Eve Sleep plc: Interim Results

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Eve Sleep plc (EVE)

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20 September 2018

eve Sleep plc

Interim Results

Refocused strategy, core markets delivering, gaining market share

eve Sleep plc ("eve", "Company" or the "Group"), the direct to consumer European sleep brand, today announces its interim results for the six months ended 30 June 2018.

Financial highlights

£m[1]	H1-18	H1-17	Movement
Revenue	18.8	11.5	+63%
Gross profit	10.2	7.0	+47%
Gross profit margin	*54.4%*	*60.4%*	*(600bps)*
Adjusted EBITDA loss[2]	(11.9)	(6.9)	(5.0)
Statutory loss before tax	(12.0)	(9.1)	(2.9)
Net cash	16.7	37.2	(20.5)

Business highlights

- Group sales up 63% year-on-year (200bps higher than guided in the trading update on 2 July 2018)
- UK and Ireland ("UK&I") sales broadly in line with initial expectations at 64% growth year-on-year
- Group gross margin remains strong at 54%, with reduction due to growth of non-mattress products
- Marketing efficiency in UK&I continues to improve alongside investment in brand building
- Launch of 24 store retail partnership in France from June with leading homewares retailer BUT
- New mattress range (the "hybrid" / the "light") launched across UK and France
- Maintained rating of "excellent" from Trustpilot, scoring 9.5 from over 2,400 customer reviews

Post period end

- Operations refocused on the core markets of UK&I and France to capitalise on eve's leading online (bed in a box) position in these markets; activity in all other markets currently withdrawn
- Cost savings plan initiated with savings targeted across marketing and overheads as a result of the refocus on core territories
- Anticipated restructuring costs of approximately £0.8m for the year
- Appointment of James Sturrock, ex Moonpig MD, as CEO from 10 September 2018
- Dreams partnership launched in July 2018 across 193 stores and currently trading ahead of original expectations
- Unprompted UK brand awareness increased from 7.6% at June 2018 to 11.2% at August
- eve is now the 5th most well-known mattress brand in the UK
- Trading in core markets in the first two months of H2 2018 increased year-on-year by c.40%

Commenting on the results Paul Pindar, Chairman said:

"While there is much to be proud of in our first half results, with sales growth of 63%, our group results fell short of our own high expectations. We have however taken swift and decisive action, including re-focusing on fewer core markets where we have a leading position and significant growth potential, which has enabled us to reduce costs substantially.

As you would expect from a new CEO, James is conducting his own strategic and financial review of the business and I have no doubt given his experience and capabilities, more improvements will be forthcoming. The market opportunity remains undiminished and eve, as the most well-known direct to consumer sleep brand, continues to win market share."

The Company will be holding an analyst meeting at 9:00am today. For further details please contact Guy Scarborough at Instinctif Partners Guy.Scarborough@instinctif.com.

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About eve Sleep

eve is an e-commerce focused, direct to consumer European sleep brand, which designs and sells eve-branded mattresses and other sleep products, including pillows, sheets and duvets. The Company principally focuses on the design, branding, marketing and selling of its products, with other aspects of its operations, including manufacturing and fulfilment, being outsourced. eve's aim is to become the leading sleep brand in Europe.

Summary

The Group achieved revenue growth of 63% for the six months ended 30 June 2018, which by most standards would be viewed as a very good result, given the challenging retail backdrop. However, the performance fell considerably short of eve's own expectations and those of the market. The shortfall was primarily due to over expanding into too many countries too quickly, without the necessary financial resources and management bandwidth to sustain the growth.

Trading in the first half of the year in UK&I and France, saw year-on-year revenue growth of 64% and 53% respectively. The UK&I was broadly in line with original expectations. France is at an earlier stage of maturity than originally anticipated however eve was still the leading online "bed in a box" operator in H1 2018 based on Google search trends and independent unprompted brand awareness results. Whilst other European territories delivered growth of 95% year-on-year, this was at a much lower marketing and overhead efficiency than targeted, thus the Board took swift and effective action to refocus H2 2018 efforts on UK&I and France where eve already has a commanding brand position.

