THG

Tax Strategy

4 DECEMBER 2020

ABOUT US – A SNAPSHOT

In 2004, when THG was founded, it provided white label e-commerce websites for grocery retailers. From 2008, we acquired a series of entertainment and fashion brands, including Zavvi, AllSole and MyBag. We are now one of the world's largest online Beauty and Wellbeing businesses with Myprotein and Lookfantastic leading our portfolio of lifestyle websites.

Our growth has continued in recent years, both organically and via M&A. In 2017, we acquired Hangar 7, UK2, RY, Glossybox, Espa and Illamasqua. During 2018, we acquired Eyeko, Language Connect and Acheson & Acheson. In 2019, we acquired The Eclectic Hotel Group and the luxury haircare brand, Christophe Robin. In 2020, to date, we have acquired Perricone MD, a science-led skincare brand.

We currently trade in 169 countries, across 198 websites. Our end-to-end proprietary platform, Ingenuity, powers some of the world's largest brands. In FY20 we became a listed business, undertaking the UK's biggest IPO in 5 years.

OUR APPROACH TO TAX

The heart of our business, and our Ingenuity platform, is in the UK. This means that the bulk of the tax we pay is also in the UK. Our flagship warehouse, Omega, a 1m sq ft facility was opened in Warrington in 2016 and we continue to expand into additional office space in our Manchester and Cheshire bases. By the end of 2019 we employed over 7,000 people, and more than 80% of them continue to be UK based. UK employment taxes are by far the biggest component of our total tax bill, making up £40m of our contribution to HMRC in 2019.

We are proud that we can contribute to the development of all the economies in which we operate, take our responsibility to pay our fair share of tax seriously and strive to be compliant in each territory that we operate. The table below sets out our 2019 global tax contribution, for the key taxes we pay:

	Y/E 2019 £'m
PAYE and NIC	46.4
Corporation Tax	(0.4)
Business Rates	4.4
Indirect Tax	3.9
Total Tax	**54.3**

The Group has no interest in having open tax disputes with HMRC and is averse to participating in aggressive tax avoidance schemes. The Group will, however, commit to operating in a tax efficient way in order to maximise stakeholder returns, so long as this is compliant and within the framework of current tax legislation. For instance, we will focus our efforts on establishing the level of our entitlement to tax incentives, such as the UK's R&D tax initiative and enhanced capital allowances.

We have an open and transparent approach to HMRC and our preference is to work together to obtain a certain outcome wherever possible, for example to obtain rulings on the VAT classification of certain products. We were allocated a Customer Compliance Manager (CCM) in 2019 and we hope that this will facilitate timely, balanced communication and cooperation.

In line with the Group's growth, we continue to expand our tax team. In the past 3 years, we have expanded from 5 to 13 full time equivalents, increasing the breadth and depth of tax experience across our team. We will continue to recruit as required, primarily to support our plans for growth and further acquisitions in the future. We subscribe to a tax technical on-line service and support ongoing training for all the team. We also use advisors where we do not have the relevant in-house expertise or where there is uncertainty as to a particular tax position.

Overall, the Group is unwilling to accept a high level of tax risk and strives to be tax compliant. The biggest risk areas arise through the level of Mergers & Acquisitions and the pace of growth. To mitigate this, the Group uses external advisors to undertake tax due diligence on target businesses pre-acquisition. Post-acquisition, the tax team endeavour to address any material identified tax risks in a timely manner. There are also ongoing procedures in place to identify, monitor and manage risk, increased use of technology, and continuous Senior Accounting Officer (SAO) monitoring in conjunction with the Group's internal audit function.

The UK Government adopted the OECD's BEPS recommendations requiring multinationals to submit country by country tax reports to tax authorities. We complied with this obligation for the year ending 31 December 2018, the first year applicable due to the Group's size, and continue to do so, by submission of a report to HMRC by the end of 31 December 2019.

The Hut Group regards this publication as complying with the duty under paragraph 16(2), Schedule 19 FA 2016.