JAMES HALSTEAD PLC

26 September 2018

JAMES HALSTEAD PLC

PRELIMINARY ANNOUNCEMENT OF AUDITED RESULTS

FOR THE YEAR ENDED 30 JUNE 2018

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

Key Figures

- Revenue at £249.5 million (2017: £240.8 million) – up 3.6%
- Profit before tax £46.7 million (2017: £46.6 million) – up 0.2%
- Earnings per 5p ordinary share of 17.7p (2017: 17.6p) – up 0.6%
- Final dividend per ordinary share proposed of 9.65p (2017: 9.25p) – up 4.3%
- Cash £50.7 million (2017: £52.5 million) – nil gearing

Mr Mark Halstead, Chief Executive, commenting on the results, said:
"From the Forensic Laboratory of The Metropolitan Police in Buenos Aires to the new Schengen area of Athens Airport we continue to cover the world and again report record turnover, profit and dividend. With the investment in product, processes and structures, I believe we have undertaken significant groundwork in the year to put us in good stead for continued progress."

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CHAIRMAN'S STATEMENT

Results

I am pleased to report in my first year as Chairman that we have, again, achieved record turnover with sales of £249.5 million (2017: £240.8 million). In addition, we have also achieved a record profit before tax of £46.7 million (2017: £46.6 million).

The growth in profit is modest but we have made some significant investment in new product during the year and this is reflected in the profit before tax figure. The breadth of projects that we have been associated with is impressive and includes the Aston Martin DBX factory in Llandough, Amazon's sales office in Cape Town and the Guizhou Provincial Cancer Hospital in China.

As the "Brexit" deadline grows ever nearer I, and the Board, remain vigilant for issues that may arise though obviously the detail remains somewhat hazy. Notwithstanding this lack of clarity, I believe we are well placed in that we export to far more countries outside the EU than are members of the EU. In addition, we have attained full Authorised Economic Operator (AEO) status with HMRC. AEO status is an internationally recognised quality mark indicating that our role in the international supply chain is secure, and that our customs controls and procedures are efficient and compliant. It is considered, depending on the exact details of Brexit, that this will minimise the risk of any post Brexit border delays.

With projects as diverse as The Irish Whiskey Museum on Grafton Street in Dublin and the Universal Church, Sao Paolo our portfolio continues to reach far across the globe.

The company and our strategy

James Halstead plc is a group of companies involved in the manufacture and supply of flooring for commercial and domestic purposes, based in Bury UK. James Halstead plc is listed on the AIM market of the London Stock Exchange and celebrates 70 years as a listed company this year.

The group was established in 1914 and continues to operate out of the original premises in Bury. In its factories in Bury and Teesside it manufactures resilient flooring for distribution in the UK and worldwide.

It also sources other flooring products, in particular luxury vinyl tiles and rubber flooring from key partners manufacturing on the group's behalf, predominantly under Halstead brand names.

The key brands the group operates under are Polyflor, Objectflor and Expona. There are other brands that the group operates under that are more regionally based or territory specific.

James Halstead utilises a global distribution chain for export. Parts of this network are controlled by the group, in particular, Western Europe, Australia, New Zealand, Canada and India. The group employs around 830 people worldwide, the majority of whom are in the UK.

The company's strategy is designed to enhance the brand identity thereby generating and enhancing goodwill and customer satisfaction with the aim of continued repeat business. This approach is designed to increase revenue and consequently profitability and cash flow to enable the continuation of dividends thereby creating shareholder wealth. As a manufacturer our supply is in bulk to distributors responsible for regional / local delivery. Key to the company ethos is to have dedicated sales personnel to present our product to end users and specifiers rather than to delegate the representation of product to stockists. Our businesses are totally flooring focused and predominantly commercial flooring.

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.

Sustainability is a key area of focus and from our award winning recycling initiatives through to our environmental policies, we are recognised as leaders within our industry.

I think it is worthy to note that our credentials for responsible sourcing have been recognised with our UK businesses awarded an "excellent "rating under the BES6001 certification process. We were awarded 51 points out of a maximum 52 which I believe is the highest rating given by the British Research Establishment (the BRE). In addition, we have published our latest "Sustainability Report" which communicates our performance to all stakeholders

Corporate governance

The board has over many years recognised its responsibility towards good corporate governance. It is part of our character and, I believe, contributes to our ability to deliver long-term shareholder value. During this calendar year the Financial Reporting Council and the Quoted Company Alliance have both issued guidance on governance and, having assessed these codes, we have aligned our approach to the latter. In many ways this is a continuing process but in the annual accounts we outline how we put into effect this code and I trust our shareholders will take the time to review our comments.

