

Directors' Report

The Directors present their report and audited consolidated financial statements for the year ended 27 February 2021 and up to the date of signing the financial statements.

The Corporate Governance Statement set out on pages 46 to 74 forms part of this report.

Information about the use of financial instruments by the Company and its subsidiaries is given in Note 26 to the financial statements.

DIRECTORS

The Directors of the Company who served during the year ended 27 February 2021, and up to the date of this report, are:

Stephen Karle Non-Executive Chairman

Sir Nigel Knowles Senior Independent Director

Joanne Lake Independent Non-Executive Director

Peter Ward Non-Executive Director

Paul Smith Chief Executive Officer

Andrew Hayward Chief Financial Officer until 16 March 2020

Andy Thomson Non-Executive Director until 17 March 2020; Interim Chief Financial Officer from 17 March to 31 December 2020; Non-Executive Director since 1 January 2021

Baroness Simone Finn Independent Non-Executive Director until 12 February 2021

Les Easson Non-Executive Director until 17 March 2021

Graeme Campbell Chief Financial Officer from 1 January 2021

Sheryl Lawrence Independent Non-Executive Director from 1 May 2021

Michael Yeates Independent Non-Executive Director from 1 May 2021

Gary Marshall Executive Director (Chief Operating Officer) from 1 May 2021

Details of the remuneration, service agreements and interests in the share capital of the Company of the Directors are given in the Remuneration Report on pages 67 to 73.

Biographical details of the current Directors are given on pages 41 to 43. As recommended by the July 2018 edition of the UK Corporate Governance Code, all continuing Directors stand for re-election at the Company's Annual General Meetings.

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Dividend

The Directors have a general policy of assessing dividend payments in the context of consolidation opportunities, new product investment requirements and the broader growth strategy of the Company. Under normal circumstances, the Board intends to distribute between 50% and 60% of adjusted earnings after tax to shareholders as dividends.

In due course, the Board may also consider increasing the dividend payout ratio should the funding structure of the Company enable an increase in gearing and/or the Company finds itself with surplus cash over and above its investment opportunities.

On at least an annual basis, and before proposing a dividend payout, the Directors will assess the Company's going concern assumptions through a detailed review of the future capital and liquidity requirements that support longer-term strategic plans. This assessment ensures that the Company will be able to continue in operation and meet the needs of its shareholders and other stakeholders, beyond a proposed dividend payout. Further details of this review can be found in the Viability statement on page 31.

Following detailed reviews of the performance of the business and its working capital requirements, and taking into consideration that the Group has not furloughed any staff, deferred any liabilities to HMRC or taken advantage of any government-backed loan scheme during the Covid-19 pandemic, the Board has concluded that it is able to make a final dividend payment. Therefore, subject to shareholder approval at the Annual General Meeting on 22 June 2021, the Board proposes to pay a final dividend of 2.0p per Ordinary Share payable on 30 July 2021 to Shareholders on the register at close of business on 2 July 2021. This would represent a total dividend of 3.0p per Ordinary Share for 2021 (2020: 3.6p).

Capital structure

Details of the authorised and issued share capital, together with details of any movements in the Company's issued share capital during the year, are shown in Note 22.

As at 27 February 2021, the Company had 132,530,539 Ordinary Shares of 1 pence each in issue (2020: 131,244,444).

The Company's issued Ordinary Share capital comprises a single class of Ordinary Shares which carry no right to fixed income. The rights attached to the Ordinary Shares are set out in the Articles of Association. Each share carries the right to one vote at general meetings of the Company.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Main Board terms of reference, copies of which are available on request, and the Corporate Governance Statement on pages 46 and 47.

Information contained in other sections

The Company's principal risks and uncertainties, together with any emerging risks, that are required to be included within the Report of the Directors, can be found within the Strategic Report on pages 27 to 31.

The Company's environmental policies and actions are contained in the Strategic Report on page 37.

Anti-bribery and corruption

The corporate policies reflect the requirements of the Bribery Act and a corporate hospitality register is maintained using a risk-based approach. Although the risks for the Group arising from the Bribery Act 2010 continue to be assessed as low, all parts of the business are required to undergo appropriate training and instruction to ensure that they have effective anti-bribery and corruption policies and procedures in place. Every staff member receives regular and relevant training on bribery and corruption using the Company's internal training system. Compliance is regularly monitored by the Executive Risk Committee and is subject to periodic review by the Group's Internal Audit function.

Whistle-blowing

The Company has a very robust whistle-blowing policy and procedures. The Board monitors this on a regular basis through reports from the Risk & Compliance Committee. The Company has consistently highlighted to its staff the FCA's whistle-blowing hotline as well as providing both an internal contact telephone number and email address, together with the contact details of one of our Independent Non-Executive Directors. The subject is included in online training courses which are mandatory for staff to complete and is also featured on staff screensavers and the staff intranet.