There was considerable progress made in the first half of the year on many of the key drivers of the business. Non-mattress revenues grew 168% year-on-year to £3.2m, increasing their contribution to Group revenues from 10% in H1 2017 to 17% in H1 2018. eve launched several new products in the period including the hybrid mattress, the light mattress and colour options for its bed frames, taking the total product range to 15 at 30 June 2018.

The growth in the product range is also driving increased customer loyalty, which is important given the long mattress purchasing cycle. The percentage of repeat orders through the website grew from 11.9% in H1 2017 to 13.5% in H1 2018 in the UK&I, and in France increased from 9.6% to 13.4%.

eve is first and foremost a direct to consumer business, using omni-channel in a supporting role to drive brand awareness and attract the customer segment, which still prefers to shop offline. Significant progress was made in the period with retail partnerships, including the signing of leading French homewares retailer BUT in France, to cover 24 stores. The Group's largest partnership to date was signed shortly after the period end with Dreams to cover 193 UK stores, with the rollout completed in July 2018.

One of the key drivers of the eve business is marketing, which is used to drive both near-term sales and build a long-term brand. In the UK&I there has been good progress in building brand awareness and improving marketing efficiency in the period. Marketing efficiency is measured through reviewing cost per acquisition ("CPA") and marketing spend as a percentage of revenues ("M/R"). In UK&I, year-on-year CPA improved by £56 to £154 (H1 2017: £210) and M/R improved by 1210bps to 52.0% (H1 2017: 64.1%). At the same time unprompted brand awareness in the UK&I has increased to 7.6% as at June 2018 (June 2017: 4.1%) and at the most recent tracking in August 2018 improved further to 11.2%, making eve the fifth most recognised bed brand in the UK. France is at an earlier stage in its development therefore it is yet to reach the necessary scale to drive marketing efficiency, however this tracks the UK&I's performance at the comparable period of development. France's brand recognition is growing strongly reaching 5% by August 2018 , up from just 3% a year earlier (source: YouGov brand tracker August 17, August 18). Total Group marketing costs for the period were £12.3m (H1 2017: £8.0m).

The Group reported a 47% increase in gross profit to £10.2m for the half. The underlying group gross profit margin in the half was a healthy 54.4% (H1 2017: 57.0%). The 260 bps reduction in gross margin primarily reflects a mix shift with the strong growth of lower margin non-mattress products.

UK&I contribution after marketing but before overheads ("Contribution") was broadly flat at a £0.7m loss (H1 2017: £0.7m loss) making it close to break-even at this level, with the revenue growth and marketing efficiencies netted off by the impact on gross margin of non-mattress products and omni-channel. France reported a Contribution loss of £1.7m (H2 2017: £0.7m loss) reflecting the increased investment in H1 2018 to build the eve brand. The Group reported an adjusted H1 2018 EBITDA loss of £11.9m (H1 2017: £6.9m loss).

During what has been a busy period for the Group product quality and customer experience have both remained strong. The Group's returns rate has continued to see significant reductions, falling from 13% in H1 2017 to 11% in H1 2018. Equally customer feedback remains highly positive with a rating of "excellent" and an average score of 9.5 from more than 2,400 Trustpilot reviews as at September 2018.

Closing cash for the period was £16.9m.

Outlook

Following the trading update and announcement of the departure of CEO Jas Bagniewski, published on 2 July 2018, the Group has taken decisive action including undergoing a comprehensive review of the business led by CFO and interim CEO Abid Ismail. The review has concluded that, at least for now, eve should focus on the core territories of the UK&I and France. As a result, the Company has currently withdrawn activity from all other European territories.

As part of this refocus, marketing and overhead savings are planned for H2 2018 and the Company has also reduced headcount by approximately 20%. A one-off restructuring cost of circa. £0.8m is also expected for 2018 as a whole.

Notwithstanding the level of change in the business since the period end, trading in the last two months combined has been good with Group revenues up c.40% year-on-year. Trading in July in the core markets of the UK& I and France was strong, and the second highest revenue month this year, while August was competing with tough comparatives, reflecting the launch last year of the Sleep Rich TV advertising campaign.

