

H&T Group (“H&T” or the “Group”) today announces its preliminary results for the year ended 31 December 2020.

Chris Gillespie, chief executive of H&T Group, said:

“In response to the Covid-19 pandemic, H&T acted decisively. We took robust steps throughout 2020 to protect the health, safety and wellbeing of our customers, colleagues, and community. We supported pawnbroking customers by freezing interest while stores were closed and by making payment deferral arrangements with those financially impacted by Covid-19, where it was in their best interests to do so. We progressed the digitalisation of our business to improve choice and flexibility for our customers and employees. In November an enhanced retail eCommerce site was launched.

“H&T ended 2020 robustly, given the challenging conditions, demonstrating the underlying strength of the business. We have benefitted from the high gold price.

“We are well placed to reinforce our position as the UK’s largest pawnbroker and grow our lines of business once Covid-19 restrictions are lifted and consumer demand for short term borrowing returns. We have no debt and significant cash resources to rebuild the pledge book when underlying customer demand increases.

“Whilst I am delighted with the resilience shown by the business during the year, we are aware of the impact upon consumer confidence of the ongoing Covid-19 related restrictions across the UK which directly affect the communities we serve. Market conditions remain challenging, but we are confident that our long-term goals and strategy will deliver growth and value for all our stakeholders.”

	2020	2019	Change %
Financial highlights (£m unless stated)			
Gross profit	82.8	101.4	(18.3%)
EBITDA	26.2	30.0	(12.7%)
Operating profit	16.9	22.5	(24.9%)
Profit before tax	15.6	20.1	(22.4%)
Diluted EPS	32.1	43.8p	(26.7%)
Dividend per share	8.5p	4.7p	80.9%
Key performance indicators			
Pledge book	£48.3m	£72.2m	(33.1%)
Redemption of annual lending *	82.30%	82.40%	(0.1%)
Retail gross profits	£11.3m	£13.6m	(16.9%)
Personal loan book	£5.9m	£16.6m	(64.5%)
Personal loan revenue less impairment	£8.1m	£10.8m	(25.0%)
Number of stores	253	252	0.4%

** This is a non IFRS measure and represents the actual percentage of lending in each year which was redeemed or renewed, the 2020 figure is an estimate based on recent trend and early performance.*

Operational highlights:

- Profit before tax of £15.6m despite the impact of Covid-19, a fall of £4.5m, 22.4%
- Pledge book reduced 33.1% to £48.3m from £72.2m
- Pawnbroking net revenue fell by 12.3% from £39.0m to £34.2m, due to freezing customer interest while stores were closed and the reduction in pledge book
- Retail sales dropped 28.2% with gross profits reducing by 16.9% from £13.6m to £11.3m
- Foreign currency gross profit reduced by 34.6% from £5.2m to £3.4m
- Personal loan net revenue reduced by 25.0% from £10.8m to £8.1m, as the book dropped to £5.9m from £16.6m
- Updated our est1897.co.uk retail website and generated revenues of £3.6m (2019: £4.0m) from our eCommerce platforms
- Strong returns from precious-metal scragpage with gross profit increasing from £2.4m to £6.2m, reflecting the high gold price
- Gold-buying gross profit increased 19.3% from £5.7m to £6.8m
- Robust cash position, with net cash of £34.5m and an undrawn £35.0m revolving credit facility
- Development and launch of our customer portals for lending customers

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Vivian Lai

Chairman's statement

The Group has delivered a strong financial performance despite the impact of the Covid-19 pandemic. There is still uncertainty over the ongoing impact of Covid-19 and its impact on high street footfall, overseas travel, and consumer demand for short term credit. Since the outbreak of the virus, our priority has been the safety and wellbeing of colleagues, customers, and wider stakeholders.

The exceptional resilience, flexibility and commitment of our colleagues is a key factor in the ongoing success story of H&T. I thank everyone who has contributed to H&T delivering a solid performance during a challenging year.

IMPACT OF COVID-19 AND ACTIONS TAKEN

Trading to 23 March 2020 was strong, with performance ahead of management expectations. Revenue growth from the 70 new stores added to our estate in 2019 was particularly pleasing.

With the issue of HM Government advice outlining the need for strict social distancing measures and the requirement to close retail stores, our network of 253 stores was temporarily closed on 24 March 2020. While our stores were closed, we took the opportunity to review and revise health and safety measures within our stores and implemented an online pawnbroking payment portal, allowing customers to settle loans remotely.

The Government added the provision of short-term credit to the essential services list and later in May widened further the services that could be offered in our stores to incorporate our full financial services offering. The Group began a phased reopening of the store estate on 12 May 2020 and by 31 May 2020 all stores except two were open, providing financial services with the exception of personal unsecured lending. From 15 June 2020, the Group recommenced offering retail jewellery through its stores in line with updated government guidance.

Since May 2020, all but two of our stores have remained open, albeit retail jewellery being served via our eCommerce and click and collect operations during the Q4 2020 and Q1 2021 lockdown periods.

While the stores were closed, store colleagues were furloughed under the government's Job Retention Scheme. All colleagues returned to full employment as stores reopened for business. During the year, our colleagues across the UK offered support in their local communities, and the Group provided a charitable fund to support small, local charities who are connected to our customers and employees. We have since launched a partnership with FareShare, the UK's largest charity fighting hunger and food waste.

During the year the Group implemented several initiatives to help our customers including: an interest holiday on all outstanding secured loans while stores were closed; providing pawnbroking customers with the opportunity to defer payment by extending their loan period; allowing personal loan customers the opportunity to take payment deferrals; and launching our new and fully functional online pawnbroking payment portal. We supported and stayed in contact with our customers by offering a dedicated call centre operation and online chat facility, regularly updating our website with

information and guidance, and issued additional SMS text and postal communications direct to customers.

The Group has continued to invest in its digital capability allowing customers to access products both remotely and through its store estate. In addition, the Group opened a new store in Edinburgh and acquired a trading business in East London towards the end of the year.

We withdrew the recommendation to pay a final 2019 dividend and all directors reduced their salary remuneration for the duration of store closures.