Dividend

Profits and earnings per share have increased and we continue un-geared. With our cash balances standing at £50.7 million, even after dividends paid in the last year that amounted to £27.2 million. Our cash reserves continue as the bedrock of a strong balance sheet.

It is pleasing to report that the board proposes, yet again, an increased final dividend. The final dividend will be 9.65p (2017: 9.25p) representing a 4.3% increase which combined with the interim dividend paid in June 2018 of 3.85p (2017: 3.75p), makes a total of 13.5p (2017: 13.0p) for the year, an increase of 3.85%. Once again a record dividend.

Acknowledgements

During the financial year the general manager of our Norwegian business sadly died after battling cancer for many months. Jan-Eric Jorgensen had been with us since 2001 and led his team to create a strong business and is a sad loss to us all. I would also note the retirement from the board of Mr Geoffrey Halstead after 55 years and thank him for his continued support. In addition, my thanks go also to our staff in the UK and around the world whose hard work continues to push us forward.

Outlook

Trading since our year-end continues to be solid, particularly in the UK. Given the adverse raw material cost increases over the last twelve months or so we have increased our prices which our trade partners have accepted.

In addition, we have updated our product portfolio – not least in the homogenous sheet vinyl with Palettone – and to date the new products have received a very good reaction from customers. Shortly this will be augmented by Polysafe Verona, offering enhanced slip resistance and with decoration optimised for dementia friendly environments. As is our way, we have sought third-party certification for this innovative product and the range has been described as “excellent” by the Dementia Services Development Centre (DSDC) at The University of Stirling.

I can only be confident of continued progress in the coming year.

Anthony Wild
Chairman

CHIEF EXECUTIVE'S REVIEW

A year of record turnover and one of record profit but the year was challenging. As an exporter we had the advantage of a weaker sterling, but against this raw material prices continued to rise.

The year on year adverse effect of raw material price increases was 9.5% which equates to about £1.8 million. To an extent this was the result of a weak sterling and was offset by sales outside the UK at better exchange rates. Nevertheless, it did affect profitability on sales in the UK but we took an active decision to hold back on price increases to maximise sales volumes. Favourable mix of sales largely offset the bottom line effect of these raw material costs.

The launch, in May 2018, of Palettone was costly but very worthwhile in the longer term. The costs of development trials, sampling, marketing material and related expenditure were around £2 million and the product has just been launched into the global market place. More than half of these costs were above the gross margin line. We believe that the timing of this was important following the closure of one of our competitor's factories.

The Palettone range is a premium homogenous sheet vinyl collection. It is the largest new range by any manufacturer in this core product area for many years and offers a collection of 50 colours optimised for our global market. In recent years a lot of competitor focus has been in the area of luxury vinyl tile but vinyl sheet continues to be a large sector of the market.

Palettone is presented in a unique, innovative sample package with full customer support from specification to installation. The feedback we have received on the collection since its launch has been exceptional.

In addition to the existing businesses we have, during the year, taken considerable time to assess various acquisition opportunities. The most visible of these, which resulted in several announcements, was our approach to Airea plc to look to adding their carpet tile ranges to our portfolio. Having looked in some detail we decided not to progress our ambitions in this area with that company.

Reviewing the businesses in more detail:

Objectflor / Karndean and James Halstead France, our European operations

This year has been one of significant product re-launches for this business.

Firstly, the Karndean ranges which are aimed at the wholesale market were launched at the beginning of the year. Secondly, the flagship Expona Domestic range was launched at the Domotex show in January 2018 and thirdly Polyflor's new Palettone range was launched late in the financial year. The gestation period for a new launch is typically a number of months so the positive impact arising from such major product changes has only been partially seen in the current financial year.

Sales increased by 2% across the business however profitability was negatively impacted by a number of factors, principally, the adverse effect of exchange rates and price increases from suppliers.