With the appointment of new CEO James Sturrock from 10 September , a new TV advertising campaign expected to launch later in the autumn and further product launches planned for Q4 2018, eve is confident in building further on the strong platform developed in H1 2018 in its core markets of UK&I and France.

Market overview

The European mattress market continues to present a significant growth opportunity. The total ma rket is estimated to be worth approximately £6bn (source: Euromonitor, eve estimates) with UK&I and France combined, accounting for approximately 50% of the total market.

Following decades of little change in the mattress market, the shift to online purchase of mattress and related products is beginning to accelerate. The broader furniture market, in which eve operates, has historically been one of the slowest to transition to online purchase, in part because of a lack of innovation by the main operators and in part because of consumer caution towards purchasing big ticket items online, unseen and untouched. However, this is now changing. It is forecast that the online furniture market will be the second fastest growing retail market between 2017 and 2022, with forecast growth of 55%.

eve has structured its customer proposition and business model in a way to maximise the opportunity from the shift to online purchase. The customer proposition has been simplified and accelerated, including next day delivery, and crucially eve offers customers a 100-day home trial in order to overcome any perceived hurdles to online purchase.

Refocused growth strategy

There are now three pillars to the Company's growth strategy to build on its strong base in the UK &I and France:

1. Positioning - Build on eve's No.1 online mattress position in the UK &I and France
2. Product - Increase focus on the successful investment in mattress and non-mattress range
3. Experience - Use omni-channel approach to further invest in customer experience

1. Positioning

eve's trading momentum has been principally delivered through effective marketing to further build brand position and awareness. In terms of unprompted brand awareness, eve is the most well-known "bed in a box" brand in the UK and France (source: Populus Omnibus August 2018 and YouGov brand tracker). It has now become the 5th most well-known mattress brand in the UK (August 2017: 7th) and the 8th most well-known in France (August 2017: 9th). eve is also the most searched for "bed in a box" brand in the UK and France (source: Google Trends Index, 1st Jan - 30th June 2018).

Through driving greater marketing efficiencies, it is anticipated that the average cost of acquiring customers will continue its downward trend seen in the UK&I, with France, which is at an earlier stage in its development, anticipated to see a similar trend in due course.

As part of the Company's refocused strategy and building on the learnings from H1 2017, eve will be launching new TV creative and combined offline and online campaigns in Autumn 2018.

2. Product

eve has continued to expand its mattress and non-mattress product range, developing and launching new products in the first half of the year both across the mattress and non-mattress range. The "hybrid" mattress, launched in May 2018, accounted for c.25% of total mattress units sold through the UK website in July and August. eve's high quality mattress product range consists of three mattress types (the "original", the "hybrid" and the "light") and a baby cot mattress. The non-mattress product range consist of pillows, a mattress topper, bedframes, protector and the accompanying home textiles including eve-branded sheets and duvet.

The benefits of this product expansion can be seen from the growth in non-mattress sales which have increased by 168% in H1 2018 and now make-up 17% of total Group revenue, compared to 10% in H1 2017.

The Company is planning to further expand its mattress and bed frame ranges in Q4 2018.

3. Experience

Direct to consumer remains the focus for the Company and continues to represent the largest revenue stream. However, eve's omni-channel initiatives and retail partnerships also demonstrated good growth and help drive increased brand awareness. Retail partnerships complement eve's direct to consumer focus providing a physical touchpoint for customers that prefer to purchase through the traditional format, while avoiding the costs of an expensive retail estate. They also typically have a lower returns rate. In the UK, eve currently benefits from offline partnerships with Debenhams, Fenwick and Next Home and online retailers including Amazon, Tesco and Wayfair.

In July 2018, eve launched its "eve X Dreams" partnership with leading UK specialist bed retailer Dreams. The partnership, a first for Dreams with a mattress in a box brand, enabled the eve mattress to be sold in 193 Dreams stores and through its website.

In France, eve is currently partnered with leading furniture retailer BUT, with eve products available in 24 of its 330 stores across the country with the scope to expand in due course.

eve's total retail presence across UK&I and France now stands at 284 stores.

