JAMES HALSTEAD PLC

3 October 2016

JAMES HALSTEAD PLC

PRELIMINARY ANNOUNCEMENT OF AUDITED RESULTS

FOR THE YEAR ENDED 30 JUNE 2016

"*Export markets underpin profitability*"

Key Figures

- Revenue at £226.1 million (2015: £227.3 million) – down 0.5%
- Profit before tax £45.5 million (2015: £44.2 million) – up 3%
- Earnings per 5p ordinary share of 17p (2015: 16.4p) – up 3.7%
- Final dividend per ordinary share proposed of 8.5p (2015: 7.858p) – up 8.2%
- Cash inflow from operating activities £40.2 million (2015: £33.7 million) – up 19.2%

Mr Mark Halstead, Chief Executive, commenting on the results, said:

"Notwithstanding the average exchange rate for the year impacting adversely on turnover, we have continued to progress and as exports represent 67% of our business the decline of sterling post the referendum offers opportunity for further progress."

Enquiries:

James Halstead:
Mark Halstead, Chief Executive
Gordon Oliver, Finance Director — **Telephone: 0161 767 2500**

Hudson Sandler:
Nick Lyon — **Telephone: 020 7796 4133**

Panmure Gordon (NOMAD & Joint Broker):
Ben Thorne — **Telephone: 020 7886 2500**
Andrew Potts

Arden Partners (Joint Broker):
Chris Hardie — **Telephone: 020 7614 5900**

CHAIRMAN’S STATEMENT

Results

Under the circumstances it is gratifying to report turnover of £226.1 million (2015: £227.3 million) as this was affected by the adverse sterling exchange rate. In constant currency terms turnover was higher by around 2%. The profit before tax grew some 3% to £45.5 million (2015: £44.2 million). Of the millions of square metres of flooring installed in the year a few to note are The Royal Mint Visitor Centre in Pontyclun, the Central Bank of Malta, the Fudan University Ophthalmology Hospital in Shanghai and for “Baggies” fans the new concourse at the Hawthorns is a fine example of our flooring in use in a high footfall area.

Strategy

Our businesses are totally flooring focused and our strategy is designed to enhance our brand identity thereby generating goodwill and customer satisfaction with the aim of continued repeat business. This approach is designed to increase revenue which then creates wealth for our shareholders in the form of dividend as reward for their investment in our company. It also underpins job security for our employees and benefits all stakeholders in the business.

The strategy evolves over time, but our focus on sustainable growth is undiminished.

Dividend

Profit and earnings per share have increased and our cash reserves remain, as usual, robust. Cash flow from operating activities is £40.2 million and some 19.2% ahead of last year. Our dividends paid in the last year were some £39.9 million, being 90% above the prior year as a result of another special dividend (£16.3 million).

It is pleasing to report that the Board proposes, once again, an increased final dividend. The final dividend will be 8.5p (2015: 7.858p) representing an 8.2% increase which combined with the interim dividend, paid in June 2016, of 3.5p (2015: 3.142p) makes a total of 12.0p (2015: 11.0p) for the year, an increase of 9.1%. Once again a record level of dividend in our long history.

Acknowledgements

As we close this year I would like to express the gratitude of the Board to our customers and employees for their part in our success. A particular thanks to the Contract Flooring Association whose members voted us as the “Manufacturer of the Year” for the third consecutive year and our safety flooring as “Product of the Year” for the seventh consecutive year.

Outlook

I have every expectation that we will continue in the vein we have mined so successfully over the last generation. Whether it is La Casa Rosada (the executive mansion of the President of Argentina), the Christiaan Barnard Memorial Hospital in Cape Town or the Guizhou Anshun Hospital in China, Polyflor continues to cover the world.

Geoffrey Halstead
Chairman

CHIEF EXECUTIVE'S REVIEW

The one hundred and first year of trading has proved to be a year of two different halves. The first half continuing the worldwide growth we saw in the early part of 2015 and the latter showing a distinct slowing down in UK sales whilst exports continued to expand.

Overall the picture is one of a good result for 2015/16 and our position as market leader remains unchanged. The malaise in the UK in the second half has been tangible and might be allied to the 'Brexit' nervousness leading up to the referendum in June. More certain is that a little publicised cut to the NHS repairs fund will have affected demand. The 2016 budget reduced the repair fund by £1.1 billion (some 30%) and some of this would have been allocated to flooring refurbishment.