Directors' and officers' insurance

The Company has throughout the year maintained directors' and officers' insurance for the benefit of the Company, the Directors and its officers. The Company also provides qualifying third-party indemnity arrangements for the benefit of all of its Directors in a form and a scope which comply with the requirements of the Companies Act 2006.

Employees

It is our policy to make adequate provision for the wellbeing, health and safety of our employees and self-employed agents. We are committed to offering equal opportunities for all employees, irrespective of age, gender, ethnicity, race, religion, belief, sexual orientation, disability, marital status and civil partnership. All employees are treated fairly and equally.

Morses Club treats applications for employment from disabled persons in the same way as those from non-disabled applicants and selects on the basis of individual ability, experience and role requirements. Where existing employees become disabled, we endeavour to offer them continuing suitable work within the Company, offering retraining where necessary.

We encourage our employees to engage with the development of our organisation. To promote this, the Chief Executive Officer and the Executive team publish regular updates on important or topical issues and highlight these via Teams meetings, informal briefings, videos and our intranet.

The Company uses an online Learning Management System (LMS) to train and assess all employees and it can be easily accessed from any location, including at home. Everything from induction programmes, regulatory training modules and management development programmes are available on the LMS.

All employees and self-employed agents undertake monthly regulatory training modules. These monthly modules are compulsory for all and completion is monitored and reported at Board level. This ongoing training and assessment cycle ensures that our employees have the necessary skills to work in this highly regulated industry, providing great customer service and treating customers fairly. This has continued uninterrupted throughout the pandemic.

Morses Club provides development programmes that are endorsed by the Institute of Leadership & Management (ILM), the UK's leading provider of leadership, coaching and management qualifications and training. These programmes are designed around each role and relate to work-based activities designed to improve a manager's skills and assist with career progression. The online programme consists of six courses with a work-based project and assessment. There are 21 employees currently on the programme and a further seven employees who have already successfully completed it.

During the year, the two Company training teams (Morses Club and Shelby) were merged into a single Group function. This has allowed us to share management development programmes and resources to provide a consistent approach to development for employees across the Group.

The majority of employees wanted a holiday purchase scheme whereby they can buy or sell their holidays. As a result, a holiday purchase scheme was launched to all employees for the 2020 holiday year.

The Company offers a defined contribution pension scheme, matching employee contributions up to a maximum of 7% of salary.

The Company has had a Health & Safety Committee for many years. Its monthly reports are reviewed at each Board meeting. Prior to Covid-19, the Health & Safety Committee contained a significant number of representatives from our HCC field network. During lockdown, with everyone working remotely, these representatives did not come into contact with other employees on a daily basis. In order to keep in touch with all employees who are currently working from home, we have reconstituted the Committee, keeping a core of key

functional representatives, removing field representatives and introducing new channels including regular employee surveys, Teams channels and other feedback mechanisms to ensure everyone is involved. At the time of writing, all employees continue to work from home, in accordance with government guidelines.

Employee Share Schemes

The Group first introduced an unapproved share option scheme on 19 October 2017 and awarded share options to all of its employees who had been employed for a minimum of 12 months at 1 October 2017. These shares vested in January 2021, following the announcement of the Company's final FY20 and interim FY21 results in November 2020 and December 2020 respectively, and participants were able to purchase their Morses Club shares at the nominal price of 1p each.

In February 2018, Hay Wain Group Limited ceased to be a majority shareholder of the Company, and as a result, the Company was permitted to implement an HMRC tax advantaged plan for the first time. In November 2018, the Company created a new Share Incentive Plan (the SIP). In late 2019, the SIP was presented with an award in the <500 employees category by ProShare, the voice of the employee share ownership industry in the UK. In December 2018 and 2019, all eligible employees applied to participate in the SIP and have each been given shares in the Company representing approximately 3.25% of their salary (based on the average share price during the few days prior to the award).

The free SIP shares are held in trust for a minimum holding period of three years, and employees who participate will lose their award if they resign or are dismissed from their employment during this three-year period.

During the time that the shares are held in the Trust, employees are able to vote at the AGM and receive dividends, so giving them a real stake in the business in which they work.

Regrettably, due to the Company failing to meet its profit targets in FY20, no award was made to employees in December 2020. However, providing the Company achieves its profitability targets, the Group intends to continue to award shares under the SIP to its employees annually in future years.

Employee engagement

The Directors regard employee involvement as essential to the healthy development of the business.

Since the Company's IPO in May 2016, the Company's objective has been clear and resolute – to ensure that as many Morses Club employees hold shares as possible.

Following the share awards described above, 100% of the Company's employees who were employed prior to October 2018 hold shares under the Share Incentive Plan.

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The Company has also introduced Perkbox to all of its employees which provides access to hundreds of perks and discounts.

Under the 2018 Corporate Governance Code, the Board is expected to engage with the workforce using one or a combination of the following three methods:

- A Director appointed from the workforce.
- A formal workforce advisory panel.
- A designated Non-Executive Director.

