintenance capital expenditure.

Cash flow

The Group continues to be highly cash generative, driven by its strong operating margins and low annual working capital movements. Group adjusted operating cash flow for the year ended 30 September 2019 was £25.1m and FCF was £14.7m.

	30 September 2019 £'000	30 September 2018 £'000
Group adjusted EBITDA	**38,203**	36,156

Movement in working capital[1]	**971**	278
Maintenance capital expenditure[2]	**(8,606)**	(6,660)
Taxation	**(5,518)**	(5,030)
Adjusted operating cash flow (OCF)[3]	**25,050**	24,744
Adjusted OCF conversion	**65.6%**	68.4%
Expansionary capital expenditure	**(8,098)**	(4,316)
Disposal proceeds	**–**	24
Net interest paid	**(711)**	(606)
Cash flows from financing activities	**(1,500)**	(1,500)
Free cash flow	**14,741**	18,347
Exceptional items	**390**	(234)
Dividends paid	**(16,244)**	(13,964)
Net cash flow	**(1,113)**	4,148

1. Working capital excludes any exceptional items. These are noted separately above. Working capital includes an amount relating to share based payments for LTIPs of £0.6m in FY2019 (FY2018: £0.4m).
2. In this table, maintenance capital expenditure includes amusements capital expenditure and amusement disposal proceeds.
3. Adjusted operating cash flow is calculated as Group adjusted EBITDA less working capital, maintenance capital expenditure and taxation. 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 and net interest paid.

This cash generation in the past 12 months has resulted in a decrease in net debt to £2.1m, compared to the period to 30 September 2018.

Dividend and special dividend

As set out at IPO in September 2016, the Board has adopted a progressive ordinary dividend for the Group, reflecting its strong cash flow and profit, whilst allowing it to retain sufficient capital to fund its investment in existing centres as well as new centres, all to drive the long-term sustainable profitability of the business.

Reflecting the Board's continued confidence in the Group, as well as the strong results for the year ended 30 September 2019, the Board is recommending a final ordinary dividend of 5.16 pence per share, giving a total ordinary dividend for the year of 7.43 pence per share.

The final dividend will be paid, subject to shareholder approval at the Company's AGM on 30 January 2020, on 19 February 2020 to shareholders on the register on 31 January 2020.

Our capital and cash allocation policy remains as below, with our top priority being to maintain a strong balance sheet. As at 30 September 2019, net debt stood at £2.1m (0.05 times Group adjusted EBITDA).

Our priorities for use of cash

- capital investment in existing centres as well as new centre opportunities;
- appropriate acquisition opportunities;
- to pay and grow the ordinary dividend every year within a cover ratio of approximately two times; and
- thereafter, any excess cash will be available for additional distribution to shareholders as the Board deems appropriate.

To the extent that there is surplus cash within the business, the Board continues to expect to return the surplus to shareholders. In line with this strategy, this year the Board has proposed a special dividend of 4.50 pence per share be paid to shareholders alongside the ordinary dividend. All the dividend will be paid using cash on the balance sheet.

This will mean that the since IPO, up to and including FY2019, the Group has returned a total of £47.7m in dividends to shareholders.

IFRS 16

The financial statements for FY2019 have been prepared based on the application of IAS 17, and the Group will adopt IFRS 16, the new financial reporting standard for leases, for FY2020.

IFRS 16 has no effect on how the business is run; there will be no change to the Group's cash flows and its growth plans. IFRS 16 does, however, have an effect on the assets, liabilities and income statement of the Group, and there are also changes to the classification of cash flows relating to lease contracts.

IFRS 16 permits a choice on the method of implementation and, after careful consideration, the Group has decided to adopt the modified retrospective approach. This adoption means that all prior year comparatives are not restated, but the cumulative effect of adoption is recognised as an adjustment to reserves in the opening balance sheet for FY2020.

More detail on the impact of IFRS 16 on our FY2020 financial statements can be found in note 2 to the Financial Statements.

