JAMES HALSTEAD PLC

1 October 2019

JAMES HALSTEAD PLC

PRELIMINARY ANNOUNCEMENT OF AUDITED RESULTS

FOR THE YEAR ENDED 30 JUNE 2019

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

Key Figures

- Revenue at £253.0 million (2018: £249.5 million) – up 1.4%
- Profit before tax £48.3 million (2018: £46.7 million) – up 3.4%
- Earnings per 5p ordinary share of 18.2p (2018: 17.7p) – up 2.8%
- Final dividend per ordinary share proposed of 10.0p (2018: 9.65p) – up 3.6%
- Cash £68.7 million (2018: £50.7 million) – nil gearing

Mr Mark Halstead, Chief Executive, commenting on the results, said:
"Welcome news with record turnover, record profit and once again a record dividend"

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CHAIRMAN'S STATEMENT

Results

I am pleased to report that we have, again, achieved record turnover with sales of £253.0 million (2018: £249.5 million). In addition, we have also achieved a record profit before tax of £48.3 million (2018: £47.1 million). The growth in these numbers may be modest but they build upon years of increasing and continued progress and in a particularly difficult climate where so many seem to have deferred spending plans.

The UK turnover (which represents 35% of the total) grew by a very respectable 7.1% and this is the result of targeted sales focus in a difficult market. The constant focus on Brexit has led to deferred spending in several sectors and certain retail chains are curtailing their normal refurbishment cycles.

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 has been listed on the London Stock Exchanges for more than 70 years.

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.

The company's strategy is 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 and local delivery. Key to the company ethos is having dedicated sales personnel to present our product to end users and specifiers rather than to delegate the representation of products 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. We publish an annual "Sustainability Report" and our latest achievements include an 84% usage of renewable energy in our production processes, a 16% decrease in energy usage and 570 tonnes of post-consumer PVC waste collected for re-use in production.

Corporate governance and corporate social responsibility

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.

We continue to focus on the life cycle analysis to identify and reduce the environmental impacts throughout our product life cycle and just one example of this is that we are now achieving 96% usage of recycled water within our production processes. For some years air quality has been in the press and it is a factor in the flooring selection decision. There should be no negative impact on air quality and we commit to being at the forefront of our market. The "Indoor Air Comfort Gold" certification extends across the vast majority of our flooring portfolio, exceeds the standards of other "ecolabels" and various EU specifications and are rated "best in class". As ever, we believe independent verification and certification demonstrates our credentials as a global player.

Dividend

Profits and earnings per share have increased and we continue un-geared. Our cash balances stand at £68.7 million, even after dividends paid in the last year that amounted to £28.4 million and taxation of £10.5 million. Our cash reserves continue as the foundation of our strong balance sheet.

It is pleasing to report that the board proposes, yet again, an increased final dividend. The final dividend will be 10.0p (2018: 9.65p) representing a 3.6% increase which, combined with the interim dividend paid in June 2019 of 4.0p (2018: 3.85p), makes a total of 14.0p (2018: 13.5p) for the year, an increase of 3.7%.

This is a record dividend.

Acknowledgements

My thanks go to our staff in the UK and around the world whose hard work continues to differentiate us from our competitors.

Outlook

Trading since our year-end continues to be solid, particularly in the UK. As a Board we continue to consider the Brexit situation which seems never ending.

I can report that, in September 2019, Polyflor was selected as a key supplier for the National Health Service under an initiative known as Procure 22. James Halstead plc listed on the London Stock Exchange 8 weeks before the foundation of the NHS and has been proud to supply flooring to the organisation for over 70 years.

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

Anthony Wild
Chairman

CHIEF EXECUTIVE'S REVIEW

This has been a challenging year with European markets slothful and a never ending saga over Brexit. As a net exporter we had the advantage of a weak sterling, but with many economies sluggish and projects crawling to fruition it was a year of difficult trading.

