JAMES HALSTEAD plc

100 years

31 March 2020

JAMES HALSTEAD PLC

INTERIM RESULTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Key Figures

James Halstead plc, the AIM listed manufacturer and international distributor of commercial floor coverings, reports:

- Revenue at £130.4 million (2018: £125.8 million) – up 3.7%
- Operating profit at £25.3 million (2018: £24.5 million) – up 3.0%
- Pre-tax profit at £25.2 million (2018: £24.5 million) – up 2.8%
- Basic earnings per ordinary share 9.5p (2018: 9.1p) – up 4.4%
- 1st Interim dividend proposed of 2.125p
- Cash at £64.3 million

The Chief Executive, Mr. Mark Halstead, commented:

"In the first half, we have supplied flooring to installations as diverse as the Folies Bergère in Paris and to the Pooch Perfect TV set for Network Seven in Australia and, with profits growth and robust cash balances, it was a satisfying performance.

However, the world has changed since the turn of the year and we are focused on the security of our businesses and the immediate challenges of the Coronavirus (COVID-19). The focus of our business has moved to our expertise in healthcare as the immediate need in many of our markets for flooring is in this sector."

Enquiries:

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CHAIRMAN'S STATEMENT

Trading for the six months ended 31 December 2019

Our turnover of £130.4 million (2018: £125.8 million) shows growth of 3.7% and is a record level for the first half. Profit before tax of £25.2 million (2018: £24.5 million) is 2.8% ahead of the comparative period and is another record. Our cash inflows from operations in the period are £28.4 million. The business has performed well given the fragile state of many markets.

In the UK our sales are 7% ahead of the prior year comparative and are testament to the efforts of our sales and distribution teams in servicing the market.

James Halstead France continues to grow, by some 6% in the first six months. The greater Paris region was affected by strikes but our investment in additional sales staff across the country is showing success. One project of note was the new intensive care facility at the Centre Hospitalier Intercommunal de Poissy.

Objectflor, based in Germany and serving Central Europe, reported sales growth of some 2.3% though encountered margin erosion as a result of exchange rates. The Netherlands has had a difficult few months with the restrictions on construction as a result of their government's actions to tackle nitrogen emissions. In October, Objectflor launched "Expona Simplay" carpet tiles which complement our ranges of loose lay vinyl and are selling very well. Our new in-house showroom / exhibition centre – "Campus" had 2,500 visitors up until the end of December. The Campus is also a training facility and in December we introduced a new event, a trade fair, named "Weilhnacht Campus" where around twenty flooring related companies shared the costs and presented our flooring comprehensively with industry leading accessories, adhesives and design ideas. Projects supplied by Objectflor in the period include three hospitals – Klinikum Darmstadt, Kilnikum Eisenberg and Charité Berlin.

In looking at the regions of Polyflor Pacific, sales are generally positive though mainland China was down by around 8% which we ascribe to project delays. New Zealand has seen sales growth of 12% and Australia, mainly affected by the various widely reported climate issues, reported a 6% decline.

North America has been very positive with over 22% growth in the six months in comparison to the prior year. Within this, Canada continues to grow and our team there have supported US growth with attendance at major exhibitions.

As mentioned at the time of our preliminary results last October, throughout July and August one of our three main production lines in Whitefield was idle following the failure of part of the plant and the consequent damage to the line. Inevitably this led to unrecovered overhead costs as we were unable to produce for ten weeks as well as the increased cost of working once the plant re-started in September and a required running of additional hours in overtime to rebuild stock levels. This had a knock-on effect on our ability to fulfil orders particularly in export markets and, indeed, part of the decline in our Australian sales is attributable to this break-down. These problems are now behind us and it is testimony to our robustness that record turnover and record profits have still been attained.

Earnings per Share and Dividend

Our basic earnings per share at 9.5p are above the comparative period of 9.1p by 4.4%.

Our cash, which stands at £64.3 million, is a key strength and in these difficult times with the world focused on the global situation and COVID-19 we are conscious of this asset and the importance of retaining it. As a Board, we are prudent and cautious and have looked at our forecasts and discussed at length various ongoing scenarios regarding the dividend.