All the key markets the business operates in grew, with the exception of Benelux. France in particular has grown again and is very much accepted as a “local” within that market.

Polyflor Pacific – encompassing Australia, New Zealand and Asia

Our Australian business had a record year both in terms of turnover and profit.

The ongoing projects that the business continues to win and supply include the Howard Solomon Aged Care Facility in Ferndale, Western Australia and The Australian Embassy in Port Moresby. Another impressive flooring installation is the Pier 33 Yacht Club in Mooloolaba, Queensland. Given that we are the only manufacturer / distributor with warehousing in every state and with the sales representation local to each major city, the business is soundly based for continued growth.

The business uses product launches not just to present the new product but to also renew contact with specifiers and users of our products.

During the year we added warehousing in South Australia and this has enhanced our service offering to customers with the Angaston, Strathalbyn, Goolwa and Barossa Hospitals all examples of our penetration in this region.

New Zealand had another year of modest 1% growth, which similarly to last year showed good growth on the North Island offset by contraction on the South Island which continues to be slow. Product mix has had some negative impact on margin locally for bought in products as one key supplier had some supply interruptions and the shortfalls in this product were made up with greater sales of lower margin products.

Our UK manufactured products continue to have a dominating market share and the New Zealand social housing contract referred to last year continues to be an important component of this. Our service led approach remains important to that business and continues to be a key distinguishing feature over our competitors.

We have changed the management structure of the Asia business during the course of the year to align it with our larger Australian business. This will ensure that we have a clearer decision making process and aligns more effectively with regional time zones. A key theme for the group in recent years is taking greater control of our markets, and plans are in place to extend and make more effective the footprint of our Hong Kong operation both in China and other key markets around Asia. The presence of Chinese manufactured products makes many of these markets very price sensitive and allows for competitors to claim better servicing at least. The restructuring of this part of the business continues to ensure our response to these market pressures is robust. Projects such as the HPA Electronics Factory in Malaysia, Hamazushi Chain Stores across Japan, The Water Market in Macau and Chengdu Woman and Children’s Hospital in China illustrate just a few of the many new installations we are proud to have been involved with.

Polyflor & Riverside Flooring, based in UK

There was a dearth of large government funded projects in the UK throughout the year as spending cuts continued to be applied across the board. Nevertheless sales into the refurbishment sector remained strong and, with a 24 hour delivery service across the UK, Polyflor was able to make the most out of a weak market. Our UK sales were 3% ahead of the prior year. Polyflor overall reported 4.9% growth in turnover and Riverside some 7%.

New products such as the “next generation” barefoot safety flooring, Polysafe Quattro, which offers sustainable wet slip resistance and the extensive new Palettone collection further helped confidence and sales.

A restructuring of the Polyflor board was carried out during the year which included succession planning and also greater focus on sales into markets where we have identified strong opportunities, such as Eastern Europe and the South Americas. This has not involved adding to the headcount in the UK but will result in the employment of further staff in the local market places.

Also during the year extensive research was undertaken into the development of a totally new format of manufacturing flooring, the results of which are now under board consideration. We plan to acquire a new production plant and our technical teams are working with suppliers on a final specification. To pave the way for this we have spent many months removing old and surplus equipment to create space for this facility on the Radcliffe site.

Investment in our continued success endures. Notwithstanding the development of new ranges, our long term performance depends on continuous improvement of our productivity and plant performance. In the early part of the year we upgraded the chilling units at the Radcliffe site with more effective equipment which reduced energy consumption and with the prolonged heat of this summer this paid for itself, with production at full line speed throughout. Our non-directional sheet vinyl plant was modified with increased automation allowing us to achieve 96% utilisation. Over the coming year this should ensure 25% higher output for the same man-hours. Our high voltage and low voltage equipment was completely revamped which will again reduce down-time and improve quality control. At the same time we have installed new LED lighting across the site which not only improves visibility but does so at a reduced energy level. Given that the per/unit cost of electricity is 2% higher year on year and gas some 9%, these changes have negated cost increases.

Investment at Teesside also continued. We have completed the upgrade to allow in-line register emboss on our heterogeneous sheet as well as upgrading our inspection to an in-line facility. The former offers pay-back with improved designs and the latter with reduced manpower. In addition, we have increased the number of racks in the warehouse at Teesside to give us greater capacity and flexibility in our distribution and have also replaced our chilled water system for cooling rolls on the finishing line.