Despite this UK turnover grew an impressive 7.1% and represents 35% of total revenue. Beneath this headline number there have been areas where the market is clearly suffering a lack of confidence. Looking at the global markets, Europe (excluding the UK) was on a par with last year (this represents 43% of total turnover). Our revenue within France, Holland and Spain demonstrated the best growth within Europe while Turkey and Italy were the worst performing. The rest of the world is broadly positive with growth in South America, North America, Africa and Scandinavia while mainland China has slowed.

In terms of raw materials it was a year of relative stability, though there were fluctuations shortly before and after the aborted Brexit day at the end of March. Overall, the average cost of raw materials year on year increased 0.52%. Energy costs continue to rise with electricity some 12% more expensive than the previous year and it is worth noting that 60% of our electricity bills are "non-commodity" costs added to the energy cost to fund various schemes. Four years ago these add-ons were only 40%. This is a hidden cost that overseas competitors do not face. Our focus on energy efficiency does help to offset this, but it is getting harder. The schemes involved are by way of example the cost of providing electricity to the north of Scotland, feed in tariffs and contracts for difference subsidies.

Our cash generation has continued and plans for expansion remain in the pipeline with both plant and infrastructure expansion on the agenda.

We continue to support the grass roots of our industry through our training school in Radcliffe which was established 15 years ago as it became clear that there was a growing skills gap in the UK. Last year we had 198 delegates receiving certificates. We offer similar training in Europe and in Australia. I would note that no government funding is available to us for these activities.

Reviewing the businesses in more detail:

Objectflor / Karndean and James Halstead France, our European operations

Turnover in the Central European market was solid but 1.2% below that achieved last year which reflected the downturn in the German market where all business is hard fought against strong competition and a sluggish economic climate. It is pleasing to note that branded sales have increased with declines more centred on own label collections. We tasked our business here with a focus on sheet vinyl sales of both our homogenous ranges (including the new Palettone range) and our heterogeneous ranges. It is pleasing to note that homogenous ranges showed 33% year on year growth.

The main product launches in the year were the revamped Expona Design, which has been received well, and Expona Clic our new rigid product has also sold well.

Our businesses in Europe pride themselves on being market leaders in terms of both design and product offering. We have been named winner in the BTM Heimtex wholesaler survey for best quality suppliers for the third time, as giving best customer service by Eurodecor and Fußbodentechnik named Expona Domestic their product of the year.

As part of our activities to maintain our leading position the "Objectflor Campus" was completed in the year and opened in December. This is a large showroom and training facility built at our offices in Cologne. We have invited many customers and architects to attend with a programme of events and courses throughout the year. The facilities have also been used by suppliers of complementary products for their own activities which allows new opportunities to present our portfolio of products to an ever wider audience.

In the year James Halstead France made progress in all key regions which is encouraging following our investment in sales representation. Our distribution network has broadened and whilst our market share is modest in comparison to our French competitors, we are encouraged by our continued growth. Whilst the economy is not showing good growth, we do see the potential for increased market share and continue to invest. Our successes include the Tony Parker Sports Academy in Lyon, Amazon France HQ in Clichy and the prestigious La Pitié-Salpêtrière Hospital in Paris.

Following on from the success we have had in other countries we have established an office showroom in the Netherlands. Objectflor Benelux has fitted out a showroom in the former Van Nelle factory, a design led building that is a UNESCO world heritage site. This presents to architects and specifiers the design possibilities of our flooring.

Polyflor Pacific – encompassing Australia, New Zealand and Asia

Despite a soft economy, attributed to factors such as a Royal Commission into lending practices, our Australian business remained solid. Volumes in most segments remained strong and stock management saw reduced working capital and strong dividend cash flow.

Turnover was just below the levels of last year while the effects of exchange rates and increased investment in warehousing saw the bottom line profit decline. Palettone took market share and with an update of our loose-lay flooring we lifted the profile of our offering to the market. The AFL Max facility in Adelaide is a brand new facility that has installed Palettone. In addition our flooring has been used in the new concept Vape Square Lounge – a dedicated vape venue. Our strength in this market continues with installations such as the Salvation Army, Red Shield Hotel in Darwin and the Zuccoli Primary School in the Northern Territories.