FINANCIAL PERFORMANCE

Revenues were materially impacted during the period of closure and the phased reopening. At the end of December 2020, the pledge book stood at £48.3m, having fallen from £72.2m at the end of 2019. Throughout the year pawnbroking customers have continued to repay their loans (either by attending the store or via the payment portal) at normal pledge redemption rates. New loans have been subdued, reflecting reduced demand from customers for borrowing under existing economic conditions.

On the other hand, retail sales have been particularly strong, reflecting increased consumer demand for competitively priced, high-quality jewellery and watches. The high gold price during the year has driven increased gross profits both from pawnbroking and gold purchasing activities. These strong performances have more than offset weakness in the Group's foreign currency business due to reduced international leisure travel.

The Group delivered profit after tax of £12.6m (2019: £16.7m) and diluted earnings per share of 32.1 pence (2019: 43.8 pence). Subject to shareholder approval, a final dividend of 6.0 pence per ordinary share (2019: nil) will be paid on 25 June 2021 to those shareholders on the register at the close of business on 14 May 2021. This will bring the full year dividend to 8.5 pence per ordinary share (2019: 4.7 pence).

The Group's financial position is strong with net assets of £134.5m (31 December 2019: £122.6m), £34.5m cash and bank balances (31 December 2019: £12.0m), and a £35.0m undrawn bank revolving credit facility (31 December 2019; £26.0m drawn, £9.0m undrawn).

OUR TEAM

We remain focused on doing the right thing for our colleagues, customers, and the communities in which we operate. The health and safety of our colleagues and our customers remains paramount. In preparation to reopen our branches in May as an essential service provider, we invested in training, safety measures and PPE for our colleagues to deliver our services in a way that is safe for them and our customers.

The loyalty, dedication and expertise of our colleagues is at the core of our strong customer relationships. We continue to invest in training, development, and progression of our valuable staff.

The Group is proud of its culture that fosters passion and enthusiasm to deliver exceptional customer service and outcomes.

In October 2020 we announced the appointment of Chris Gillespie, replacing John Nichols as chief executive officer subject to FCA approval, which was received on 8 January 2021. I thank John on behalf of the Board for his nearly 24 years of service and we wish him a long and happy retirement. Chris brings a wealth of experience to the business including previous senior roles in consumer finance, most recently as managing director of Provident Financial PLC's consumer credit division. Chris' understanding of our business and our customers, and his expertise will enable us to accelerate our strategy to blend our combined store and digital networks to serve our customers and communities and further broaden our reach.

STRATEGY

Following the 2019 acquisitions of certain assets from the Money Shop and Albemarle & Bond the Group has an enlarged store estate and customer reach, together with a talented team to serve them. We have a strong asset base, significant cash reserves and highly cash generative products and services, this will enable the Group to exploit further growth opportunities as they emerge.

The demand for small-sum, short-term cash loans has been subdued over the past 12 months and this is likely to continue for some time. The Group will continue to focus on its digital development journey to better support our store colleagues, and on its operational effectiveness to improve customer experiences. It will focus on customer experience and communication strategy to ensure that H&T is in the best position to deliver excellent service for customers when they need us.

We will invest in our network of stores, supported by further digital enhancements, and thus reinforce the important distinction between H&T and a purely online business.

REGULATION

The Group continues to work with the appointed Skilled Person and the FCA in respect of the review into its creditworthiness assessments and lending processes for its unsecured High-Cost Short Term Loans (HCSTC). Given the ongoing disruption from the pandemic, the outcome of this review will now likely be delayed into the second quarter of 2021.

PROSPECTS

The start of 2021 has brought ongoing challenges with the continuation of further national restrictions across the UK. While H&T has been able to keep its stores open, as its financial services are classified as essential by the Government, business activities have been impacted by reduced high street footfall and subdued demand for its services. The Group has been offering retail jewellery only via its eCommerce platforms since early January 2021, and this has impacted sales levels significantly during the first quarter of the year.

The UK faces further macroeconomic uncertainties resultant from the Brexit transition. The Board consider the impact on our staff, customers and our business activity to be limited. While the macroeconomic impact of these risks is uncertain, we believe our range of products is well positioned to take advantage of any eventuality.

OUTLOOK

The extent to which social distancing and pandemic restrictions remain necessary will determine the pace at which the Group returns to pre-pandemic activity levels. A successful roll-out of the vaccine program will likely lead to increased demand for our services and will determine the extent to which we are able to rebuild our pledge book.

On behalf of the Board and our shareholders, I would like to thank everyone at H&T for their hard work and dedication over the past year.

Peter D McNamara

Chairman

Chief executive's review

INTRODUCTION

The Group has performed resiliently through a challenging year and ends 2020 in a robust position. All revenue categories have been impacted by Covid-19 restrictions, lockdowns, reduced high street footfall and temporary reductions in the demand for our services. Throughout the year we have communicated regularly with our customers and colleagues and maintained safe store and support centre environments.

The Group achieved profit before tax of £15.6m (2019: £20.1m) despite these challenges, showing the underlying resilience of the business

THE MARKET

During 2020 Covid-19 restricted our activities and reduced consumer need for some of our products and services. The increased gold price and IFRS9 accounting treatment that requires high initial impairment charges, helped the results. The core of our business remains strong and we will continue to invest in the development of our people and our infrastructure. We will continue to refine our services as we seek to expand our customer base.

STRATEGY

The Group's strategy is to serve a customer base whose access to mainstream credit is limited and for whom small-sum loans can help to address short-term financial challenges. We are a cash generative business, well placed for growth through product diversification and investment in our store estate and digital strategy.

Our Vision: "To make pawnbroking a widely accepted and valued financial service"

Our purpose is to meet the real need for lending in the community across the UK, by ensuring that borrowing against an asset is simple and inclusive. We aim to exceed our customer's expectations in this and in the development of a diversified suite of services (including retail, personal lending, FX and money wire transfer) that improves returns and reduces the Group's exposure to gold price volatility.