These enhancements to processes are as important as product development because as manufacturers we need to stay at the forefront of competitiveness.

Notable projects in the year included the new Kellogg HQ in Manchester, the S4C HQ (BBC Welsh Language Channel) - Carmarthen, Wales (which used our new Palettone), Adidas UK Head Office in Stockport and Alexander McQueen Head Office in London.

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

The Scandinavian business has posted a 6% increase in turnover over the prior year. Sweden has had a record year for sales and profitability, along with growth in sales of UK manufactured products which showed an increase in sales by some 51%.

The Norwegian business had a change in management late in the year following the sad death of the Managing Director following a short illness. During the year the business was re-focused on the core portfolio of Polyflor vinyl sheet. One highlight was one of the first Palettone specifications for Helly Hansen (the sailing and outdoor clothing retailer) in central Oslo. Sales in this business fell back slightly on the prior year as major projects were keenly contested by our competitors. Nevertheless, projects such as the FlipZone Trampolinepark in Bergen and supplying the Swedish government-controlled pharmacy Apoteket (which has 400 stores across Sweden) were examples of our solid presence.

Polyflor Canada, based in Toronto

Turnover in this business continued to grow with 15% growth in sales overall. The mining sector, previously the major part of our business in Canada, continues to be in the doldrums and the growth comes from the sales force obtaining specifications from end users.

During the year we relocated to larger premises and we have now put in place a training facility which is a common feature of our businesses around the world. Though initially this facility is only based in the Toronto area it is already raising the profile of our business and adds to our reputation of being a manufacturer that does far more than just sell flooring. Furthermore we have added more sales representation with a team now based in British Colombia.

In the current year we have had products installed in as diverse places as the Canadian Hockey Hall of Fame and in CBC's radio studios.

Polyflor India, based in Mumbai

As reported at the half year the introduction of general sales tax (GST) in July 2017 severely disrupted the performance of this fledgling business for much of the year. As the year progressed the business community overcame the initial shock and more significantly, following a reduction in the GST rates applicable to our product, business activity increased considerably in the latter months of the year allowing the business to break even for the year as a whole.

This level of activity has continued in the first months of the new year. The portfolio of projects continues to increase monthly as the sales extended Polyflor's footprint across the country. Healthcare remains at the core of opportunities but the year has seen sales to the Indian Space Research Organisation, Goldman Sachs' offices in Bangalore and the Chaitanya Bharati Institute of Technology. Although competition from both global and local players is tough throughout the market we are seeing increasing levels of specifications of our products which bodes well for the future of this business.

Rest of the World

Our global reach continues with our flooring being supplied to Parmaco Pre-Fabricated buildings in Finland, the Malvern College in Cairo and Aksaray Public Hospital in Central Anatolia, Turkey.

In order to further support our activities we opened Polyflor PZE (within the Dubai free trade zone) in February 2018, as a representative office to support our trade in the region and enable us to employ local sales staff. We were pleased to win the contract to supply Al Hokair Play Centres across Saudi Arabia and the UAE and we have every expectation of increased penetration of these markets.

Outlook

In addition to the Verona range noted in the Chairman's outlook we are at an advanced stage of another new range – Polyflor Wovon. A first of its kind for our company, Polyflor Wovon is an exciting collection of interwoven vinyl tiles, a low maintenance alternative to traditional textile materials and has a stylish, tactile design as well as a heavy commercial vinyl construction, perfect for specification within busy interior environments. It should broaden the possibilities for vinyl installations.

With the investments in product, processes and structures I believe we have undertaken significant groundwork in the year to put us in good stead for continued progress in 2019.

Mark Halstead
Chief Executive

Audited Consolidated Income Statement
for the year ended 30 June 2018

	Year ended 30.06.18 £'000	Year ended 30.06.17 £'000
Revenue	**249,510**	240,784
Cost of sales	**(144,993)**	(135,974)
Gross profit	**104,517**	104,810
Selling and distribution costs	**(48,087)**	(47,659)
Administration expenses	**(9,282)**	(9,867)
Operating profit	**47,148**	47,284
Finance income	**150**	134
Finance cost	**(596)**	(802)
Profit before income tax	**46,702**	46,616
Income tax expense	**(9,994)**	(10,106)
Profit for the year attributable to equity shareholders	**36,708**	36,510
Earnings per ordinary share of 5p:		
-basic	**17.7p**	17.6p
-diluted	**17.6p**	17.6p

All amounts relate to continuing operations.