LAURENCE KEEN
CHIEF FINANCIAL OFFICER
13 December 2019

FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

Year ending 30 September 2019

	Note	**30 September 2019 £'000**	30 September 2018 £'000
Revenue		**129,894**	120,548
Cost of sales		**(18,542)**	(16,748)
Gross profit		**111,352**	103,800
Administrative expenses	5	**(82,908)**	(78,908)
Operating profit		**28,444**	24,892
Underlying operating profit		**28,064**	25,010
Exceptional items	4	**380**	(118)
Finance income	7	**167**	18
Finance expenses	7	**(1,023)**	(976)
Profit before tax		**27,588**	23,934
Tax expense	8	**(5,303)**	(5,150)
Profit for the year attributable to equity shareholders		**22,285**	18,784
Other comprehensive income		**–**	–
Total comprehensive income for the year attributable to equity shareholders		**22,285**	18,784
Basic earnings per share (pence)	9	**14.86**	12.52
Diluted earnings per share (pence)	9	**14.79**	12.49

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2019

	Note	**30 September 2019 £'000**	30 September 2018 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**47,365**	41,077
Goodwill and intangible assets	11	**78,457**	78,648
		125,822	119,725
Current assets			
Cash and cash equivalents		**24,929**	26,042
Trade and other receivables	12	**8,014**	6,563
Inventories		**1,212**	1,254
		34,155	33,859

Total assets		**159,977**	153,584
LIABILITIES			
Current liabilities			
Trade and other payables	13	**18,464**	16,626
Loans and borrowings	14	**1,380**	1,380
Corporation tax payable		**2,517**	2,840
		22,361	20,846
Non-current liabilities			
Other payables	13	**6,846**	7,616
Loans and borrowings	14	**25,383**	26,763
Deferred tax liabilities		**596**	487
Provisions		**3,150**	2,934
		35,975	37,800
Total liabilities		**58,336**	58,646
NET ASSETS		**101,641**	94,938
Equity attributable to shareholders			
Share capital		**1,500**	1,500
Merger reserve		**(49,897)**	(49,897)
Retained earnings		**150,038**	143,335
TOTAL EQUITY		**101,641**	94,938

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 September 2019

	Share capital £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Equity at 30 September 2017	1,500	(49,897)	138,160	89,763
Dividends paid	–	–	(13,964)	(13,964)
Share-based payments	–	–	355	355
Profit for the period	–	–	18,784	18,784
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**

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 September 2019

	Note	**30 September 2019 £'000**	30 September 2018 £'000
Cash flows from operating activities			
Profit before tax		**27,588**	23,934
Adjusted by:			
Depreciation	10	**9,041**	10,494
Amortisation of intangible assets	11	**502**	504
Net interest expense		**856**	958

Loss on disposal of property, plant and equipment and software	**596**	148
Share-based payments	**662**	355
Operating profit before working capital changes	**39,245**	36,393
Decrease/(increase) in inventories	**42**	(65)
(Increase)/decrease in trade and other receivables	**(1,444)**	581
Increase/(decrease) in payables and provisions	**1,718**	(709)
Cash inflow generated from operations	**39,561**	36,200
Interest received	**160**	19
Income tax paid – corporation tax	**(5,518)**	(5,030)
Interest paid	**(871)**	(625)
Net cash inflow from operating activities	**33,332**	30,564
Investing activities		
Purchase of property, plant and equipment	**(16,390)**	(10,687)
Purchase of intangible assets	**(311)**	(289)
Sale of assets	**-**	24
Net cash used in investing activities	**(16,701)**	(10,952)
Cash flows from financing activities		
Repayment of bank loan	**(1,500)**	(1,500)
Dividends paid	**(16,244)**	(13,964)
Net cash flows used in financing activities	**(17,744)**	(15,464)
Net change in cash and cash equivalents for the period	**(1,113)**	4,148
Cash and cash equivalents at the beginning of the period	**26,042**	21,894
Cash and cash equivalents at the end of the period	**24,929**	26,042

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 2019 or 2018, but is derived from these accounts. Statutory accounts for 2018 have been delivered to the registrar of companies, and those for 2019 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.

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 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 as modified by the recognition of certain financial assets/liabilities at fair value through profit or loss.

Standards issued not yet effective

During the year, a number of new standards and amendments to IFRS became effective and were adopted by the Group, none of which had a material impact on the Group's net cash flows, financial position, total comprehensive income or earnings per share.