Polyflor New Zealand showed good growth compared to the prior year with sales increasing by 4% against the prior year. The increased revenue led to increased profitability, although the sales mix resulted in slightly lower margins. The growth continued in the North Island, being the main economic driver while business in the South was generally tougher and additional investment has been made in the sales team to achieve more there. The business continues to have a very high market share in key product areas.

In the latter part of the year there has been focus on broadening the customer chains we are operating with and new arrangements have been concluded that will increase the visibility of our products in the market which, combined with the activities of our own sales force, gives confidence to continuing this trend in the market.

The changes in the management structure of Polyflor Asia, by bringing it under the watch of our more mature Australian business, have been bedding down. Investments have been made in the marketing (directly and through social media) taking greater control of this from our customers. Our business is growing in Hong Kong but in mainland China there has been a distinct slow down and it is clear that the structural changes we have commenced there need to continue. Plans to have a stock presence on the mainland to access the smaller projects and refurbishment markets are at an advanced stage. The focus we have successfully had for many years to concentrate efforts on new builds continues to be important. Asia is a large geographic area and is to be split and given more "on the ground" attention to ensure that our activities are increasingly local in nature and focussed on the markets, with the intention to be more pro-active in the markets. This means more sales representation within each region augmenting the existing third party distributors and contractors.

Markets across Asia have always been very competitive on a price basis and, whilst offering very competitive prices is naturally one tool in our arsenal, we are building a model to better service our customers by adding other factors into the buying decisions. Through availability of stock locally, technical back-up and market support we have learned that business growth is more assured. This programme continues.

Polyflor & Riverside Flooring, based in UK

There were several new ranges launched in the year with Polysafe Quick Lay and Polyflor Stone FX sheet vinyl core to the offering. Installations across healthcare and education continue as a bedrock to the company but more widely examples such as the Port of Spain International School (Trinidad and Tobago), the Sheffield Olympic Legacy Park and the Moët & Chandon VIP areas of Royal Ascot continue to show how widely our flooring solutions are installed.

An important part of customer service is ensuring complaints are fully investigated and lessons are learned for the future. Historically, the most common complaints were for wrong product delivery and investments in bar coding and more automated picking have reduced these to record lows. In addition, significant focus goes into product complaints (which as a percentage are very low). The reputation we have earned in this area is not taken for granted and our founder's refrain – "quality is when the customer comes back, not the product" – continues to hold as true today as it did 100 years ago. Consequently complaints are fully analysed and reported back not only to the relevant departments but to the Board.

The year was challenging for production and towards the year end part of the plant was closed due to equipment failure. This had adverse effects on overhead recovery and consequently profitability – but these challenges are behind us.

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

Under new management during the year Norway has focused on presenting Polyflor and, in particular, Palettone and Wovon to specifiers, architects and interior designers. Turnover grew some 3.8%. Amongst the projects supplied were the Norwegian University of Science and Technology in Trondheim, Thon Hotels and Samfjord Kuartalet government offices.

Our offices in Oslo have been refurbished with Polyflor flooring so that the space now serves as a showroom with different flooring solutions in each room and all 50 shades of Palettone in the hallway.

In Sweden the economic conditions have been difficult. Turnover fell short of last year's record turnover but the core sales of UK Polyflor sourced products increased with the decline being in factored products (at lower margins). For many years Sweden has had a strong focus on environmental concerns in the flooring sector and it is pleasing to note that we have been accredited as an authorised supplier, with the "Auktoriserad Golvleverantör 2.0" accreditation within GBR (the Golvbranchens Riksorganisation).

Polyflor Canada, based in Toronto

Sales grew an impressive 24% in the year and brand awareness across the country continues to grow with increased specifications following. The portable building sector, which services the mining and other industries, continues to perform relatively poorly but successes in the commercial sector have more than compensated.

Our business in the region of Ontario has continued to grow and our new team in British Columbia have had good results. We have continued to expand our presence in Vancouver giving us nationwide penetration.