Our companies operate in different economic environments but our continued focus is to ensure our products, manufactured by us or 3rd parties, are stocked by distributors and sold on to contractors for either refurbishment or new build projects. Our sales forces are multi-focused to not only ensure the sale in volume to stockists, but also to promote sales directly to end-users in conjunction with contractors, architects or specifiers. The diversity of installation from Taiwan public buses, Dunkin Donuts stores in Warsaw and Santiago Bernabéu (the home of Real Madrid) continues to impress.

Reviewing the businesses in more detail:

Objectflor / Karndean and James Halstead France, our European operations

Overall, Objectflor increased sales by some 3.7% in a highly competitive market which was satisfying. Germany is the largest market for vinyl flooring in Europe and the relative weakness of the EU marketplace has made all business hard won. To have like for like growth is commendable though there has been a degree of margin erosion due to the weakness of the Euro during the year in question affecting landed cost of product. Inevitably there was a small (3.5%) dip in profit.

The company saw good growth in rubber flooring and heterogeneous sheet (manufactured at Teesside) progressed on the back of new range launches, notably Expona Flow. "Karndean" branded sales of luxury vinyl tiles have expanded with the demand from retail shop fitting being solid. We have adopted a policy of attending more regional trade fairs to meet contractors face-to face and our attendance at A&W in Lyon, the EXPO in Holzund and VTDN in Belgium has been positive in gaining new business.

James Halstead France continues to progress with a 12.5% increase in turnover in the year.

In France we have expanded our sales network and improved our customer service, the results of which have given us confidence to continue this investment. Our market share remains, as yet, small but despite difficult market conditions continues to grow at the expense of our competitors.

Some of the projects completed last year include Le Bon Marche in Paris, one of the leading department stores. Indeed, our team in France won the project to supply flooring to Orange Telecom in Madagascar, once again illustrating our global connections.

A restructuring of our sales focus in central Europe has seen us target new market sectors for our products and in conjunction with new collections continue to attract market interest. In 2015/16 Objectflor has continued to show its strength within Germany and now also has a solid presence in the rest of Europe.

Examples of our successes are the new Hyundai headquarters in Belgium, the refurbished Marriott hotels in Rotterdam and Amsterdam and the Hotel Arora in Croatia. In Germany itself the Johannisgarten development of over 100 apartments in Erfurt has been supplied by us.

It is also pleasing to note that the re-launch of our Artigo range of rubber flooring has been well received.

As a result of the growth in these markets our warehousing has reached capacity and plans are afoot to invest in an expansion of this function which will encompass a new enlarged service centre, showroom and customer training facilities.

In the Benelux, we have revised our sales network and are now focused on this region as a stand-alone territory in order to further increase our market share.

Polyflor Pacific – encompassing Australia, New Zealand and Asia

Polyflor Australia increased turnover by some 7% in the year in constant currency terms**.** The adverse translation effect was around 8%

New management in Australia has overseen a total re-evaluation of this business and throughout 2015/16 the growth in market share has been a great success, with our sales teams securing many new projects such as 135 Woolworths stores and 55 Kmart stores. Against a flat economic backdrop, with a 5% reduction in construction, our core sales sectors in healthcare, retail and education are moving against this trend.

Internally we have made logistics changes over the last 18 months which have resulted in discontinued stock standing at less than 2% of total inventory, a healthy position. In addition, we have boosted our representation to architects and improved customer service focus by extending operating hours to support an expansion of next day delivery. Further customer service gains should ensue on the re-location of our Victoria warehouse, for which plans are at an advanced stage.

But despite this year’s good results we believe the main rewards are yet to come and we remain confident that sales and profit will continue on an upward trend.

In New Zealand sales were 9.4% ahead in constant currency terms. It is pleasing to report that New Zealand continued its steady recovery and grew its sales of Polyflor manufactured products which now comprise far in excess of 50% of New Zealand turnover.

We continue to win projects and with our pending move to new warehousing in Auckland we anticipate a further year of growth.

Asia by contrast has proved to be a difficult market throughout the year with margins under pressure. In response we focused on the basics and the price structure in this large, but competitive market. Key to this is a focus on core market sectors such as ship building, healthcare and educational infrastructure projects. Whilst we continue to win projects, the day to day distribution business remains difficult to access despite our complete understanding of customer service that benefits us in many of our other markets.