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
IFRS 16 'Leases'	The Group is adopting IFRS 16 for the year ending 30 September 2020 with a transition date of 1 October 2019. The standard replaces IAS 17 and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (lessee) and the supplier (lessor). It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, a right-of-use ('ROU') asset and a financial liability to pay rentals are recognised. The standard will affect the accounting for the Group's operating leases and will result in a material decrease in operating lease rental costs; material increases in depreciation and finance costs; a decrease in profit before and after tax; a decrease in net assets; and recognition of lease assets and liabilities. Overall there will be no impact on cash flow, though operating cash flows are expected to increase and financing cash flows decrease as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities. The standard will have no impact on the way the Group runs its business. The Group will apply the modified retrospective approach to transition at 1 October 2019 and comparative amounts for the prior year will not be restated on first adoption. The assets will be calculated from the lease commencement date, and the lease liabilities will be calculated as the present value of future lease payments from the date of transition. The cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 October 2019. The Group has applied the practical expedient to recognise payments for short-term leases and leases of low value assets on a straight-line basis as an expense in the income statement. Based on a detailed assessment of lease arrangements in place, the Group estimates that it will recognise ROU assets of between £140m and £160m and lease liabilities of between £170m and £190m as at 1 October 2019. Profit before tax will be reduced by between £1.2m and £1.7m for the year ending 30 September 2020. The retained earnings will be reduced by between £26m and £30m as at 1 October 2019. The additional liabilities will have no bearing on the loan covenant for the facility described in note 20. Banking covenants are not impacted under the current facility which runs to 20 September 2021 as they are set under accounting standards applicable at the time of entering the agreement.	1 October 2019

IFRS 3 'Definition of a Business'	In October 2018, the International Accounting Standards Board ('IASB') issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.	1 October 2020
IAS 1 and IAS 8: Definition of Material	In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The amendments to the definition of material are not expected to have a significant impact on the Group's consolidated financial statements.	1 October 2020

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.

Critical accounting judgements
Critical judgements are discussed below:

Accounting for the acquisition of amusement machines
The Group, on an ongoing basis, obtains control over amusement machines using extended credit terms over 4 years. Management has concluded that these arrangements should be accounted for as the purchase of property, plant and equipment under IAS 16, with an associated creditor with respect to the extended credit, although the machines return to the supplier at the end of 4 years.

The risk with the amusement machine passes to the Group on completion of delivery and over the predominant useful life of the asset of 4 years. The contract grants rights that include the ability to select the make and model of the machines as well as control the location and use. These machines are therefore recognised as an asset within property, plant and equipment, and not as a finance lease under IAS17, even though the machines are returned to the supplier at the end of the predominant useful life. The associated amount due to the supplier is recognised within current and non-current liabilities.

The total amount included within non-current liabilities has been discounted to present value, resulting in a credit to property, plant and equipment of £178,000 (30 September 2018: £219,000). Within the consolidated Group statement of cash flows, cash repayments of the capital are included within purchases of property, plant and equipment in investing activities.

Accounting for this contract under IAS 17 would result in the disclosure of a finance lease liability under debt within the consolidated balance sheet. The total cost recognised would not be materially different compared to the existing policy, as the impact of accounting for this contract as a finance lease would primarily affect balance sheet reclassifications as explained above. Within the consolidated Group statement of cash flows, the cash repayments included within property, plant and equipment would be included as finance lease principal payments within financing activities rather than in the investing activities. The total cash payments would be the same under IAS 17. Following the adoption of IFRS 16 on 1 October 2019 this contract will be accounted for in line with that standard as a finance lease.

Key sources of estimation uncertainty
The key estimates are discussed below:

Impairment of pinspotters
The Group determines whether the pinspotters are impaired when there are specific impairment indicators. In view of technological advancements, the Group has already replaced mechanical pinspotters with 'Pins on strings' in seven existing centres. It is the intention to roll out 'Pins on strings' on a phased basis across all centres over the long term. Management has therefore reviewed the UEL of mechanical pinspotters and determined a shorter life. The Group incurred accelerated depreciation of £245,000 in the year ended 30 September 2019 as a result of this change.

A sensitivity analysis has been carried out on the key assumption of the UEL of mechanical pinspotters. An accelerated phased rollout of 'Pins on strings' by five years, versus what is currently planned, would incur additional depreciation of £185,000 in the year ending 30 September 2020.