REVIEW OF OPERATIONS

Pawnbroking

Pawnbroking is a small subset of the consumer credit market in the UK and a simple form of asset-backed lending where an item of value, known as a pledge (typically jewellery and watches), is given in exchange for a cash loan. Customers who repay the capital sum borrowed plus interest receive their

pledged item back. If a customer fails to repay the loan, we sell the pledged item via auction, retail or for scrap. The value of the item is set by auction, whether it is the reserve, or the actual sale price should it sell. After the deduction of interest accrued plus an admin fee, any surplus is passed back to the customer. Title to any unsold items passes to the company.

Pawnbroking is our core business. We are the largest UK pawnbroker in terms of number of outlets, customers and amounts lent. It is the key area for the business and where we invest the most in terms of training and development. Yields are attractive, and the debt is always secured by the item pledged.

During the year revenues were impacted by Covid-19 in several ways. During the spring lockdown our stores were closed for around two months. Throughout the closure period, no interest was charged. Upon reopening in May, many of our customers who had built up cash reserves, in part due to reduced spending, came in to collect their pledged items and repaid their loans. This resulted in a decline of the pledge book in Q3 2020. We have since seen the book stabilise, but we have yet to see the full return of consumer demand for short term loans as lockdowns, restrictions and furlough support continue.

Retail

The Group offers a value-for-money proposition in new high quality and pre-owned jewellery. We believe there is further growth potential in this segment by leveraging our retail store estate and our eCommerce operations as well as by cross-selling to customers of other services. The Group was unable to retail from our stores during the national lockdowns, instead offering items through its eCommerce sites and via a click and collect service during the most recent lockdown. During the months unaffected by lockdowns, the months of July to October and particularly during December sales were especially strong.

Our eCommerce sites generated revenues of £3.6m (2019: £4.0m). In November, we updated our "est1897" website, which holds more than 5,000 high quality pre-owned watches and jewellery items.

Personal loans

H&T offers unsecured loans in store and online. Our dedicated underwriting team carry out manual affordability assessments prior to issuing any loans.

We ceased offering high-cost-short-term-credit unsecured (HCSTC) loans in October 2019, with all lending paused in March when we closed our stores. From August we recommenced non-HCSTC lending, taking a very cautious approach with a modest number of loans being made.

Our absence from HCSTC lending, the reduced loan book, limited current lending during 2021 and the uncertainty surrounding the future of unsecured personal lending for the Group will have a financial impact in the future.

During the year we worked with the FCA and a Skilled Person to review our unsecured HCSTC loans. This process is still ongoing, primarily as a result of Covid-19.

Finally, and most importantly, I would like to add my sincere thanks to those of the Chairman, in recognising the contribution of all of our people whose skills, commitment and enthusiasm continue to drive our success, and who give us confidence in the future.

Chris Gillespie
Chief Executive

Chief financial officer's review

FINANCIAL RESULTS

For the year ended 31 December 2020, gross profit decreased 18.3% from £101.4m to £82.8, reflecting the impact of Covid-19 with associated store closures and reduced high street footfall. Despite freezing interest on customer's secured loans, reduced demand for short term loans and international travel restrictions impacting foreign currency volumes, the Group delivered profit before tax of £15.6m (2019: £20.1m). Group results benefitted from the high gold price and the IFRS9 financial impact of impairment releases as our lending books reduced during the year.

The increased gold price during the year was the key factor in combined revenues from gold purchasing and scrap increasing by £4.8m, 58.5% to £13.0m (2019: £8.2m).

H&T received £3.8m in government support payments, included as 'other income' (see note 2) in relation to the Job Retention and Business Rate support schemes.

Total direct and administrative expenses reduced by £13.0m (16.5%) to £65.9m from £78.9m.

Total loan impairment charges (included within direct and administrative expenses) at £6.4m are down £14.4m on prior year, with pawnbroking and personal loan impairment charges respectively £5.4m and £9.0m lower. This is a result of reduced lending and the consequence of not having to charge the proportionally high amounts of initial impairment charges on new loans. Other things being equal, IFRS9 impairment accounting results in a drag on reported earnings as loan books grow relative to IAS 39's incurred loss models and vice versa as the book reduces.

The pawnbroking and personal lending books have reduced by £23.9m and £10.7m respectively since 31 December 2019.

Pawnbroking

Gross profits from pawnbroking after impairment reduced 12.3% to £34.2m (2019: £39.0m) and the pledge book reduced 33.1% to £48.3m (31 December 2019: £72.2m). The Group lent £114.6m during the year (2019: 149.0m) and had 76,500 customers with existing loans as at 31 December 2020 (31 December 2019: 118,700).

The risk-adjusted margin (revenue as a percentage of the average net pledge book) was 58.1% (2019: 64.6%). The reduction reflected the interest freeze of approximately two months during spring. Typically, pre lockdown the Group was recognising circa £4.0m per month in net pawnbroking revenue. The reduction in the pledge book meant a reversal of approximately £2.5m of impairment charges in the year under IFRS9. The rate at which customers redeem their pledges has remained consistently high and is essentially unchanged from 2019 at 82.3%.

	2020 £'m	2019 £'m	Change %
Year-end net pledge book ¹	48.3	72.2	(33.1%)
Average net pledge book	58.9	60.4	(2.5%)
Revenue less impairment	34.2	39.0	(12.3%)
<i>Risk-adjusted margin²</i>	58.1%	64.6%	

Notes to table

1 - Includes accrued interest and impairment

2 - Revenue as a percentage of the average net pledge book

Retail

Retail sales for the full year reduced 28.2% to £29.8m (2019: £41.5m), gross profits reduced 16.9% to £11.3m (2019: £13.6m) and margin increased to 37.9% (2018: 31.8%). Margin increase was a consequence of fewer promotional activities in the year compared to prior year.

The Group reduced its investment in average retail inventories held during the year by £0.8m or 2.6% to £29.8m (2019: £30.6m).

Personal loans

The net personal loans book has reduced by 64.5% to £5.9m (31 December 2019: £16.6m). Revenue less impairment has reduced by 25.0% to £8.1m (2019: £10.8m) as the Group has reduced its volume of lending.