Audited Consolidated Balance Sheet
as at 30 June 2018

	As at 30.06.18 £'000	As at 30.06.17 £'000
Non-current assets		
Property, plant and equipment	**36,324**	36,103
Intangible assets	**3,232**	3,232
Deferred tax assets	**2,674**	4,151
	42,230	43,486
Current assets		
Inventories	**71,096**	72,936
Trade and other receivables	**32,040**	31,176
Derivative financial instruments	**971**	416
Cash and cash equivalents	**50,679**	52,532
	154,786	157,060
Total assets	**197,016**	200,546
Current liabilities		
Trade and other payables	**48,721**	59,321
Derivative financial instruments	**119**	1,362
Current income tax liabilities	**3,769**	3,860
	52,609	64,543
Non-current liabilities		
Retirement benefit obligations	**14,899**	21,257
Borrowings	**200**	200
Other payables	**491**	486
	15,590	21,943
Total liabilities	**68,199**	86,486
Net assets	**128,817**	114,060
Equity		
Equity share capital	**10,399**	10,393
Equity share capital (B shares)	**160**	160
	10,559	10,553
Share premium account	**3,805**	3,615
Capital redemption reserve	**1,174**	1,174
Currency translation reserve	**5,435**	6,194
Hedging reserve	**668**	(289)
Retained earnings	**107,176**	92,813
Total equity attributable to shareholders of the parent	**128,817**	114,060

Audited Consolidated Cash Flow Statement
for the year ended 30 June 2018

	Year ended 30.06.18 £'000	Year ended 30.06.17 £'000
Cash inflow from operations	**38,175**	47,478
Interest received	**150**	134
Interest paid	**(36)**	(33)
Taxation paid	**(9,642)**	(10,682)
Cash inflow from operating activities	**28,647**	36,897
Purchase of property, plant and equipment	**(3,567)**	(4,234)
Proceeds from disposal of property, plant and equipment	**232**	234
Cash outflow from investing activities	**(3,335)**	(4,000)
Equity dividends paid	**(27,245)**	(25,438)
Shares issued	**196**	538
Cash outflow from financing activities	**(27,049)**	(24,900)
Net (decrease)/increase in cash and cash equivalents	**(1,737)**	7,997
Effect of exchange differences	**(116)**	439
Cash and cash equivalents at start of year	**52,532**	44,096
Cash and cash equivalents at end of year	**50,679**	52,532

Audited Consolidated Statement of Comprehensive Income
for the year ended 30 June 2018

	Year ended 30.06.18 £'000	Year ended 30.06.17 £'000
Profit for the year	**36,708**	36,510
Other comprehensive income net of tax:		
Items that will not be reclassified subsequently to the income statement:		
Remeasurement of the net defined benefit liability	**4,895**	2,404
	4,895	2,404
Items that could be reclassified subsequently to the income statement:		
Foreign currency translation differences	**(759)**	2,168
Fair value movements on hedging instruments	**957**	410
	198	2,578
Other comprehensive income for the year	**5,093**	4,982
Total comprehensive income for the year	**41,801**	41,492
Attributable to equity holders of the Company	**41,801**	41,492

Items in the statement above are disclosed net of tax.

NOTES

1. The final dividend of 9.65p per ordinary share will be paid, subject to the approval of the shareholders, on 7 December 2018 to shareholders on the register as at 9 November 2018. The annual report and accounts will be posted to shareholders on 19 October 2018.

2. The financial information in this statement does not represent the statutory accounts of the Group. Statutory accounts for the year ended 30 June 2017 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 2018 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

	2018 **£'000**	2017 £'000
Profit for the year attributable to equity shareholders	**36,708**	36,510
Weighted average number of shares in issue	**207,965,693**	207,620,432
Dilution effect of outstanding share options	**121,068**	216,506
Diluted weighted average number of shares	**208,086,761**	207,836,938
Basic earnings per ordinary share	**17.7p**	17.6p
Diluted earnings per ordinary share	**17.6p**	17.6p