Installations are diverse and the Canadian Royal Mint, the Tip Top Tailors retail chain and Collingwood Affordable Housing stand as testimony to the results.

Polyflor India, based in Mumbai

Turnover has increased and profitability more so. It was a record year for sales volumes. Our flooring continues to be laid in the healthcare and education sectors but we have also had success in the retail sector and in the Defence sector. There is encouraging interest from aligned markets such as Bangladesh, Sri Lanka and Nepal and volumes to these territories are increasing. Key projects include the NTPC Hospital in Sundergarh and the Presidency School in Bangalore.

Rest of the World

The Polyflor export and marketing offices, based in Royton, continue to support our international businesses and to direct sell via a global network of representatives, agents and distributors. Projects such as the Amazon Head office in South Africa, Parmano Oy across Finland and the Al Thumama Stadium in Qatar are only a few of many examples.

Last year I noted that we had opened Polyflor FZE in the Dubai free trade zone and this year we have continued to underpin our global sales with more representation in the local markets. We have sold and seen continued growth for 25 years in Poland and this year we augmented the team with a national sales manager to assist our third party distribution and to make direct business to business approaches.

In June 2019, we opened a sales office in Bogota, Colombia to support sales not only in that country but also Argentina, Chile, Brazil and Mexico. In Chile we have supplied the Quillota Petorca Hospital in the Valparaiso region and in Peru the continued expansion of the Videna National sport village.

Other local representatives working locally but reporting to Polyflor have been recruited and are based in Romania, Indonesia, Czech Republic and Hungary.

Outlook

Having noted above the, albeit modest, year on year raw material increases, I can advise that for the first two months of the new financial year we have seen around a 4% reduction in raw material prices and, whilst this is pleasing, predicting second quarter onwards is difficult until the manufacturers report back after their traditional August shutdown and refurbishment cycle together with the ongoing political epic regarding our relationship with the rest of Europe.

The coming year will see a new phase of investment. In part this will be expansion of warehouse and distribution and this is one decision that does require us to have some clarity on the outcome of the UK's relationship with EU. Currently, with the simplified administrative access to Europe, we would increase warehousing close to the point of manufacture in the UK but it is easy to conceive of that expansion being on mainland Europe if the administrative hurdles slow movements.

As we continue to implement our plan to have employees in markets where we have a long history of sales I can only be confident of continued success. We have, over the years, supplied over 160 countries across the world with our flooring and look forward to continuing this in greater volumes.

Mark Halstead
Chief Executive

Audited Consolidated Income Statement
for the year ended 30 June 2019

	Year ended 30.06.19 £'000	Year ended 30.06.18 £'000
Revenue	**253,038**	249,510
Cost of sales	**(144,236)**	(144,993)
Gross profit	**108,802**	104,517
Selling and distribution costs	**(49,149)**	(48,087)
Administration expenses	**(11,279)**	(9,282)
Operating profit	**48,374**	47,148
Finance income	**357**	150
Finance cost	**(455)**	(596)
Profit before income tax	**48,276**	46,702
Income tax expense	**(10,484)**	(9,994)
Profit for the year attributable to equity shareholders	**37,792**	36,708
Earnings per ordinary share of 5p:		
-basic	**18.2p**	17.7p
-diluted	**18.2p**	17.6p

All amounts relate to continuing operations.