'Pins on strings' will be installed for all new builds given the space restrictions that tend to exist, the cost per square foot of space required for the older pinspotters, as well as the lower capital cost of these machines.

3. RECONCILIATION OF OPERATING PROFIT TO GROUP ADJUSTED EBITDA

	30 September 2019 £'000	30 September 2018 £'000
Operating profit	**28,444**	24,892
Depreciation (note 10)	**9,041**	10,494
Amortisation (note 11)	**502**	504
Loss on disposal of property, plant and equipment and software (notes 10 and 11)	**596**	148
EBITDA	**38,583**	36,038
Exceptional items (note 4)	**(380)**	118
Group adjusted EBITDA	**38,203**	36,156

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 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 2019 £'000	30 September 2018 £'000
VAT rebate[1]	**380**	–
Non-recurring expenditure on strategic projects[2]	**–**	(118)
	380	(118)

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

2 Costs (comprising legal and professional fees) relating to an aborted acquisition.

5. PROFIT FROM OPERATIONS
Profit from operations includes the following:

	30 September 2019 £'000	30 September 2018 £'000
Amortisation of intangible assets	**502**	504
Depreciation of property, plant and equipment	**9,041**	10,494
Operating leases:		

– Property	**14,991**	14,229
– Other	**50**	50
Loss on disposal of property, plant and equipment and software	**596**	148
Gain on foreign exchange	**(61)**	–
Auditor's remuneration:		
– Fees payable for audit of these financial statements	**100**	79
Fees payable for other services		
– Audit of subsidiaries	**35**	30
– Review of interim financial statements	**25**	25
– Other services	**9**	3
	169	137

6. STAFF NUMBERS AND COSTS

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

	30 September 2019	30 September 2018
Directors	**6**	6
Administration	**67**	70
Operations	**1,996**	1,968
Total staff	**2,069**	2,044

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

	30 September 2019 £'000	30 September 2018 £'000
Wages and salaries	**28,045**	25,435
Social security costs	**2,072**	1,780
Pension costs	**350**	261
Shared-based payments	**662**	355
Total staff cost	**31,129**	27,831

7. FINANCE INCOME AND EXPENSES

	30 September 2019 £'000	30 September 2018 £'000
Interest on bank deposits	**164**	15
Other interest	**3**	3
Finance income	**167**	18
Interest on bank borrowings	**930**	910
Other interest	**55**	-
Unwinding of discount on provisions	**38**	66
Finance expense	**1,023**	976

8. TAXATION

	30 September 2019 £'000	30 September 2018 £'000
The tax expense is as follows:		
– UK corporation tax	**5,134**	4,766
– Adjustment in respect of prior years	**60**	643
Total current tax	**5,194**	5,409

Deferred tax:		
Origination and reversal of temporary differences	**123**	(253)
Effect of changes in tax rates	**(14)**	27
Adjustment in respect of prior years	**–**	(33)
Total deferred tax	**109**	(259)
Total tax expense	**5,303**	5,150

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 2018: 19 per cent). The differences are explained below:

	30 September 2019 £'000	30 September 2018 £'000
Profit excluding taxation	**27,588**	23,934
Tax using the UK corporation tax rate of 19% (2018: 19%)	**5,242**	4,547
Change in tax rate on deferred tax balances	**(14)**	27
Non-deductible expenses	**89**	13
Tax exempt revenues	**(74)**	(47)
Adjustment in respect of prior years	**60**	610
Total tax expense included in profit or loss	**5,303**	5,150

The Group's standard tax rate for the year ended 30 September 2019 was 19 per cent (30 September 2018: 19 per cent).

The adjustment in respect of prior years for current taxation of £60,000 (30 September 2018: £577,000), relates to an Advance Thin Capitalisation Agreement tax liability. This was settled with HMRC during the year.

Factors that may affect future current and total tax charges
A reduction in the UK corporation tax rate from 19 per cent to 17 per cent (effective from 1 April 2020) was substantively enacted on 15 September 2016. This will reduce the Group's future current tax charge accordingly and the deferred tax liability at 30 September 2019 and 30 September 2018 has been calculated based on these rates.