The Company's continued focus on improving its customer service and proposition is generating good results with the percentage of repeat orders through the website increasing to 13.5% in the UK&I (H1 2017: 11.9%) and 13.4% in France (H1 2017: 9.6%). Group return rates have also continued to decline to 11% (H1 2017: 13%) which management believes to be a normalised level.

Footnotes

1. Financial data has been rounded for presentation purposes. As a result of this rounding the totals, comparatives and calculations presented in this document may vary slightly from the arithmetic totals or calculations using such data
2. Adjusted EBITDA is calculated before IPO related costs (H1-17: £1.8m, H1-18: £0.0m) and share based payment charges (H1-17: £0.0m, H1-18: £0.1m)

Consolidated Income Statement

	Note	6 month period ended 30 June 2018 (Unaudited)	6 month period ended 30 June 2017 (Unaudited)	12 month period ended 30 December 2017 (Audited)
		£m	**£m**	**£m**
Revenue		**18.8**	**11.5**	**27.7**
Cost of sales		(8.6)	(4.6)	(11.7)

Gross profit		**10.2**	**7.0**	**16.0**
Distribution expenses		(2.3)	(1.3)	(3.4)
Administrative expenses		(19.9)	(12.6)	(27.7)
Operating loss before IPO related expenditure and share based payment charge		**(11.9)**	**(6.9)**	**(15.1)**
IPO related expenditure		-	(2.1)	(2.1)
Share based payment charge		(0.1)	-	(1.8)
Operating loss		**(12.0)**	**(9.1)**	**(19.0)**
Net finance income		0.0	-	0.0
Loss before tax		**(12.0)**	**(9.1)**	**(19.0)**
Taxation		**-**	-	-
Loss for the period		**(12.0)**	**(9.1)**	**(19.0)**
Basic and diluted loss per share	4	(8.66p)	(9.46p)	(16.17p)

Consolidated Balance Sheet

	Note	At 30 June 2018 (Unaudited)	At 30 June 2017 (Unaudited)	At 31 December 2017 (Audited)
		£m	**£m**	**£m**
Assets				
Non-current assets				
Property, plant and equipment		0.0	0.0	0.0
Intangible assets		0.6	0.0	0.4
Other non-current assets		0.4	-	-
		1.0	**0.0**	**0.4**
Current assets				
Inventories		1.0	0.5	0.7
Trade and other receivables		2.8	1.5	4.2
Cash and cash equivalents		16.7	37.2	26.9
		20.4	**39.1**	**31.8**
Total assets		**21.5**	**39.1**	**32.2**
Current liabilities				
Trade and other payables		5.6	3.4	4.5
Provisions		1.0	0.8	0.8
		6.6	**4.2**	**5.4**
Total liabilities		**6.6**	**4.2**	**5.4**
Net assets		**14.9**	**35.0**	**26.8**
Equity attributable to equity holders of the parent				
Share capital	5	0.1	0.1	0.1
Share premium		36.7	36.7	36.7
Share based payment reserve		0.1	-	0.1
Retained earnings		(22.1)	(1.9)	(10.2)
Total equity		**14.9**	**35.0**	**26.8**

Consolidated Cash Flow Statement

	6 month period ended 30 June 2018 (Unaudited)	6 month period ended 30 June 2017 (Unaudited)	12 month period ended 31 December 2017 (Audited)
	£m	**£m**	**£m**
Cash flows from operating activities			
Operating loss after taxation	(12.0)	(9.1)	(19.0)
IPO related expenditure	-	2.1	2.1
Operating loss before IPO related expenditure	**(12.0)**	**(6.9)**	**(16.9)**
Adjustments for:			
Net finance income	(0.0)	-	(0.0)
Depreciation and amortisation	0.1	0.0	0.0
(Increase)/Decrease in trade and other receivables	1.2	(0.4)	(3.1)
(Increase)/decrease in inventories	(0.2)	0.0	(0.2)
Increase in trade and other payables	1.1	1.2	2.4
Increase in provisions - net	0.1	0.0	0.1
Share based payment charge	0.1	-	1.8
IPO related expenditure	-	(2.1)	(2.1)
Net cash outflow from operating activities	**(9.7)**	**(8.2)**	**(18.1)**
Development of intangible assets	(0.2)	-	(0.4)
Acquisition of property, plant and equipment	(0.0)	(0.0)	(0.0)
Other non current assets	(0.4)	-	-
Net cash outflow from investing activities	**(0.6)**	**(0.0)**	**(0.4)**
Proceeds from the issue of share capital	0.0	40.8	40.8
Net finance income	0.0	-	0.0
Net cash inflow from financing activities	**0.0**	**40.8**	**40.8**
Net increase/(decrease) in cash and cash equivalents	**(10.3)**	**32.5**	**22.3**
Cash and cash equivalents at start of period	26.9	4.6	4.6
Cash and cash equivalents at end of period	**16.7**	**37.2**	**26.9**