The increase in the risk-adjusted margin (RAM) to 79.4% (2019: 56.3%) is a consequence of the collect out of the loan book, with a reversal of impairment charges under IFRS9 accounting of approximately £2.0m and further tightening of credit risk assessments for the lending made in the year. Other than 40 sample loans made as part of the S166 review, all lending in the year was non-HCSTC, a total of £4.8m of lending was made in 2020 (2019: £30.0m).

Impairment as a percentage of the average monthly net loan book was 17.3% (2019: 49.8%), reflecting the increased mix of lower yield, higher quality loans and the wind down of the book.

	2020	2019	Change
	£'m	£'m	%
Year-end net loan book	5.9	16.6	(64.5%)
Average monthly net loan book	10.2	19.2	(46.9%)
Revenue	9.8	21.5	(54.4%)
Impairment	(1.7)	(10.7)	(84.1%)
Revenue less impairment	8.1	10.8	(25.0%)
<i>Interest yield¹</i>	<i>96.1%</i>	<i>112.0%</i>	
<i>Impairment % of revenue</i>	<i>17.3%</i>	<i>49.8%</i>	
<i>Impairment % of average monthly net loan book</i>	<i>16.7%</i>	<i>55.7%</i>	
<i>Risk-adjusted margin²</i>	<i>79.4%</i>	<i>56.3%</i>	
<i>1 – Revenue as a percentage of average loan book</i>			
<i>2 – Revenue less impairment as a percentage of average loan book</i>			

Pawnbroking scrap

The average gold price during 2020 was £1,379 per troy ounce (2019: £1,094), a 26.1% increase. The gold price directly impacts the revenue received on the sales of scrapped gold.

Gross profits increased by 148% to £6.2m (2019: £2.5m). Increased margin, driven by the high gold price, accounts for £3.0m of the increase, with £0.7m accounted for by increased volume of activity.

Gold purchasing

Gross profit increased by £1.1m to £6.8m (2019: £5.7m). Increased margin contributed £1.9m to the GP increase with an 11% decrease in the volume of gold sold offsetting the uplift by £0.8m.

Other services

Other services principally comprise trading activities of foreign currency exchange (FX), cheque cashing, money-transfer and buyback. Gross profits from these activities reduced to £6.0m (2019: £9.0m).

FX, cheque cashing and buyback revenues all declined in the year with gross profits from FX reducing to £3.4m (2019: £5.2m), cheque cashing reducing to £1.2m (2019: 1.5m) and buyback reducing to £0.3m (2019: £1.7m). Money-transfer revenues increased to £1.1m (2019: 0.3m). The buyback operation (the purchase and sale of mobile phones and tablets) was ceased early in the year.

Other income

Other income of £3.8m (2019: nil) comprises HM Government job retention scheme and rate grant monies.

Costs

Taking out the impact of loan impairment charges, the Group's aggregated direct and administration costs increased by £1.4m, 2.4%. The uplift is primarily a result of the full year impact of operating the additional 70 stores acquired during 2019, partially offset by some operational and transactional cost reductions while stores were closed. We have incurred some additional Covid-19 related costs, associated with ensuring colleague and customer safety.

Debt finance costs fell to £0.5m (2019: £0.9m), as the Group paid down its borrowing in full during the year. The reduced borrowing is a direct consequence of the reduction in our personal and pawnbroking lending books.

CASH FLOW

The reduction in lending books during the year resulted in a £29.6m increase in operating cash flow to £55.4m (2019: £25.8m).

Total increase in cash during the year was £22.5m after repaying £26.0m of borrowings, with net cash of £34.5m (31 December 2019: £12.0m). As at 31 December 2020 the £35.0m revolving credit facility was undrawn. This facility, together with the strong cash position provide the Group with the funds required to deliver its current strategy.

BALANCE SHEET

As at 31 December 2020, the Group had net assets of £134.5m (2019: £122.6m), no debt and £34.5m cash (2019: £12.0m). The Group was well within banking covenants with a net debt to EBITDA ratio of nil (2019: 0.58) and an EBITDA to interest ratio of 49.9 (2018: 30.4) (see note 3 for the definition of EBITDA).

The combination of cash reserves and a secure credit facility provides the Group with the ability to make selective investments in the future while maintaining appropriate headroom.

GOING CONCERN

The Group has considered the impact of Covid-19 on its financial statements. The Group has significant cash resources of £34.5m and access to an undrawn £35.0m revolving credit facility with an expiry date of June 2022.

IMPAIRMENT REVIEW

The Group performs an annual review of the expected earnings of each acquired store and considers whether the associated goodwill and other property, plant and equipment values are impaired. The Group has also considered impairment of its right-of-use-assets (property leases). A total impairment charge of £0.5m (2019: nil) has been applied in respect of its right-of-use-assets.

SHARE PRICE AND EPS

At 31 December 2020 the share price was 258p (2019: 338p) and market capitalisation was £102.6m (2019: £134.3m). Basic earnings per share were 32.1p (2019: 43.9p), diluted earnings per share were 32.1p (2019: 43.8p).

Richard Withers
Chief Financial Officer

Group statement of comprehensive income

For the year ended 31 December 2020

		2020 £'000	2019 £'000
Continuing operations:	Note		
Revenue	2	129,115	160,213
Cost of sales		(46,316)	(58,852)
Gross profit	2	82,799	101,361
Other direct expenses		(50,188)	(60,842)
Administrative expenses		(15,727)	(18,031)
Operating profit		16,884	22,488
Investment revenues		5	-
Finance costs	3	(1,257)	(2,405)
Profit before taxation		15,632	20,083
Tax charge on profit	4	(3,070)	(3,393)
Profit for the financial year and total comprehensive income		12,562	16,690
		2020	2019
Earnings per share from continuing operations		Pence	Pence
Basic	5	32.11	43.88
Diluted	5	32.11	43.80

All profit for the year is attributable to equity shareholders.

