JAMES HALSTEAD PLC

2 October 2017

JAMES HALSTEAD PLC

PRELIMINARY ANNOUNCEMENT OF AUDITED RESULTS

FOR THE YEAR ENDED 30 JUNE 2017

"Record turnover and profits with, once again, record dividend"

Key Figures

- Revenue at £240.8 million (2016: £226.1 million) – up 6.5%
- Profit before tax £46.6 million (2016: £45.5 million) – up 2.5%
- Earnings per 5p ordinary share of 17.6p (2016: 17.0p) – up 3.5%
- Final dividend per ordinary share proposed of 9.25p (2016: 8.5p) – up 8.8%
- Cash £52.5 million (2016: £44.1 million) – up 19.1%

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

"Despite the shadow of uncertainty that "Brexit "has cast and in a year of clearly tougher than normal trading conditions it's satisfying to report another year of record profits."

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CHAIRMAN'S STATEMENT

Results

It is gratifying to report turnover of £240.8 million (2016: £226.1 million) - a record. Just as satisfying to report as the sales is the record profit before tax at £46.6 million (2016: £45.5 million). There was clearly a boost to our export activities given the general weakness of Sterling aiding competitiveness and margins. This was tempered by a 5.2% fall in UK sales and turmoil in the supply chain of raw materials. The drop in UK sales is entirely accounted for by de-stocking at two of the larger distributor chains. We are satisfied that the actual purchases of Polyflor ranges by end users increased and we are encouraged that other independent distributors increased sales.

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, and consequently profitability, 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.

Over many years our strategy has also included a policy of continual investment in both process improvement and in product development to improve output efficiency and product offering.

The strategy evolves over time, but our focus on sustainable growth is undiminished. Indeed sustainability in general is a key strategy and, from our award winning recycling initiatives through to our environmental policies, we are recognised as leaders in this area.

Dividend

Profit and earnings per share have increased and our cash reserves continue to be healthy. Cash flows from operating activities were £47.5 million and our cash balances stand 19.1% ahead of last year, even after our dividends paid in the last year which amounted to £25.4 million.

It is pleasing to report that the Board proposes, once again, an increased final dividend. The final dividend will be 9.25p (2016: 8.5p) representing an 8.8% increase which combined with the interim dividend, paid in June 2017, of 3.75p (2016: 3.5p) makes a total of 13.0p (2016: 12.0p) for the year, an increase of 8.3%. It is pleasing to have reported a record dividend as I have done now each year for over 40 years.

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. I would especially like to extend our gratitude to Mr Eberhard Lotz who has notified his intention to retire at the upcoming AGM after nine years on the Group Board having been one of the founders of Objectflor Art & Design Belags GmbH which was acquired in 1996 and which has been such an important part of our flooring operations for many years.

It is with sadness that I report the passing of our former director Mr Arthur Halstead in July of this year who was employed by the Group for 50 years, 36 of these as director of James Halstead plc. Always a trusted and loyal colleague, friend and family member - he will be greatly missed.

Outlook

I have been Chairman for 17 years and a director of James Halstead plc for 55 years and it is time for me to step down from the Board at the AGM. In doing so I leave a strong team and a business solidly built and not only capable of continued growth, but achieving this growth. I refer you to the announcement on proposed Board changes, released today and to be effected at the AGM, which includes details of our proposed new Chairman and proposed new appointments to the Board.

Trading since our year-end has been strong, particularly in the UK. In addition, both our antipodean and French colleagues reported record sales in the first two months. Taking current trading into account I can only be confident of progress in the coming year.

Geoffrey Halstead
Chairman

CHIEF EXECUTIVE'S REVIEW

The major benefit to the year was the positive effects of exchange rates on our export margins and our competitiveness. Turnover at £240.8 million (2016: £226.1 million) was ahead by some 6.5% but the exchange rate benefits were offset to a large degree by raw material costs increasing.

Raw material price increases noted in the first half year continued into the second half as a result of an explosion at the BASF site in Germany followed by a fire at a Shell refinery in the Netherlands which interrupted supply of PVC from Shin-Etsu's Dutch PVC plant and then a fire at Vinnolit's plant in Germany. These events resulted in greater demand for raw materials from other manufacturers who struggled to fulfil the demand. In addition we saw the withdrawal of one US supplier from the European markets and the currency cost increases, as Sterling fell in value after the Brexit vote. In mitigation we visited Asia and established extended relationships with three Asian suppliers. Moreover, by utilising bulk storage tanks located at Seal Sands in Teesside we reduced some of the cost effects and most of the shortages associated with the turmoil.