Audited Consolidated Balance Sheet
as at 30 June 2019

	As at 30.06.19 £'000	As at 30.06.18 £'000
Non-current assets		
Property, plant and equipment	**37,449**	36,324
Intangible assets	**3,232**	3,232
Deferred tax assets	**3,261**	2,674
	43,942	42,230
Current assets		
Inventories	**69,921**	71,096
Trade and other receivables	**32,816**	32,040
Derivative financial instruments	**372**	971
Cash and cash equivalents	**68,664**	50,679
	171,773	154,786
Total assets	**215,715**	197,016
Current liabilities		
Trade and other payables	**58,354**	48,721
Derivative financial instruments	**684**	119
Current income tax liabilities	**3,419**	3,769
	62,457	52,609
Non-current liabilities		
Retirement benefit obligations	**19,582**	14,899
Borrowings	**200**	200
Other payables	**419**	491
	20,201	15,590
Total liabilities	**82,658**	68,199
Net assets	**133,057**	128,817
Equity		
Equity share capital	**10,407**	10,399
Equity share capital (B shares)	**160**	160
	10,567	10,559
Share premium account	**4,044**	3,805
Capital redemption reserve	**1,174**	1,174
Currency translation reserve	**5,265**	5,435
Hedging reserve	**(21)**	668
Retained earnings	**112,028**	107,176
Total equity attributable to shareholders of the parent	**133,057**	128,817

Audited Consolidated Cash Flow Statement
for the year ended 30 June 2019

	Year ended 30.06.19 £'000	Year ended 30.06.18 £'000
Profit for the period	**37,792**	36,708
Income tax expense	**10,484**	9,994
Profit before income tax	**48,276**	46,702
Finance cost	**455**	596
Finance income	**(357)**	(50)
Operating profit	**48,374**	47,148
Depreciation	**3,105**	3,055
Loss/(profit) on sale of plant and equipment	**16**	31
Decrease in inventories	**1,449**	1,247
(Increase) in trade and other receivables	**(621)**	(1,093)
Increase / (decrease) in trade and other payables	**9,033**	(11,448)
Defined benefit pension scheme service cost	**564**	497
Defined benefit pension scheme employer contributions paid	**(1,780)**	(1,517)
Change in fair value of financial instruments	**281**	250
Share based payments	**11**	5
Cash inflow from operations	**60,432**	38,175
Interest received	**357**	150
Interest paid	**(33)**	(36)
Taxation paid	**(10,487)**	(9,642)
Cash inflow from operating activities	**50,269**	28,647
Purchase of property, plant and equipment	**(4,263)**	(3,567)
Proceeds from disposal of property, plant and equipment	**107**	232
Cash outflow from investing activities	**(4,156)**	(3,335)
Equity dividends paid	**(28,405)**	(27,245)
Shares issued	**247**	196
Cash outflow from financing activities	**(28,158)**	(27,049)
Net increase/(decrease) in cash and cash equivalents	**17,955**	(1,737)
Effect of exchange differences	**30**	(116)
Cash and cash equivalents at start of period	**50,679**	52,532
Cash and cash equivalents at end of period	**68,664**	50,679

Audited Consolidated Statement of Comprehensive Income
for the year ended 30 June 2019

	Year ended 30.06.19 £'000	Year ended 30.06.18 £'000
Profit for the year	**37,792**	36,708
Other comprehensive income net of tax:		
Items that will not be reclassified subsequently to the income statement:		
Remeasurement of the net defined benefit liability	**(4,546)**	4,895
	(4,546)	4,895
Items that could be reclassified subsequently to the income statement:		
Foreign currency translation differences	**(170)**	(759)
Fair value movements on hedging instruments	**(689)**	957
	(859)	198
Other comprehensive income for the year	**(5,405)**	5,093
Total comprehensive income for the year	**32,387**	41,801
Attributable to equity holders of the Company	**32,387**	41,801

Items in the statement above are disclosed net of tax.

NOTES

1. The final dividend of 10.0p per ordinary share will be paid, subject to the approval of the shareholders, on 6 December 2019 to shareholders on the register as at 8 November 2019. The annual report and accounts will be posted to shareholders on 18 October 2019.

2. The financial information in this statement does not represent the statutory accounts of the Group. Statutory accounts for the year ended 30 June 2018 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 2019 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

	2019 £'000	2018 £'000
Profit for the year attributable to equity shareholders	**37,792**	36,708
Weighted average number of shares in issue	**208,071,633**	207,965,693
Dilution effect of outstanding share options	**70,667**	121,068
Diluted weighted average number of shares	**208,142,300**	208,086,761
Basic earnings per ordinary share	**18.2p**	17.7p
Diluted earnings per ordinary share	**18.2p**	17.6p