We undoubtedly have the cash resource to declare an increased interim dividend, and based on the position three weeks ago, with a record first half and a robust balance sheet, with nil net gearing, this would have been our position. As a Board we are proud of our long history of increases in dividend. However, as a Board, we feel given the level of uncertainty in the short-term this would signal that we are not focused on the current and ongoing situation. Equally, to forgo a dividend, given the interim payment would have cost around 14% of the cash resources herein reported, might be regarded as an overreaction. Our shareholder base includes several income funds and many private individuals looking for both security and the income. Approximately half our UK workforce and around 60% of our former employees (who are now pensioners) are shareholders.

Accordingly, and in consultation with advisors, we have decided to declare a first interim dividend of 2.125p per share representing half of the interim dividend we would otherwise have declared and to review a payment of a second interim dividend in August when visibility of the global economy may be clearer. As we stand, the intention is that this first interim dividend will be payable on 5 June 2020 to those shareholders on the register at the close of business on 11 May 2020.

The Board in arriving at this decision has also, recently, paid an amount broadly equivalent to 50% of this interim dividend into the Group's defined benefit pension scheme and has contacted the trustees to confirm that at this time the scheme should not be liquidating scheme assets to fund benefits and that for the period to 30 June 2020 the company will underpin any shortfall with additional funds. In terms of cash this is unlikely to exceed the level of 25% of this interim dividend and the underpin is capped at that level.

As a Board we believe this is a measured response and would note that the first two months trading of the second half have continued positively in terms of cash flow.

COVID-19 and our current status

The Group as a whole is closely monitoring developments in respect to the ongoing COVID-19 pandemic. Up until the 20th March we had not experienced any meaningful disruption to our operations although regionally there were restrictions on travel.

Since that time the UK, and other countries have instigated various restrictions on travel and the closure of many businesses. Inevitably office refurbishment, retailer business and leisure will slow drastically in the coming weeks. None of our markets are unaffected in terms of the general economic environment. However, a major part of our business is in healthcare and over 70% of our turnover is exported and we are receiving a large number of enquiries from many of our markets.

Our Group has plans in place to mitigate adverse challenges we face, and resources have been put in place to allow for remote working for many office-based personnel. More importantly we have rigorous procedures in our factories to protect our colleagues including social distancing measures and use of sanitizers. In addition, we stopped all external visitors to site and segregated delivery drivers from warehouse operatives. We have also insisted on any employee with symptoms remaining at home, sent home any worker with underlying conditions, closed vending machines, conducted all meetings by conference call and limited staff to no more than two people in any room at the same time.

Government measures to slow the growth of the virus disrupts a significant part of our business, most noticeably in the UK but, as noted earlier, around 70% of our sales are exported and other markets are also affected. It is highly likely that our sales of luxury vinyl tiles (“LVT”) will slow rapidly to the extent that LVT is installed in the retail and hospitality sectors. Refurbishment is less affected, and it is clear than contractors are active in this early phase but are winding-down. Equally, for a period of time the sheet vinyl part of the business will grow given the immediate need for expansion of temporary hospitals, assessment centres, sterile changing areas and isolation wards. Our UK production lines can fulfil some of this need and are producing this flooring.

In several markets we have “key supplier” status and are a preferred supplier to the UK’s National Health Service, whilst there are two other preferred suppliers who are based in France where all manufacturing is currently closed. Despite being competitors, we work closely with these two companies on trade bodies and international standards and have sent our wishes for a safe outcome. Given the “stay at home’’ message our employees and their families have understandable concerns, and the stress and worry associated with the current situation is an issue for everyone. Having regard to this, and given the nearness of our normal Easter shutdown, we will close the Radcliffe factory one week earlier and extend the break to three weeks.

Our suppliers are in contact and raw material supplies continue, with 60% of raw materials sourced in Europe and, to date, supply and delivery are largely unaffected. The 3 week break will give us more clarity on supply chains as government policy evolves.