We make significant purchases of finished goods denominated in US dollars and the strength of that currency has been far from helpful. In mitigation product sourced from Korea has increased (free of import tariffs) and we are investigating opportunities for supply from Europe. More significant are plans for our own UK manufacture of these sourced items at Teesside which, initial costings suggest, could offer cost advantage as well as the logistical benefit of being nearer our European markets.

Our gross margin improved in all markets, a major achievement given the challenges facing the group during the year and obviously greatly helped by the weakness of Sterling.

International trade is about more than just shipping product. Our customers, often governments and multi-nationals, expect sustainability standards and environmental credentials. To us this means action and involvement, not just the glossy PR so often seen. For example, we are one of the first to achieve SA 8000 certification (for global working practices), BES 6001 certification (for ethical sourcing) and BRE Global A+ rating (for sustainable manufacture).

Achieving these certifications gives us added credibility in the market. Our recycling initiatives and co-operations demonstrate both innovation and solid action, whether it is the UK with the Chartered Institute of Waste Management (CIWM) (who awarded us for environmental excellence) or the Green Councils of Australia/New Zealand (awarded Green Tag certificate). Polyflor is leading the industry.

Reviewing the businesses in more detail:

Objectflor / Karndean and James Halstead France, our European operations

Turnover was on a par with last year although within this it was encouraging that there was growth in our Expona brand, by some 3.3%, offset by a reduction in the Karndean ranges of 6.4%.

As anticipated, given our market share and the intense pressure from competitors within the German market a decline in turnover within Germany was noted but this was compensated for by performance in surrounding territories, most markedly Belgium, Austria, Eastern Europe and Switzerland.

During the year augmenting the Benelux and Eastern bloc sales force has been a strategy to increase our penetration of surrounding territories whilst defending our leading position in Germany. Germany sales represent 68% of total sales serviced from Cologne (2016: 71%).

For several years we have supplied flooring to the expanding fitness chains Fit One and McFit but this year we have secured many other national chains of which Fitness First, Linzenich Fitness and Pfitzenmeier Group are but examples. Retail chains are important clients and Objectflor have secured many customers including Euronics stores across the region as well as Unitymedia stores and the retail outlets of Bijou Brigitte. Hotel chains such as Sol Umag in Croatia and Aquis Grana are referenced as good installations but our flooring was also supplied and fitted to the central police station in Frankfurt and in the Kika Leiner furniture stores across Germany.

In France, turnover was on a par with the record of the previous year with increased profit as a result of product sales migrating to higher margin lines. Turnover across France was strong. In the Paris region we have supplied ‘Passy Plaza’, the prestigious shopping centre in the 16th arrondissement and other installations as diverse at the ‘Thalassa’, France’s flagship oceanographic vessel and the Puy du Fou theme park.

Polyflor Pacific – encompassing Australia, New Zealand and Asia

Turnover was 6.8% above last year, with profit greatly increased. Margins improved by over 5% reflecting both favourable product mix and the cessation of sales of discontinued stock which was a feature of the prior year. This top line benefit was further improved by reduced freight costs (equivalent to 1.3% of sales) by the realignment of stock holdings across the continent.

Our team in NSW have relocated our Victoria offices, augmented the Queensland staff with representation in Far North Queensland and recruited a state manager for Western Australia. The breadth of installations was impressive, whether it be the rollout of Polyflor across Woolworths stores nationally, the Narrogin Hospital in WA or the Western Sydney University as well as countless refurbishments across the country.

Our Hong Kong office continues to supply impressive projects across China such as Qinhuangdou Welfare Hospital and the award winning Fudan University Hospital of Shanghai. As important as healthcare continues to be, our Chinese presence is much more broadly based with the recent Toys R Us franchises and Louis Vuitton shops in Hong Kong illustrating the breadth of customers as does the MGM Casino in Macau.

New Zealand showed modest 1% growth and improved margins. This achievement illustrates the underlying strength of the day to day business where for some key product ranges we continue to have significant market share, particularly for UK manufactured products. This share is over 30% of the market which is commendable for such a distant location. The headline 1% hides good growth in the North Island contrasting with the South Island, where activity generally for our customers has been poor, still affected by continued uncertainty following the Christchurch earthquake some years ago.

We retained the main New Zealand social housing contract which came up for renewal in the period. Success in this is testament to the high level of service and quality provided, a key factor in decision making. Polyflor in New Zealand was voted Vinyl Flooring Supplier of the year by the Flooring Xtra group and continues to offer retail stores, such as the Spark Stores chain and Motorcycle Mecca in Invercargill, design led flooring. Healthcare will always be a key market segment but beyond this use of our products in the year extended from buses and BP garages to the Rorotonga sports stadium in the Cook Islands.

A key development in the year was the move to the new warehouse in Auckland, which is better suited to our current and likely business needs. This has assisted with the profitability of the business.