After considering the options, the Board unanimously appointed Les Easson as the Company's Designated Director responsible for employee engagement, with effect from January 2020. As Operations Director for many years, Les had been responsible for engaging with, and motivating, the large Operations team, and is therefore the ideal person to fulfil this role. On 17 March 2021, Les resigned as a Director and the Nominations & Succession Committee has started the task of selecting a replacement. As a result, the Company will not comply with the Code until a replacement Designated Director is appointed.

Energy and carbon reporting

FY21 is the first year we are required to report under the Streamlined Energy & Carbon Reporting (SECR) framework. The Company has gathered data regarding scope 1 and scope 2 carbon emissions (as defined by the GHG Protocol) for the financial year spanning 1 March 2020 to 27 February 2021.

Emissions and energy usage

Emissions source		2020-2021	2019-2020
Scope 1 (tCO ₂ e)	Natural gas	26	117
	Fuel for transport purposes	309	1,216
Total Scope 1 (tCO ₂ e)		335	1,333
Total Scope 2 (tCO ₂ e)	Electricity	70	121
Intensity ratio – tCO ₂ e per number of employees		0.74	2.53

Methodology

The organisation has taken guidance from the UK Government Environmental Reporting Guidelines (March 2019), the GHG Reporting Protocol – Corporate Standard, and from the UK Government GHG Conversion Factors for Company Reporting document for calculating carbon emissions.

Energy efficiency action

During the financial period, the organisation has reduced its property estate from c. 90 properties to one, which has had a direct impact on energy impact and usage. Reduced travel has also resulted in a significant reduction in carbon emissions.

Substantial interests in shares

As at 28 April 2021, the Company has been notified of the following substantial interests of 3% or more in its Ordinary Shares:

	Number of Shares	% Issued Capital
Hay Wain Group	47,683,640	35.98
Premier Miton Investors	16,558,127	12.49
Artemis Investment Management	11,213,960	8.46
Amati Global Investors	9,554,948	7.21
J O Hambro Capital Management	9,527,666	7.19
Hargreaves Lansdown Stockbrokers	5,355,073	4.04
Janus Henderson Investors	5,331,310	4.02

Relationship with our controlling shareholder

As a result of the IPO on 5 May 2016, the shareholding of the controlling shareholder in the Company, Hay Wain Group Limited, reduced from 100% to 51%.

On 21 February 2018, Hay Wain Group Limited sold 14.2% of the shares in the Company and at 27 February 2021 continues to hold 35.99% of the shares in the Company.

Hay Wain Group Limited has entered into a relationship agreement which contains provisions to ensure that, inter alia, there is no interference with the independent operation of the Board and that the Company's transactions with Hay Wain Group Limited are effected at arm's length and on a normal commercial basis.

Hay Wain Group Limited can, subject to applicable laws and regulation, appoint one Director to the Board for as long as it holds more than 20% of the rights to vote at a General Meeting of the Company. The Director appointed under this right is Peter Ward. The Board confirms that, since the admission of the Company's shares on to AIM, the Company has complied with the independence provisions included in the relationship agreement and that, so far as the Company is aware, Hay Wain Group Limited and its associates have also complied with such provisions.

Political donations

The Company made no political donations in 2021 (2020: £nil).

Post balance sheet events

On 1 May 2021, the Company appointed Sheryl Lawrence and Michael Yeates as Independent Non-Executive Directors, and its COO, Gary Marshall, as an Executive Director.

Funding

During the period we extended our loan facility with the incumbent lender consortium to December 2021, reducing the facility limit to £40m. In May 2021 we successfully reached agreement with a new two lender consortium, for a more cost efficient and slightly lower £35m facility, extended to December 2022.

The new facility limit was reduced from £40m to £35m to better match the needs of the business post Covid-19. The new facility also unlocks access to funding for our Dot Dot loan products in addition to ongoing support of our HCC products. By reducing the facility, non-utilisation charges for any given level of borrowing will be reduced and therefore the overall cost of funding.

Disclosure of information to the auditor

The Directors confirm that:

- so far as each Director is aware, the auditor is aware of all relevant audit information; and
- the Directors have taken all necessary steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information, and to establish that the auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Our auditor

Deloitte LLP has expressed its willingness to continue in office as auditor and a resolution will be proposed at the Annual General Meeting to reappoint Deloitte LLP as the Company's auditor and to give the Directors the authority to determine the auditor's remuneration.

Notice of Annual General Meeting

The notice convening the Annual General Meeting to be held virtually on 22 June 2021, together with an explanation of the resolutions to be proposed at the meeting, is contained on the Company's website at www.morsesclubplc.com/investors. Shareholders may join the AGM by contacting the Company in advance at investors@morsesclubplc.com.

By order of the Board

Dave Belmont
Company Secretary
13 May 2021