Consolidated Statement of Changes in Equity

For the period ended 30 June 2018
(Unaudited)

	Share Capital	**Share Premium**	**Share based payment Reserve**	**Retained Earnings**	**Total Equity**
	£	**£**	**£**	**£**	**£**
Balance at 1 January 2018	**138,631**	**36,716,371**	**138,794**	**(10,158,736)**	**26,835,060**
Exercise of options	652	-	-	-	652
Share based payment charge	-	-	78,194	-	78,194
Transfer on exercise of options	-	-	(73,991)	73,991	-
Transactions with owners	**652**	**-**	**4,203**	**73,991**	**78,846**

Loss for the year	-	-	-	(12,042,802)	(12,042,802)
Balance at 30 June 2018	**139,283**	**36,716,371**	**142,997**	**(22,127,547)**	**14,871,104**

For the period ended 30 June 2017
(Unaudited)

	Share Capital £	Share Premium £	Share based payment Reserve £	Retained Earnings £	Total Equity £
Balance at 1 January 2017	**316**	**16,124,928**	**-**	**(12,838,441)**	**3,286,803**
Issue of Shares	38,767	40,698,396	-	-	40,737,163
Bonus share issue	85,948	(85,948)	-	-	-
Share Premium Cancellation	-	(20,038,965)	-	20,038,965	-
Exercise of options	13,592	17,952	-	-	31,545
Transactions with owners	**138,307**	**20,591,435**	**-**	**20,038,965**	**40,768,708**
Loss for the year	-	-	-	(9,056,280)	(9,056,280)
Balance at 30 June 2017	**138,623**	**36,716,363**	**-**	**(1,855,756)**	**34,999,231**

For the year ended 31 December 2017
(Audited)

	Share Capital £	Share Premium £	Share based payment Reserve £	Retained Earnings £	Total Equity £
Balance at 1 January 2017	**316**	**16,124,928**	**-**	**(12,838,441)**	**3,286,803**
Issue of Shares	38,767	40,698,396	-	-	40,737,163
Bonus share issue	85,948	(85,948)	-	-	-
Share Premium Cancellation	-	(20,038,965)	-	20,038,965	-
Exercise of options	13,600	17,960	-	-	31,560
Share based payment charge	-	-	1,757,204	-	1,757,204
Transfer on exercise of options	-	-	(1,618,410)	1,618,410	-
Transactions with owners	**138,315**	**20,591,443**	**138,794**	**21,657,375**	**42,525,927**
Loss for the year	-	-	-	(18,977,670)	(18,977,670)
Balance at 31 December 2017	**138,631**	**36,716,371**	**138,794**	**(10,158,736)**	**26,835,060**

Notes to the accounts

1. Basis of preparation

The unaudited interim consolidated statements of eve Sleep plc are for the six months ended 30 June 2018 and do not comprise statutory accounts within the meaning of S.434 of the Companies Act 2006. These consolidated financial statements have been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRSs) as adopted by the EU. They do not include all disclosures that would otherwise be required in a complete set of financial statements. The consolidated financial statements are presented in Sterling, which is also the Group's functional currency.