**Group statement of changes in equity
For the year ended 31 December 2020**

	Share capital £'000	Share premium account £'000	Employee Benefit Trust shares reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2019	1,883	27,153	(35)	74,820	103,821
Profit for the year	-	-	-	16,690	16,690
Total comprehensive income	-	-	-	16,690	16,690
Issue of share capital	104	6,026	-	-	6,130
Share option movement	-	-	-	328	328
Dividends paid	-	-	-	(4,363)	(4,363)
At 31 December 2019	1,987	33,179	(35)	87,475	122,606
At 1 January 2020	1,987	33,179	(35)	87,475	122,606
Profit for the year	-	-	-	12,562	12,562
Total comprehensive income	-	-	-	12,562	12,562
Issue of share capital	6	307	-	-	313
Share option movement	-	-	-	64	64
Dividends	-	-	-	(996)	(996)
At 31 December 2020	1,993	33,486	(35)	99,105	134,549

Group balance sheet

As at 31 December 2020

	Note	31 December 2020 £'000	31 December 2019 £'000
Non-current assets			
Goodwill		19,330	19,580
Other intangible assets		2,729	3,889
Property, plant and equipment		8,635	7,739
Right-of-use assets		18,337	21,147
Deferred tax assets		2,822	2,180
		<u>51,853</u>	<u>54,535</u>
Current assets			
Inventories		27,564	29,157
Trade and other receivables		55,751	90,891
Other current assets		1	714
Cash and bank balances		34,453	12,003
		<u>117,769</u>	<u>132,765</u>
Total assets		<u>169,622</u>	<u>187,300</u>
Current liabilities			
Trade and other payables		(10,807)	(10,578)
Lease liabilities		(3,568)	(4,890)
Current tax liability		(1,972)	(2,066)
		<u>(16,347)</u>	<u>(17,534)</u>
Net current assets		<u>101,422</u>	<u>115,231</u>
Non-current liabilities			
Borrowings		-	(26,000)
Lease liabilities		(17,077)	(19,670)
Long term provisions		(1,649)	(1,490)
		<u>(18,726)</u>	<u>(47,160)</u>
Total liabilities		<u>(35,073)</u>	<u>(64,694)</u>
Net assets		<u>134,549</u>	<u>122,606</u>
Equity			
Share capital	8	1,993	1,987
Share premium account		33,486	33,179
Employee Benefit Trust shares reserve		(35)	(35)
Retained earnings		99,105	87,475
Total equity attributable to equity holders		<u>134,549</u>	<u>122,606</u>

The financial statements of H&T Group plc, registered number 05188117, were approved by the Board of Directors and authorised for issue on 22 March 2021. They were signed on its behalf by:

C D Gillespie
Chief Executive

Group cash flow statement

For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Net cash generated from operating activities	6	55,350	25,829
Investing activities			
Interest received		5	-
Purchases of intangible assets		(233)	(9)
Purchases of property, plant and equipment		(3,005)	(3,316)
Acquisition of trade and assets of businesses		(50)	(18,740)
Acquisition of Right-of-use assets		(2,934)	(5,592)
Net cash used in investing activities		(6,217)	(27,657)
Financing activities			
Dividends paid		(996)	(4,363)
(Reduction)/Increase in borrowings		(26,000)	1,000
Debt restructuring costs		-	(350)
Proceeds on issue of shares		313	6,130
Net cash generated / (used in) from financing activities		(26,683)	2,417
Net increase in cash and cash equivalents		22,450	589
Cash and cash equivalents at beginning of the year		12,003	11,414
Cash and cash equivalents at end of the year		34,453	12,003

Notes to the preliminary announcement for the year ended 31 December 2020

1. Finance information and significant accounting policies

The financial information has been abridged from the audited financial statements for the year ended 31 December 2020.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2020 or 2019 but is derived from those accounts. Statutory accounts for 2019 have been delivered to the Registrar of Companies and those for 2020 will be filed with the Registrar in due course. The auditors have reported on those accounts: their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498 (2) or (3) Companies Act 2006 or equivalent preceding legislation.

Whilst the financial information included in this preliminary announcement has been prepared in accordance with International Financial Reporting Standards (as adopted for use in the UK) ('IFRS'), this announcement does not itself contain sufficient information to comply with IFRS. The Group will be publishing full financial statements that comply with IFRS in April 2021.

Going concern

The Group has prepared the financial statements on a going concern basis, with due consideration to the unprecedented impact of Covid-19 on the economy and society. The Board has considered the impact of Covid-19 on the business and conducted a going concern review to ensure this basis remains appropriate.

The Group delivered profit before tax of £15.6m for the year ended 31 December 2020 (2019: £20.1m). The Group also increased its net assets to £134.5m (2019: £122.6m).

The Group has significant cash resources at 31 December 2020 of £34.5m and access to an unutilised revolving credit facility with Lloyds Bank plc which allows for maximum borrowings of £35.0m, subject to covenants. The facility terminates on 12 June 2022, with the potential to extend for two additional years to June 2023 and 2024. This strong balance sheet position provides a high level of confidence that the Group will be able to repay all liabilities as they fall due during 2021 and into H1 2022 at least. The Group met all covenants in 2020 and there is no evidence to suggest that they will not be met in 2021 or H1 2022.

The Group's activities include services deemed essential by the government and therefore the Group's stores have been able to open during recent lockdowns. The Group's essential services include pawnbroking, foreign currency, money transfer and cheque cashing. The Group has a strong asset base and the ability to generate cash quickly through the sale of jewellery stock for its intrinsic value or by restricting new pawnbroking lending.

The Board has approved a detailed budget for 2021, which has subsequently been updated to form a reasonable worst-case forecast taking into consideration the current lockdown. All forecasts and sensitivities indicate surplus cash generated from operations for the period reviewed after accounting for the Company's forecast levels of capital expenditure. In considering the going concern basis of preparation longer term forecasts are also prepared, with the financial forecasts revealing no inability to meet financial covenants or repay liabilities. Covid-19 is an unprecedented event that has already had and will continue to have for an unknown period profound impacts on economic and social behaviour.

The Group's offering is principally through secured lending against pledges. The Group's policies on pawn lending remain rigorous and prudent, such that the Group has limited exposure to loss in the event of customers not redeeming their pledges, due to the value of the pledge collateral held, principally being gold and precious stones. The Group has no reason to believe that the value will not be maintained in the near future.