Polyflor & Riverside Flooring, based in UK

There was a 0.7% decline in UK turnover. Profit margins held up due to raw material prices softening and improved plant productivity at Riverside.

In Radcliffe the latter part of the year saw adverse volumes (mainly from the UK) leading to over-capacity against our shift patterns. To a great extent this was also the result of improved line speed and conversion improvements meaning that the same volume could be produced with fewer man hours. This led to a period of short time working and the redundancy of twenty six shop floor employees, in effect we reduced a whole shift. The reduced volumes were mainly of homogenous sheet vinyl. Our luxury vinyl tile and heterogeneous sheet vinyl production continued to grow.

Notwithstanding the challenges our UK profits increased.

Our market share remains unchanged and impressive and during the year our Voyager Maritime collection (targeted at marine shipping) was re-launched; our Simplay loose lay luxury vinyl tile collection was re-vamped; and Polysafe Wood FX (our heterogeneous sheet) was re-launched with new colours.

Recofloor, our recycling initiative has, once again, received recognition winning an award for excellence in recycling and waste management. We now recover and recycle in excess of 500 tonnes of waste per annum.

Polyflor Nordic comprising Polyflor Norway based in Oslo and Falck Design based in Sweden

The Scandinavian markets in 2015/16 saw less sales activity than in the prior year with a 10% shortfall against last year. However, sales of Polyflor products remained strong and overall on a par with the previous year. Sourced product sales did not fare so well in this market, being very much project orientated in a year where projects were fewer.

The Norwegian market was sluggish and in Sweden projects were very competitively fought.

Polyflor Canada, based in Toronto

It is pleasing to report on our continuing success as our business in Canada goes from strength to strength and has consequently been further supported through increased sales representation.

The retail sector continues to present new projects and we have supplied numerous clients of which a few examples are Shoppers Drug Mark, Indigo and Good Life Fitness with our flooring solutions.

Healthcare and education are also key markets and recent successes include the Bergeron Centre in York University, Toronto.

As a result we now have a programme to invest further in expanding our sales network and service.

Polyflor India, based in Mumbai

We continue to build our structure in India which is still largely in the formation stage although we have now appointed dealers in the key cities of Mumbai, Bangalore, Chennai, Hyderabad, Cochin, Delhi and Kolkata. Our sales team are focused on gaining specifications for projects in the healthcare, education and retail sectors. Current projects include Made Easy Primary School in Delhi and Howards Storage World in Bangalore.

We firmly believe the small team we started the business with are now starting to prove both themselves and our faith in the market and we will continue to cautiously expand our representation across this large territory.

Although projects are being won and sales continue to grow it will take time before this market delivers the true results we are aiming for.

Outlook

We continue to have a large market share in the UK but the curbing of repair and renewal spending by the NHS was very noticeable in the first two months' trading of the new financial year. It would seem that refurbishment in the education sector too has seen reticence in this period, which is uncharacteristic. However, the UK represents only about a third of the business and the doubts over the economy in the weeks after the "Brexit" referendum seem to be lessening.

Moreover, far more important is the positive effect of a weakened sterling on both the competitiveness of our offering around the globe and on margins.

I remain optimistic for the coming year.

Mark Halstead
Chief Executive

Audited Consolidated Income Statement

for the year ended 30 June 2016

	Year ended 30.06.16 £'000	Year ended 30.06.15 £'000
Revenue	**226,141**	227,261
Cost of sales	**(130,177)**	(132,453)
Gross profit	**95,964**	94,808
Selling and distribution costs	**(41,105)**	(40,664)
Administration expenses	**(8,776)**	(9,424)
Operating profit	**46,083**	44,720
Finance income	**177**	198
Finance cost	**(761)**	(734)
Profit before income tax	**45,499**	44,184
Income tax expense	**(10,243)**	(10,250)
Profit for the year attributable to equity shareholders	**35,256**	33,934
Earnings per ordinary share of 5p:		
-basic	**17.0p**	16.4p
-diluted	**17.0p**	16.3p

All amounts relate to continuing operations.