Going concern

The Directors have reviewed current performance and cash flow forecasts, and are satisfied that the Group's forecasts and projections, taking account of potential changes in trading performance, show that the Group will be able to operate within the level of its current facilities for the foreseeable future. The Directors have therefore continued to adopt the going concern basis in preparing the Group's financial statements.

Changes to accounting standards

The accounts have been prepared in accordance with accounting policies that are consistent with the accounts of the year ended 31 December 2017 and that are expected to be applied in the Report and Accounts of the year ended 31 December 2018.

2. Segmental Analysis

IFRS 8, "Operating Segments", requires operating segments to be determined based on the Group's internal reporting to the Chief Operating Decision Maker. The Chief Operating Decision Maker has been determined to be the executive board and has determined that the primary segmental reporting format of the Group is geographical by customer location, based on the Group's management and internal reporting structure.

The executive board assesses the performance of each segment based on revenue and gross profit after distribution expenses, which excludes administrative expenses.

For the period 1 January 2018 - 30 June 2018
(Unaudited)

	UK&I	Rest of Europe	Rest of World	Total
	£m	£m	£m	£m
Revenue	**10.3**	**8.2**	**0.4**	**18.8**
Cost of sales	(4.6)	(3.8)	(0.2)	(8.6)
Gross Profit	**5.7**	**4.4**	**0.2**	**10.2**
Distribution expenses	(0.9)	(1.4)	(0.0)	(2.3)
Segmental Results	**4.8**	**2.9**	**0.1**	**7.9**
Administrative expenses				(19.9)
IPO related expenditure				-
Share based payment charge				(0.1)
Net finance income				0.0
Loss before tax				**(12.0)**

For the period 1 January 2017 - 30 June 2017
(Unaudited)

	UK&I	Rest of Europe	Rest of World	Total
	£m	£m	£m	£m
Revenue	**6.3**	**4.7**	**0.5**	**11.5**
Cost of sales	(2.3)	(2.2)	(0.1)	(4.6)
Gross Profit	**4.0**	**2.5**	**0.4**	**7.0**
Distribution expenses	(0.6)	(0.7)	(0.1)	(1.3)
Segmental Results	**3.5**	**1.9**	**0.3**	**5.6**
Administrative expenses				(12.6)
IPO related expenditure				(2.1)
Share based payment charge				-
Net finance income				**-**
Loss before tax				**(9.1)**

For the year ended 31 December 2017
(Audited)

	UK&I	Rest of Europe	Rest of World	Total
	£m	£m	£m	£m
Revenue	**16.1**	**10.6**	**1.0**	**27.7**

Cost of sales	(6.6)	(4.9)	(0.3)	(11.7)
Gross Profit	**9.6**	**5.7**	**0.7**	**16.0**
Distribution expenses	(1.4)	(1.8)	(0.2)	(3.4)
Segmental Results	**8.2**	**3.9**	**0.5**	**12.6**
Administrative expenses				(27.7)
IPO Related Expenditure				(2.1)
Share based payment Charge				(1.8)
Net Finance income				**0.0**
Loss before tax				**(19.0)**

No analysis of the assets and liabilities of each operating segment is provided to the Chief Operating Decision Maker in the monthly management accounts. Therefore no measure of segmental assets or liabilities is disclosed in this note.

Due to the nature of its activities the group is not reliant on any major customers .

4. Earnings per share

The basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year.

	30 June 2018 (Unaudited)	**30 June 2017** (Unaudited)	**30 December 2017** (Audited)
Weighted average shares in issue	139,051,360	95,693,790	117,336,860
Loss attributable to owners of the parent company (£)	(12,042,802)	(9,056,280)	(18,977,670)
Basic earnings/(loss) per share (pence)	**(8.66)**	**(9.46)**	**(16.17)**
Diluted earnings/(loss) per share (pence)	**(8.66)**	**(9.46)**	**(16.17)**

EPS and diluted EPS are not calculated for each class of share as the shares carry the same right to share in profit or loss for the year.

During the 6 month period to 30 June 2017 the Company issued bonus shares prior to its admission to AIM on a 250:1 basis followed by a consolidation of shares. Loss per share reflects the effect of the bonus issue and is provided in the interests of further and better disclosure. The number of shares in issue for the previous period has been stated to reflect the share capital structure following the bonus issue; this adjustment assumes the total number of bonus shares were in issue throughout the whole of the period prior to the IPO on 18 May 2017.