Based on the above considerations and after reviewing in detail 2021 and H1 2022 forecasts, the Directors have formed the view that the Group has adequate resources to continue as a going concern for the next 12 months and has prepared the financial statements on this basis.

Impairment of non-financial assets including goodwill and other intangibles

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit (CGU)'s fair value and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate of 9% (2019: 9%) which reflects the current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market conditions, including Covid-19 are taken into account.

The Group bases its impairment calculation on detailed budgets and historical performance measures. These are prepared separately for each of the Group's CGUs to which the individual assets are allocated, which is usually taken to be at store level.

Impairment losses of continuing operations are recognised in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

While the impairment review has been conducted based on the best available estimates at the impairment review dates, the Group notes that actual events may vary from management expectation, but are comfortable that other than a right-of-use-assets (property leases) impairment charge of £0.5m (2019: nil) no further impairment exists at the balance sheet date based on reasonably possible sensitivities.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services and interest income provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

The Group recognises revenue from the following major sources:

- Pawnbroking, or Pawn Service Charge (PSC);
- Retail jewellery sales;
- Pawnbroking scrap and gold purchasing;
- Personal loans interest income;
- Income from other services and
- Other income

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Pawnbroking, or Pawn Service Charge (PSC)

PSC comprises contractual interest earned on pledge loans, plus auction profit or loss, less any auction commissions payable and less surplus payable to the customer. Revenue is recognised over time in relation to the interest accrued by reference to the principal outstanding and the effective interest rate applicable as governed by IFRS 9.

Retail jewellery sales

Jewellery inventory is sourced from unredeemed pawn loans, newly purchased items and inventory refurbished from the Group's gold purchasing operation. For sales of goods to retail customers, revenue is recognised when control of the goods has transferred, being at the point the customer purchases the goods at the store. Payment of the transaction price is due immediately at the point the customer purchases the goods.

Under the Group's standard contract terms, customers have a right of return within 30 days. Whilst stores were closed owing to Covid-19 restrictions the returns policy was extended to cover a period of 30 days after the store reopened. Additional flexibility was offered during the year to allow customers to return items by post rather than attend store. At the point of sale, a refund liability and a corresponding adjustment to revenue is recognised for those products expected to be returned. At the same time, the Group has a right to recover the product when customers exercise their right of return so consequently recognises a right to returned goods asset and a corresponding adjustment to cost of sales.

The Group uses its accumulated historical experience to estimate the number of returns. It is considered highly probable that a significant reversal in the cumulative revenue recognised will not occur given the consistent and immaterial level of returns over previous years; as a proportion of sales 2020 returns were 6% (2019: 6%)

Pawnbroking scrap and gold purchasing

Scrap revenue comprises proceeds from gold scrap sales. Revenue is recognised when control of the goods has transferred, being at the point the smelter purchases the relevant metals.

Personal loans interest income

This comprises income from the Group's unsecured lending activities. Personal loan revenues are shown stated before impairment when in stages 1 and 2 of the expected credit loss model and net of impairment when in stage 3. The impairment charge is included within other direct expenses in the Group statement of comprehensive income. Revenue is recognised over time in relation to the interest accrued, as dictated by IFRS 9.

Other services

Other services comprise revenues from third party cheque cashing, foreign exchange income, buyback, Western Union and other income. Commission receivable on cheque cashing, foreign exchange income and other income is recognised at the time of the transaction as this is when control of the goods has transferred. Buyback revenue is recognised at the point of sale of the item back to the customer, when control of the goods has transferred.

The Group recognises interest income arising on secured and unsecured lending within trading revenue rather than investment revenue on the basis that this represents most accurately the business activities of the Group.

Other income

Government grants, including monies received under the Coronavirus job retention scheme are recognised as other income when there is reasonable assurance that the Group will comply with the scheme conditions and the monies will be received. There are no unfulfilled conditions and contingencies attaching to recognised grants.

Gross profit

Gross profit is stated after charging inventory, pledge and other services provisions and direct costs of inventory items sold or scrapped in the year.

Other direct expenses

Other direct expenses comprise all expenses associated with the operation of the various stores and collection centre of the Group, including premises expenses, such as rent, rates, utilities and insurance, all staff costs and staff related costs for the relevant employees.

Inventories provisioning

Where necessary provision is made for obsolete, slow moving and damaged inventory or inventory shrinkage. The provision for obsolete, slow moving and damaged inventory represents the difference between the cost of the inventory and its market value. The inventory shrinkage provision is based on an estimate of the inventory missing at the reporting date using historical shrinkage experience.

2. Operating segments

Business segments

For reporting purposes, the Group is currently organised into six segments – pawnbroking, gold purchasing, retail, pawnbroking scrap, personal loans and other services.

The principal activities by segment are as follows:

Pawnbroking:

Pawnbroking is a loan secured against a collateral (the pledge). In the case of the Group, over 99% of the collateral against which amounts are lent comprises precious metals (predominantly gold), diamonds and watches. The pawnbroking contract is a six-month credit agreement bearing a monthly interest rate of between 1.99% and 9.99%. The contract is governed by the terms of the Consumer Credit Act 2008 (previously the Consumer Credit Act 2002). If the customer does not redeem the goods by repaying the secured loan before the end of the contract, the Group is required to dispose of the goods either through public auctions if the value of the pledge is over £75 (disposal proceeds being reported in this segment) or, if

the value of the pledge is £75 or under, through public auctions or the retail or pawnbroking scrap activities of the Group.

Purchasing:

Jewellery is bought direct from customers through all of the Group's stores. The transaction is simple with the store agreeing a price with the customer and purchasing the goods for cash on the spot. Gold purchasing revenues comprise proceeds from scrap sales on goods sourced from the Group's purchasing operations.

Retail:

The Group's retail proposition is primarily gold and jewellery and the majority of the retail sales are forfeited items from the pawnbroking pledge book or refurbished items from the Group's gold purchasing operations. The retail offering is complemented with a small amount of new or second-hand jewellery purchased from third parties by the Group.