Polyflor & Riverside Flooring, based in UK

Overall turnover reduced by 2.5% and profit was consequently affected but Riverside continued to grow with 3% increase in turnover.

The last 12 months in the UK have been difficult. One of the major distributors was prepared for sale by its PLC parent which involved de-stocking, a lack of investment and ultimately disposal. Another of the major distributors looked to rationalise stock and focused on margin improvement. Whilst this de-stocking did affect our sales, ultimately it is temporary. The similarities to the actions of the large UK retailers such as Tesco, Sainsbury, etc., a few years ago seem appropriate to mention because, whilst the major chains focused on margin and own label products, the large independent distributors have focused on branded products, such as ours, at keen price points and showed good growth and increased market share. Sales in the market place of Polyflor product were higher than the previous year despite the de-stocking which is encouraging.

Productivity improvements in line speed and capacity at Radcliffe combined with the, at best, flat UK demand that was a consequence of the aforementioned de-stocking inevitably led us to drop shifts from each of our Radcliffe production lines. Regrettably there were redundancies (just under 30). This obviously had a financial cost (which hit the bottom line in the early part of the year) and a human cost. Thankfully all the redundancies were voluntary, but the consequence was 570 man years of experience left the business.

Product development was at the forefront and a lot of time, and cost, has gone into new product lines for the future. Over £900,000 has been invested into the Riverside plant in Teesside and the company can now offer in line registered embossing on its award winning heterogeneous sheet. In addition, we have secured planning permission to extend the plant.

Polyflor has for the fourth consecutive year won the Contract Flooring Association's Manufacturer of the Year Award as Best Vinyl Award (for the 8th year in a row) which helped us to secure the order for the new Dumfries Royal Infirmary which faced competition from one of our continental competitors. Range launches and re-vamps were several and included our new 'Silentflor' commercial flooring with unique sound-deadening properties and vivid colour ranges. 'Bloc', our vivid single colour homogenous range, has received very good responses from architects and specifiers.

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

Norway posted a small increase in turnover in the year of just under 2% increase over the prior year. As a largely primary economy, the low oil prices of the recent past had an impact on this market. Nevertheless, turnover comprised a greater proportion of UK manufactured product (around 39% of the total) which was gratifying. Projects included the new Svalbard Satellite Station (SvalSat 2) which is located at 78° north of the equator and probably our most Northern installation together with the new Trondheim Spektrum arena. Profit in Norway was comfortably ahead of the prior year.

In Sweden, turnover declined 8.3%. Profit, though reduced, held up surprisingly well as a result of a swing to our higher end products leading to improved margins. The Swedish business experienced a change in management following the retirement of the previous Managing Director. This, along with some staff disruption, resulted in a poor second half of the year, however as new sales and marketing strategies have been implemented sales are improving. Higher margins and tight overhead control meant that the shortfall in sales was not reflected to as great an extent in terms of profitability.

Close control of overheads where possible means that profitability across the Scandinavian business has increased vis a vis the prior year.

Polyflor Canada, based in Toronto

Turnover continued to grow with an 8% growth in distributor sales. However, this was offset by a decline in direct sales into the mining sector due to lower activity in this sector.

National retailers such as Boston Pizza and Booster Juice are valued clients as well as Landmark Cinemas and Chevron Gas stations. In addition, prestigious new buildings continue to choose Polyflor such as the Royal Victoria Hospital, the National Hockey League Association NHLA head offices and Omers Towers in Toronto.

Polyflor India, based in Mumbai

We had a good year as this relative new business reported a small profit. With five regional sales managers and a dealer network approaching two dozen we have exited the start-up phase of our move into this market and several healthcare projects have contributed to this record year such as the Humancare Trust Hospital in Dwarka, the Royalcare Super Speciality Hospital, Coimbatore and the ESIC Medical College in Mandi.

Rest of the World

Outside our headline markets we continue to cover the world and a few a locations worthy of mention are Banco De la Natu in Mexico City, Salalah airport in Oman, the new Schengen terminal at Athens airport and Tamana University in Trinidad. Our distribution network has performed well with several countries at record levels of turnover (Ghana, Lithuania, Italy, Portugal, Puerto Rica and the USA being examples).

Outlook

There are positive signs in the UK that after the turbulence of the last year resulting from changes at two of the larger distributors conditions are now normalising. In addition, our supply chain issues have largely been resolved. The early months of the new financial year have provided encouraging signs of growth with turnover increasing. I am optimistic for the coming year.