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 2019 and 30 September 2018, the Group had potentially dilutive shares in the form of unvested shares pursuant to Long Term Incentive Plans.

	30 September 2019	30 September 2018
Basic and diluted		
Profit for the year after tax (£'000)	**22,285**	18,784
Basic weighted average number of shares in issue for the period (number)	**150,000,000**	150,000,000
Adjustment for share awards	**676,861**	384,101
Diluted weighted average number of shares	**150,676,861**	150,384,101
Basic earnings per share (pence)	**14.86**	12.52
Diluted earnings per share (pence)	**14.79**	12.49

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 2019	30 September 2018

Adjusted underlying earnings after tax (before exceptional costs) (£'000)	**21,905**	18,902
Basic adjusted earnings per share (pence)	**14.60**	12.60
Diluted adjusted earnings per share (pence)	**14.54**	12.57

Adjusted underlying earnings after tax is calculated as follows:

	30 September 2019 £'000	30 September 2018 £'000
Profit before taxation	**27,588**	23,934
Exceptional items (note 4)	**(380)**	118
Adjusted underlying profit before taxation	**27,208**	24,052
Less taxation	**(5,303)**	(5,150)
Adjusted underlying earnings after tax	**21,905**	18,902

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	Total £'000
Cost						
At 1 October 2017	1,251	15,320	7,902	12,869	22,174	59,516
Discounting of creditors arising on assets purchased in prior years on extended credit terms (note 13)	–	–	–	(68)	–	(68)
Additions	–	3,035	742	4,810	4,008	12,595
Disposals	–	(44)	(83)	(2,699)	(483)	(3,309)
At 30 September 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**	**23598**	**10,070**	**16,362**	**29,411**	**80,682**
Accumulated depreciation						
At 1 October 2017	159	4,583	3,586	7,474	4,005	19,807
Depreciation charge	48	1,945	165	2,903	5,433	10,494
Disposals	–	(36)	(83)	(2,204)	(321)	(2,644)
At 30 September 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
Net book value						
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
At 30 September 2017	1,092	10,737	4,316	5,395	18,169	39,709

Plant & machinery, fixtures and fittings includes £1,228,000 (30 September 2018: £511,000) of assets in the course of construction, relating to the development of new centres.

Impairment

Impairment testing is carried out at the cash-generating unit (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.

The Group determines whether property, plant and equipment are impaired when indicators of impairment exist. When indications of impairment are identified an impairment assessment is carried out by estimating the value-in-use of the CGU to which the property, plant and equipment are allocated.

Changes in estimates
During the year, the Group conducted a review of the useful economic life of existing mechanical pinspotters given the emergence of 'Pins on strings'. A decision was made to shorten the life and therefore accelerate the depreciation of the mechanical pinspotters following a plan to roll out 'Pins on strings' over the next 10 years. The effect of this change on the depreciation charge in the current year was an additional £246,000 and the expected impact on the following year is an additional £411,000.

11. GOODWILL AND INTANGIBLE ASSETS

	Goodwill £'000	Brand[1] £'000	Trademark[1] £'000	Software £'000	Total £'000
Cost					
At 1 October 2017	75,034	3,360	802	1,171	80,367
Additions	–	–	–	289	289
Disposals	–	–	(4)	(5)	(9)
At 30 September 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**
Accumulated amortisation					
At 1 October 2017	–	516	167	817	1,500
Amortisation charge	–	168	50	286	504
Disposals	–	–	(1)	(4)	(5)
At 30 September 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**
Net book value					
At 30 September 2019	**75,034**	**2,508**	**532**	**383**	**78,457**
At 30 September 2018	75,034	2,676	582	356	78,648
At 30 September 2017	75,034	2,844	635	354	78,867

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

Impairment testing is carried out at the cash-generating unit (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:

	2019	2018
Discount rate (pre-tax)	**8.5%**	8.7%
Growth rate	**2.0%**	2.0%

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 market risk premium and the cost of debt. Other assumptions also include the number of games and spend per game.

Goodwill is tested for impairment on at least an annual basis, or more frequently if events or changes in circumstance indicate that the carrying value may be impaired. In the years under review management's value-in-use calculations have indicated no requirement to impair.