Pawnbroking scrap:

Pawnbroking scrap comprises all other proceeds from gold scrap sales of the Group's inventory assets other than those reported within gold purchasing. The items are either damaged beyond repair, are slow moving or surplus to the Group's requirements, and are smelted and sold at the current gold spot price less a small commission.

Personal loans:

Personal loans comprise income from the Group's unsecured lending activities. Personal loan revenues are stated at amortised cost after taking into consideration an assessment on a forward-looking basis of expected credit losses.

Other services:

This segment comprises:

- Third party cheque encashment which is the provision of cash in exchange for a cheque payable to our customer for a commission fee based on the face value of the cheque.
- Buyback which is a service where items are purchased from customers, typically high-end electronics, and may be bought back up to 31 days later for a fee.
- The foreign exchange currency service where the Group earns a margin when selling or buying foreign currencies.
- Western Union commission earned on the Group's money transfer service.

Cheque cashing is subject to bad debt risk which is reflected in the commissions and fees applied.

Further details on each activity are included in the Chief Executive's review.

Segment information for these businesses is presented below:

2020	Pawnbroking	Gold	Retail	Pawnbroking	Personal	Other	Other	Total
Revenue	£'000	purchasing	£'000	scrap	loans	services	income	£'000
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
External revenue	38,970	21,508	29,827	19,249	9,781	6,014	3,766	129,115
Total revenue	38,970	21,508	29,827	19,249	9,781	6,014	3,766	129,115
Gross profit	38,970	6,802	11,303	6,163	9,781	6,014	3,766	82,799
Impairment	(4,763)	-	-	-	(1,675)	-	-	(6,438)
Segment result	34,207	6,802	11,303	6,163	8,106	6,014	3,766	76,361
Other direct expenses excluding impairment								(43,750)
Administrative expenses								(15,727)
Operating profit								16,884
Interest receivable								5
Financing costs								(1,257)
Profit before taxation								15,632
Tax charge on profit								(3,070)
Profit for the financial year and total comprehensive income								12,562

2019	Pawnbroking	Gold	Retail	Pawnbroking	Personal	Other	Other	Total
Revenue	£'000	purchasing	£'000	scrap	loans	services	income	£'000
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
External revenue	49,102	24,229	41,516	14,944	21,459	8,963	-	160,213
Total revenue	49,102	24,229	41,516	14,944	21,459	8,963	-	160,213
Gross profit	49,102	5,736	13,639	2,462	21,459	8,963	-	101,361
Impairment	(10,142)	-	-	-	(10,656)	-	-	(20,798)
Segment result	38,960	5,736	13,639	2,462	10,803	8,963	-	80,563
Other direct expenses excluding impairment								(40,044)
Administrative expenses								(18,031)
Operating profit								22,488
Interest receivable								-
Financing costs								(2,405)
Profit before taxation								20,083
Tax charge on profit								(3,393)
Profit for the financial year and total comprehensive income								16,690

Gross profit is stated after charging the direct costs of inventory items sold or scrapped in the period. Other operating expenses of the stores are included in other direct expenses. The Group is unable to meaningfully allocate the other direct expenses of operating the stores between segments as the activities are conducted from the same stores, utilising the same assets and staff. The Group is also unable to meaningfully allocate Group administrative expenses, or financing costs or income between the segments. Accordingly, the Group is unable to meaningfully disclose an allocation of items included in the consolidated statement of comprehensive income below gross profit, which represents the reported segment results.

The Group does not apply any inter-segment charges when items are transferred between the pawnbroking activity and the retail or pawnbroking scrap activities.

2020	Pawn- broking £'000	Gold purchasing £'000	Retail £'000	Pawn- broking scrap £'000	Personal loans £'000	Other services £'000	Unallocated assets/ (liabilities) £'000	Total £'000
Other information								
Capital additions (*)							6,060	6,060
Depreciation, amortisation and impairment (*)							9,286	9,286
Balance sheet								
Assets								
Segment assets	48,344	986	25,740	839	5,891	-		81,800
Unallocated corporate assets							72,476	72,476
Consolidated total assets								169,622
Liabilities								
Segment liabilities	-	-	(814)	-	-	(274)		(1,088)
Unallocated corporate liabilities							(33,985)	(33,985)
Consolidated total liabilities								(35,073)
2019	Pawn- broking £'000	Gold purchasing £'000	Retail £'000	Pawn- broking scrap £'000	Personal loans £'000	Other services £'000	Unallocated assets/ (liabilities) £'000	Total £'000
Other information								
Capital additions (*)							15,716	15,716
Depreciation and amortisation (*)							7,467	7,467
Balance sheet								
Assets								
Segment assets	72,199	1,414	27,391	1,067	16,628	-		118,699
Unallocated corporate assets							45,418	45,418
Consolidated total assets								187,300
Liabilities								
Segment liabilities	-	-	(657)	-	-	(209)		(866)
Unallocated corporate liabilities							(63,828)	(63,828)
Consolidated total liabilities								(64,694)

(*) The Group cannot meaningfully allocate this information by segment due to the fact that all the segments operate from the same stores and the assets in use are common to all segments.

Geographical segments

The Group's revenue from external customers by geographical location are detailed below:

	2020 £'000	2019 £'000
United Kingdom	127,487	158,582
Other	1,628	1,631
	<u>129,115</u>	<u>160,213</u>

The Group's non-current assets are located entirely in the United Kingdom. Accordingly, no further geographical segments analysis is presented.