Audited Consolidated Balance Sheet

as at 30 June 2016

	As at 30.06.16 £'000	As at 30.06.15 £'000
Non-current assets		
Property, plant and equipment	**34,384**	31,172
Intangible assets	**3,232**	3,232
Deferred tax assets	**5,129**	4,908
	42,745	39,312
Current assets		
Inventories	**62,828**	58,707
Trade and other receivables	**33,820**	31,402
Derivative financial instruments	**433**	2,242
Cash and cash equivalents	**44,096**	47,428
	141,177	139,779
Total assets	**183,922**	179,091
Current liabilities		
Trade and other payables	**53,395**	48,022
Derivative financial instruments	**2,066**	8
Current income tax liabilities	**4,300**	4,814
	59,761	52,844
Non-current liabilities		
Retirement benefit obligations	**25,431**	18,492
Deferred tax liabilities	**603**	709
Borrowings	**200**	200
Other payables	**460**	386
	26,694	19,787
Total liabilities	**86,455**	72,631
Net assets	**97,467**	106,460
Equity		
Equity share capital	**10,374**	10,364
Equity share capital (B shares)	**160**	160
	10,534	10,524
Share premium account	**3,096**	2,917
Capital redemption reserve	**1,174**	1,174
Currency translation reserve	**4,026**	(782)
Hedging reserve	**(699)**	1,427
Retained earnings	**79,336**	91,200
Total equity attributable to shareholders of the parent	**97,467**	106,460

Audited Consolidated Cash Flow Statement

for the year ended 30 June 2016

	Year ended 30.06.16 £'000	Year ended 30.06.15 £'000
Cash inflow from operations	**50,325**	42,015
Interest received	**177**	198
Interest paid	**(43)**	(48)
Taxation paid	**(10,220)**	(8,416)
Cash inflow from operating activities	**40,239**	33,749
Purchase of property, plant and equipment	**(4,842)**	(3,855)
Proceeds from disposal of property, plant and equipment	**200**	187
Cash outflow from investing activities	**(4,642)**	(3,668)
Equity dividends paid	**(39,867)**	(21,020)
Shares issued	**189**	188
Cash outflow from financing activities	**(39,678)**	(20,832)
Net (decrease)/increase in cash and cash equivalents	**(4,081)**	9,249
Effect of exchange differences	**749**	(498)
Cash and cash equivalents at start of year	**47,428**	38,677
Cash and cash equivalents at end of year	**44,096**	47,428

Audited Consolidated Statement of Comprehensive Income

for the year ended 30 June 2016

	Year ended 30.06.16 £'000	Year ended 30.06.15 £'000
Profit for the year	**35,256**	33,934
Other comprehensive income net of tax		
Items that will not be reclassified subsequently to the income statement :		
Actuarial loss on the defined benefit pension scheme	**(7,360)**	(2,720)
Deferred taxation – change of rate	**106**	35
	(7,254)	(2,685)
Items that could be reclassified subsequently to the income statement:		
Foreign currency translation differences	**4,808**	(3,868)
Fair value movements on hedging instruments	**(2,126)**	1,323
	2,682	(2,545)
Other comprehensive income for the year	**(4,572)**	(5,230)
Total comprehensive income for the year	**30,684**	28,704
Attributable to equity holders of the Company	**30,684**	28,704

Items in the statement above are disclosed net of tax.

NOTES

1. The final dividend of 8.5p per ordinary share will be paid, subject to the approval of the shareholders, on 2 December 2016 to shareholders on the register as at 4 November 2016. The annual report and accounts will be posted to shareholders on 21 October 2016.

2. The financial information in this statement does not represent the statutory accounts of the Group. Statutory accounts for the year ended 30 June 2015 have been delivered to the Registrar of Companies, carrying an unqualified audit report and no statement under section 498 (2) or (3) of the Companies Act 2006.

3. Statutory accounts for the year ended 30 June 2016 have not yet been delivered to the Registrar of Companies. They will carry an unqualified audit report and no statement under section 498 (2) or (3) of the Companies Act 2006.

4. Earnings per ordinary share

	2016	2015
	£'000	£'000
Profit for the year attributable to equity shareholders	**35,256**	33,934
Weighted average number of shares in issue	**207,431,307**	207,238,042
Dilution effect of outstanding share options	**473,629**	562,584
Diluted weighted average number of shares	**207,904,936**	207,800,626
Basic earnings per ordinary share	**17.0p**	16.4p
Diluted earnings per ordinary share	**17.0p**	16.3p