Mark Halstead
Chief Executive

Audited Consolidated Income Statement
for the year ended 30 June 2017

	Year ended 30.06.17 £'000	Year ended 30.06.16 £'000
Revenue	**240,784**	226,141
Cost of sales	**(135,974)**	(130,177)
Gross profit	**104,810**	95,964
Selling and distribution costs	**(47,659)**	(41,105)
Administration expenses	**(9,867)**	(8,776)
Operating profit	**47,284**	46,083
Finance income	**134**	177
Finance cost	**(802)**	(761)
Profit before income tax	**46,616**	45,499
Income tax expense	**(10,106)**	(10,243)
Profit for the year attributable to equity shareholders	**36,510**	35,256
Earnings per ordinary share of 5p:		
-basic	**17.6p**	17.0p
-diluted	**17.6p**	17.0p

All amounts relate to continuing operations.

Audited Consolidated Balance Sheet
as at 30 June 2017

	As at 30.06.17 £'000	As at 30.06.16 £'000
Non-current assets		
Property, plant and equipment	**36,103**	34,384
Intangible assets	**3,232**	3,232
Deferred tax assets	**4,151**	5,129
	43,486	42,745
Current assets		
Inventories	**72,936**	62,828
Trade and other receivables	**31,176**	33,820
Derivative financial instruments	**416**	433
Cash and cash equivalents	**52,532**	44,096
	157,060	141,177
Total assets	**200,546**	183,922
Current liabilities		
Trade and other payables	**59,321**	53,395
Derivative financial instruments	**1,362**	2,066
Current income tax liabilities	**3,860**	4,300
	64,543	59,761
Non-current liabilities		
Retirement benefit obligations	**21,257**	25,431
Deferred tax liabilities	**-**	603
Borrowings	**200**	200
Other payables	**486**	460
	21,943	26,694
Total liabilities	**86,486**	86,455
Net assets	**114,060**	97,467
Equity		
Equity share capital	**10,393**	10,374
Equity share capital (B shares)	**160**	160
	10,553	10,534
Share premium account	**3,615**	3,096
Capital redemption reserve	**1,174**	1,174
Currency translation reserve	**6,194**	4,026
Hedging reserve	**(289)**	(699)
Retained earnings	**92,813**	79,336
Total equity attributable to shareholders of the parent	**114,060**	97,467

Audited Consolidated Cash Flow Statement
for the year ended 30 June 2017

	Year ended 30.06.17 £'000	Year ended 30.06.16 £'000
Cash inflow from operations	**47,478**	50,325
Interest received	**134**	177
Interest paid	**(33)**	(43)
Taxation paid	**(10,682)**	(10,220)
Cash inflow from operating activities	**36,897**	40,239
Purchase of property, plant and equipment	**(4,234)**	(4,842)
Proceeds from disposal of property, plant and equipment	**234**	200
Cash outflow from investing activities	**(4,000)**	(4,642)
Equity dividends paid	**(25,438)**	(39,867)
Shares issued	**538**	189
Cash outflow from financing activities	**(24,900)**	(39,678)
Net increase/(decrease) in cash and cash equivalents	**7,997**	(4,081)
Effect of exchange differences	**439**	749
Cash and cash equivalents at start of year	**44,096**	47,428
Cash and cash equivalents at end of year	**52,532**	44,096

Audited Consolidated Statement of Comprehensive Income
for the year ended 30 June 2017

	Year ended 30.06.17 £'000	Year ended 30.06.16 £'000
Profit for the year	**36,510**	35,256
Other comprehensive income net of tax		
Items that will not be reclassified subsequently to the income statement:		
Re-measurement of the net defined benefit liability	**2,404**	(7,360)
Deferred taxation – change of rate	**-**	106
	2,404	(7,254)
Items that could be reclassified subsequently to the income statement:		
Foreign currency translation differences	**2,168**	4,808
Fair value movements on hedging instruments	**410**	(2,126)
	2,578	2,682
Other comprehensive income for the year	**4,982**	(4,572)
Total comprehensive income for the year	**41,492**	30,684
Attributable to equity holders of the Company	**41,492**	30,684

Items in the statement above are disclosed net of tax.

NOTES

1. The final dividend of 9.25p per ordinary share will be paid, subject to the approval of the shareholders, on 1 December 2017 to shareholders on the register as at 3 November 2017. The annual report and accounts will be posted to shareholders on 20 October 2017.

2. The financial information in this statement does not represent the statutory accounts of the Group. Statutory accounts for the year ended 30 June 2016 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 2017 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

	2017 **£'000**	2016 £'000
Profit for the year attributable to equity shareholders	**36,510**	35,256
Weighted average number of shares in issue	**207,620,432**	207,431,307
Dilution effect of outstanding share options	**216,506**	473,629
Diluted weighted average number of shares	**207,836,938**	207,904,936
Basic earnings per ordinary share	**17.6p**	17.0p
Diluted earnings per ordinary share	**17.6p**	17.0p