3. Financing costs

	2020 £'000	2019 £'000
Interest on bank loans	404	693
Other interest	1	1
Interest expense on the lease liability	735	1,524
Amortisation of debt issue costs	117	187
	<u>1,257</u>	<u>2,405</u>
Total interest expense	<u><u>1,257</u></u>	<u><u>2,405</u></u>

4. Tax charge on profit

(a) Tax on profit on ordinary activities

	2020 £'000	2019 £'000
Current tax		
United Kingdom corporation tax charge at 19% (2018: 19%) based on the profit for the year	3,628	3,634
Adjustments in respect of prior years	(14)	195
	<u>3,614</u>	<u>3,829</u>
Deferred tax		
Timing differences, origination and reversal	(358)	262
Adjustments in respect of prior years	(6)	(698)
	<u>(180)</u>	<u>-</u>
Total deferred tax (note 24)	<u>(544)</u>	<u>(436)</u>
Tax charge on profit	<u><u>3,070</u></u>	<u><u>3,393</u></u>

(b) Factors affecting the tax charge for the year

The tax assessed for the year is higher than that resulting from applying a standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below:

	2020 £'000	2019 £'000
Profit before taxation	15,632	20,083
Tax charge on profit at standard rate	2,970	3,816
Effects of:		
Disallowed expenses and non-taxable income	236	150
Non-qualifying depreciation	840	(80)
Effect of change in tax rate	(180)	-
Movement in short-term timing differences	(776)	10
Adjustments to tax charge in respect of prior years	(20)	(503)
Tax charge on profit	3,070	3,393

In addition to the amount charged to the income statement and in accordance with IAS 12, the excess of current and deferred tax over and above the relative related cumulative remuneration expense under IFRS 2 has been recognised directly in equity. The amount released from equity in the current period was £98,000 (2019: £61,000).

5. Earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to equity shareholders by the weighted average number of ordinary shares in issue during the year.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. With respect to the Group these represent share options and conditional shares granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

Reconciliations of the earnings per ordinary share and weighted average number of shares used in the calculations are set out below:

	Year ended 31 December 2020			Year ended 31 December 2019		
	Earnings	Weighted average number of shares	Per-share amount pence	Earnings	Weighted average number of shares	Per-share amount pence
	£'000			£'000		
Earnings per share: basic	12,562	39,124,959	32.11	16,690	38,039,328	43.88
Effect of dilutive securities						
Options and conditional shares	-	1,278	(0.00)	-	68,197	(0.08)

Earnings per share: diluted	<u>12,562</u>	<u>39,126,237</u>	<u>32.11</u>	<u>16,690</u>	<u>38,107,525</u>	<u>43.80</u>
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6. Notes to the Cash Flow Statement

	2020	2019
	£'000	£'000
Profit for the year	12,562	16,690
Adjustments for:		
Investment revenues	(5)	-
Financing costs	1,257	2,405
Increase in provisions	160	237
Income tax expense	3,070	3,393
Depreciation of property, plant and equipment	2,204	2,272
Depreciation of right-of-use assets	5,122	4,604
Amortisation of intangible assets	1,428	591
Right of use asset Impairment	531	-
Share-based payment expense	(35)	266
Loss on disposal of property, plant and equipment	99	70
Operating cash flows before movements in working capital	<u>26,393</u>	<u>30,528</u>
Decrease in inventories	1,679	105
Decrease in other current assets	713	163
Decrease/(increase) in receivables	35,200	(5,500)
(Decrease)/increase in payables	<u>(3,842)</u>	<u>5,347</u>
Cash generated from operations	60,143	30,643
Income taxes paid	(3,707)	(2,604)
Interest paid on loan facility	(350)	(686)
Interest paid on lease liability	<u>(736)</u>	<u>(1,524)</u>
Net cash generated from operating activities	<u><u>55,350</u></u>	<u><u>25,829</u></u>

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

7. Earnings before interest, tax, depreciation and amortisation ("EBITDA")

EBITDA

EBITDA is a non IFRS9 measure and is defined as earnings before interest, taxation, depreciation and amortisation. It is calculated by adding back depreciation and amortisation to the operating profit as follows:

	2020	2019
	£'000	£'000
Operating profit	16,884	22,488
(i) Depreciation of the right-of-use assets	5,122	4,604
(ii) Depreciation and amortisation- other	3,633	2,862
(iii) Impairment of the right-of-use-assets	531	-
EBITDA	<u>26,170</u>	<u>29,954</u>

The Board consider EBITDA to be a key performance measure as the Group borrowing facility includes a number of loan covenants based on it.

8. Share capital

	2020	2019
	£'000	£'000
Issued, authorised and fully paid		
39,864,077 (2019: 39,736,476) ordinary shares of £0.05 each	<u>1,993</u>	<u>1,987</u>

The Group has one class of ordinary shares which carry no right to fixed income.

The Group issued share capital amounting to £6,000 (2019: £104,000) during the year. Associated share premium of £307,000 (2019: £6,026,000) was created.

9. Acquisitions

The following acquisitions were made during the year:

	Total	Total
	2020	2019
	£'000	£'000
Assets		
Goodwill	-	1,937
Intangible assets	35	3,891
Property, plant and equipment	3	1,185
Inventory	86	-
Trade receivables	177	11,727
Cash	-	1,012
Total assets acquired	<u>301</u>	<u>19,752</u>

Total consideration:		
Cash	301	19,752
	<hr/>	<hr/>
Net cash outflow arising on acquisition		
Cash consideration	301	19,752
Less: cash balances acquired	-	(1,012)
	<hr/>	<hr/>
Total assets acquired	301	18,740
	<hr/> <hr/>	<hr/> <hr/>

On 30 November 2020, the Company acquired trade and assets from A.F. Discount Jewellery Ltd for total consideration of £301k. The fair value of financial assets includes trade receivables measured in accordance with IFRS 9 and intangible assets which have been valued by the Group based on discounted cash flow.

10. Contingent Liabilities

As set out initially in our market release of 18 November 2019 and in subsequent updates the Group has been working with a skilled person appointed in conjunction with the FCA on a past-book review of our lending since April 2014 within the High Cost Short Term unsecured lending (HCSTC) market. The skilled person was appointed on 3 September 2020 under section 166 of the Financial Services and Markets Act 2000 to oversee the group's proposed redress methodology.

Given the ongoing disruption from the pandemic, the skilled person has currently been unable to carry out sufficient review to satisfy themselves on the appropriate methodology for establishing potential customer redress. The outcome of this review will now likely be delayed into the second quarter of 2021 and it is primarily for this reason that we are unable to reliably estimate the financial effect on the Group. H&T expects an outcome within previous guidance.

11. Events after the balance sheet date

The Directors have proposed a final dividend for the year ended 31 December 2020 of 6.0p (2019: nil).