Sensitivity to changes in assumptions
The estimate of the recoverable amounts associated with the CGU affords reasonable headroom over the carrying value.

Management have sensitised the key assumptions in the goodwill impairment tests and under both the base case and sensitised cases no impairment exists. The key assumptions used and sensitised were forecast growth rates and the discount rate, which were selected as they are the key variable elements of the value-in-use calculation.

A reduction of 2 per cent in growth rates for each CGU or an increase in the discount rate applied to the cash flows of each CGU of 1 per cent would not cause the carrying value to exceed its recoverable amount. Therefore, management believe that any reasonably possible change in the key assumptions would not result in an impairment charge.

12. TRADE AND OTHER RECEIVABLES

	30 September 2019 £'000	30 September 2018 £'000
Trade receivables	**734**	344
Other receivables	**40**	45
Prepayments	**7,240**	6,174
	8,014	6,563

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

13. TRADE AND OTHER PAYABLES

	30 September 2019 £'000	30 September 2018 £'000
Current		
Trade payables	**3,189**	3,548
Other payables	**3,493**	3,364
Accruals and deferred income	**8,735**	7,091
Taxation and social security	**3,047**	2,623
Total trade and other payables	**18,464**	16,626

	30 September 2019 £'000	30 September 2018 £'000
Non-current		
Other payables	**6,846**	7,616

Accruals and deferred income includes a staff bonus provision of £2,913,000 (30 September 2018: £2,312,000). Deferred income includes £472,000 (30 September 2018: £433,000) 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 £2,437,000 (30 September 2018: £2,560,000) which are expected to be released to the income statement on a straight-line basis over the remaining term of each lease, which ranges from 1 to 25 years, and extended credit of £4,409,000 (30 September 2018: £5,056,000) from an amusement machine supplier. The total amount outstanding due to the amusement machine supplier as at 30 September 2019 is £7,592,000 (30 September 2018: £8,133,000), out of which £3,183,000 (30 September 2018: £3,077,000) is disclosed within the current liabilities.

14. LOANS AND BORROWINGS

	30 September 2019 £'000	30 September 2018 £'000
Current		
Bank loan	**1,380**	1,380

Borrowings (less than 1 year)	**1,380**	1,380
Non-current		
Bank loan	**25,383**	26,763
Borrowings (greater than 1 year)	**25,383**	26,763
Total borrowings	**26,763**	28,143

Bank borrowings have the following maturity profile:

	30 September 2019 £'000	30 September 2018 £'000
Due in less than 1 year	**1,500**	1,500
Less issue costs	**(120)**	(120)
	1,380	1,380
Due 2 to 5 years	**25,500**	27,000
Less issue costs	**(117)**	(237)
Total borrowings	**26,763**	28,143

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 2019 £'000	30 September 2018 £'000
Loans and borrowings brought forward	**28,143**	29,523
Repayment during the year	**(1,500)**	(1,500)
Amortisation of issue costs	**120**	120
Loans and borrowings carried forward	**26,763**	28,143

On 21 September 2016, the Group entered into a £30m facility with Lloyds Bank plc. This facility is due for repayment in instalments over a five-year period up to the expiry date of 20 September 2021. The first repayment of £0.75m was due 31 December 2017, and every six months up to 31 December 2020. The remaining balance of £24.75m will be repayable at the expiry date of 20 September 2021. As at 30 September 2019, the outstanding loan balance, excluding the amortisation of issue costs, was £27,000,000 (30 September 2018: £28,500,000). In addition, the Group had an undrawn £5m revolving credit facility and undrawn £5m capex facility at 30 September 2019 and 30 September 2018. 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 2019 and 30 September 2018 was 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.

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 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

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

15. RELATED PARTY TRANSACTIONS

30 September 2019 and 30 September 2018
During the period, and the previous period, there were no transactions with related parties.