For the periods presented the weighted average number of shares used for calculating the diluted loss per share are identical to those for the basic loss per share. This is because the outstanding share options would have the effect of reducing the loss per share and would not be dilutive under IAS 33.

At 30 June 2018, options outstanding amounted to 4,583,521 (30 June 2017: 6,176,992). Given the loss for the period of £12.0m (6 months to 30 June 2016: loss of £ 9.1m loss), these options are anti-dilutive.

5. Share Capital

Allotted, issued and fully paid:

	30 June 2018 (Unaudited)	**30 June 2017** (Unaudited)	**31 December 2017** (Audited)
Number of ordinary shares	139,283,371	138,623,360	138,631,020
Nominal Value per share £	£0.001	£0.001	£0.001
Share Capital	£139,283	£138,231	£138,631

6. Share based payment charge

The Group recognised a charge of £ 0.1m related to share based payments during the 6 months to 30 June 2018 (6 months to 30 June 2017: £0.0m), all of which relates to equity-settled schemes . A charge of £1.8m was recognised during the year

2017.

The Company issues equity-settled share based payments to certain employees, whereby employees render services in exchange for shares or rights over shares of the parent company. Equity-settled awards are measured at fair value at the date of grant. The fair value is calculated using an appropriate option pricing model and is expensed to the Statement of Total Comprehensive Income on a straight-line basis over the vesting period after allowing for an estimate of shares that will eventually vest.

The number and weighted average exercise prices of share options are as follows:

	Weighted Average Exercise Price To 30 June 2018	**Number of Options 30 June 2018**	**Weighted Average Exercise Price To 30 June 2017**	**Number of Options 30 June 2017**	**Weighted Average Exercise Price 2017**	**Number of Options 2017**
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)	(Audited)
	£		**£**		**£**	
Outstanding at the beginning of the period	**£0.519**	**5,642,703**	**£0.001**	**419,171**	**£0.001**	**419,171**
Granted during the period	-	-	£0.139	23,501,954	£0.139	23,549,726
Forfeited during the period	£0.485	(419,194)	-	-	£0.566	(574,401)
Exercised during the period	£0.001	(639,988)	£0.001	(17,744,133)	£0.001	(17,751,793)
Lapsed during the period	-	-	-	-	-	-
Outstanding at the end of the period	**£0.595**	**4,583,521**	**£0.527**	**6,176,992**	**£0.519**	**5,642,703**
Exercisable at the end of the period	**£0.001**	**837,450**	**£0.001**	**221,900**	**£0.001**	**1,000,755**

The weighted average share price at the date of exercise of share options exercised during the period to 30 June 2018 was 125.03p.

The options outstanding at the period end have an exercise price in the range of £0.001 to £1.012 and a weighted average contractual life of 10 years.

Awards are categorised with reference to different fair values calculated for each agreement.

The fair value of employee share options is measured using a Black-Scholes model. Measurement inputs and assumptions are as follows:

	Award 1 16 Jan 17 £	**Award 2 16 Jan 17 £**	**Award 3 23 Jan 17 £**	**Award 4 25 Jan 17 £**	**Award 5 26 Jan 17 £**	**Award 6 20 Feb 17 £**
Share class	**Ord C**	**Ord**	**Ord**	**Ord**	**Ord**	**Ord**
Fair Value at Grant Date	£0.06	£0.10	£0.10	£0.10	£0.10	£0.10
Exercise Price	£0.001	£0.001	£0.001	£1.012	£0.001	£0.001
Expected Volatility	103%	103%	103%	103%	103%	102%
Option Life	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs
Risk free interest rate	0.200%	0.200%	0.235%	0.276%	0.300%	0.148%

For the purpose of calculating the share based payment charge, awards made between 21 February 2017 and 18 May 2017 have a fair value of £0.96 with reference to the investment on 15 March 2017.

Subsequent awards fair value is determined in reference to the market share price at the date of grant.

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