16. DIVIDENDS PAID AND PROPOSED

	30 September 2019 £'000	30 September 2018 £'000
The following dividends were declared and paid by the Group:		
Final dividend year ended 30 September 2017 – 3.95p per Ordinary share	**–**	5,925
Special dividend year ended 30 September 2017 – 3.33p per Ordinary share	**–**	4,995
Interim dividend year ended 30 September 2018 – 2.03p per Ordinary share	**–**	3,044

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**	–
	16,244	13,964
Proposed for approval by shareholders at AGM (not recognised as a liability at 30 September 2019)		
Final dividend year ended 30 September 2019 – 5.16p per Ordinary share (2018: 4.23p)	**7,740**	6,344
Special dividend year ended 30 September 2019 – 4.50p per Ordinary share (2018: 4.33p)	**6,750**	6,495

Responsibility statement of the Directors

The following statement will be contained in the 2019 Annual Report and Accounts

We confirm that to the best of our knowledge:

the Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

On behalf of the Board

Stephen Burns **Chief Executive Officer** **13 December 2019**	**Laurence Keen** **Chief Financial Officer** **13 December 2019**

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 purpose.

We consider both short- and long-term risks within a timeframe of up to three years. We consider social, 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 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.

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 all risks have been identified and considered by management.

TREND CHANGE
Increasing
Unchanged
Decreasing

RISK TYPE	RISK AND IMPACT	MITIGATING FACTORS
FINANCIAL 1 ***Unchanged***	• Adverse economic conditions may affect Group results. • A decline in spend on discretionary leisure activity could lead to a reduction in profits.	• The Board is comfortable that the majority of locations are based in high-footfall areas which should stand up to a recessionary decline. This continues to be a focus as can be seen by the new centre openings and their performance. Recent new openings continue to provide strong returns. • A focus on opening new centres only with appropriate property costs remains high on the new-opening agenda. • We have an unrelenting focus on service, quality and value and are continuing to invest in our centres. Plans are developed to mitigate many types of cost increase.
FINANCIAL 2 ***Unchanged***	• Adversely impacted by a failure to review funding arrangements when they become due, or a failure to meet banking covenants. • Covenant breach would result in a review of banking arrangements and potential liquidity issues.	• The Group has considerable headroom on the current facility with net debt and cash flow cover significantly 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 capex and expenses. • The Group has a retained excess cash facility which allows for retained cash each year to be used to fund capital, dividends, exceptional costs and permitted acquisitions – without being taken into account for consolidated cash flow covenant tests.

FINANCIAL 3 ***New***	• 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. • Minimal fresh ingredients in the business which are likely to see the largest financial cost impact. • Increased stock holdings on all identified risk lines upon consultation with suppliers. • Scoring system for rollout is bought from Italy, but all Euros have already been purchased.
OPERATIONAL 1 ***Decreasing***	• 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 has full business continuity provision and scalability for peak trading periods. • The reservations system 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. • All technology changes which affect core systems are authorised via change control procedures.
OPERATIONAL 2 ***Unchanged***	• Operational business failures from key suppliers (non-IT). • Unable to provide customers with a full experience.	• 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 a 14 and 21 day supply of food, drink and amusement product. Regular reviews and updates are held with external partners to identify any perceived risk and its resolution.
OPERATIONAL 3 ***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 biannual meetings between the CEO, CFO and Namco. • Namco are a long-term partner that has a strong UK presence and supports the Group with lots of trials, initiatives and discovery visits.
OPERATIONAL 4 ***Unchanged***	• 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. CMIT participants 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 this year to ensure it is still a strong recruitment and retention tool. Small amends to make it more attractive include a long-term retention plan. • Introduced a ‘floating’ centre manager role which ensures cover when needed.

OPERATIONAL 5 ***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 health and safety and legal compliance. STRIKES online e-training, which includes allergen and intolerance issues, to be reviewed, understood and complied with. • Allergen awareness has been updated and remains a focus for the centres. This has been enhanced further in the new menu, along with an online allergens list. Local authority partnership set up with South Gloucestershire covering health and safety, including food safety.
TECHNICAL 1 ***Unchanged***	• Data protection or GDPR breach. • Obtaining 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 18 months and 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 completed an online training course. • A cyber security partner has been appointed to handle any cyber security breaches and will work with the Group on a priority basis, if any circumstance arises. • Regular penetration testing is conducted through a third-party cyber security company.
REGULATORY 1 ***Unchanged***	• Failure to adhere to regulatory requirements such as listing rules, taxation, health and safety, planning regulations and other laws. • Potential financial penalties and reputational damage.	• 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.