I would like to thank those senior members of the various health bodies that have written to us with thanks for our ability to supply rapidly for needed facilities, our local Members of Parliament for taking time to understand our concerns about the lack of clarity of going to work, to our workforce whose efforts are appreciated and to our senior management team who are having to react to unprecedented events.

Our cash resources are robust and stock levels remain solid which should help to underpin the coming months and immediate demand.

Outlook

The second half of the financial year started well with full production in the UK, with sales and profit in the first three months of the second half in line with expectations.

Looking at the coming months, it can be envisaged that sales to retailer refurbishment will slow down, but our core business in healthcare and institutional refurbishment is more robust. Indeed, as I have noted, in the preceding section, there are increased enquiries for flooring for medical facilities in several parts of the globe and our stocks of sheet resilient flooring allow us to respond quickly.

The balance of our business will likely continue to shift to healthcare and given the fast pace of events we cannot be sure how the market will react to the next few months. In the immediate two-six weeks the focus in many markets will be on healthcare and, with the extended Easter factory closure, we will focus on distribution. Transportation of goods remains relatively normal. In the UK even large distributors that have closed depots are making arrangements to continue the supply of commercial flooring to contractors, but there are localised issues of vehicles being stopped as part of government monitoring of essential travel. Overseas international freight rates are rising and the drastic changes to lock-down in the world means there may be challenges in delivery.

The immediate few weeks would seem to be busy in terms of demand, but daily changes must be faced. Looking further ahead, our balance sheet strength, our depth of experience and focus on detail encourage me to have confidence that we are well placed to withstand prevailing pressures.

Anthony Wild

Chairman

31 March 2020

Consolidated Income Statement
for the half-year ended 31 December 2019

	Half-year ended 31.12.19 £'000	Half-year ended 31.12.18 £'000	Year ended 30.06.19 £'000
Revenue	**130,391**	125,786	253,038
Operating profit	**25,258**	24,528	48,374
Finance income	**243**	171	357
Finance cost	**(351)**	(223)	(455)
Profit before income tax	**25,150**	24,476	48,276
Income tax expense	**(5,389)**	(5,474)	(10,484)
Profit for the period	**19,761**	19,002	37,792
Earnings per ordinary share of 5p:			
-basic	**9.5p**	9.1p	18.2p
-diluted	**9.5p**	9.1p	18.2p

All amounts relate to continuing operations.

Details of dividends paid and declared/proposed are given in note 4.

Consolidated Balance Sheet
as at 31 December 2019

	Half-year ended 31.12.19 £'000	Half-year ended 31.12.18 £'000	Year ended 30.06.19 £'000
Non-current assets			
Property, plant and equipment	**37,759**	36,870	37,449
Right of use assets	**7,103**	-	-
Intangible assets	**3,232**	3,232	3,232
Deferred tax assets	**3,179**	3,267	3,261
	51,273	43,369	43,942
Current assets			
Inventories	**67,180**	63,664	69,921
Trade and other receivables	**25,962**	26,911	32,816
Derivative financial instruments	**1,218**	620	372
Cash and cash equivalents	**64,332**	62,795	68,664
	158,692	153,990	171,773
Total assets	**209,965**	197,359	215,715
Current liabilities			
Trade and other payables	**50,643**	48,930	58,354
Derivative financial instruments	**290**	428	684
Current income tax liabilities	**740**	4,624	3,419
Lease liabilities	**2,774**	-	-
	54,447	53,982	62,457
Non-current liabilities			
Retirement benefit obligations	**19,354**	18,491	19,582
Other payables	**400**	475	419
Lease liabilities	**4,480**	-	-
Preference shares	**200**	200	200
	24,434	19,166	20,201
Total liabilities	**78,881**	73,148	82,658
Net assets	**131,084**	124,211	133,057
Equity			
Equity share capital	**10,407**	10,404	10,407
Equity share capital (B shares)	**160**	160	160
	10,567	10,564	10,567
Share premium account	**4,044**	3,922	4,044
Capital redemption reserve	**1,174**	1,174	1,174
Currency translation reserve	**4,338**	5,680	5,265
Hedging reserve	**225**	(130)	(21)
Retained earnings	**110,736**	103,001	112,028
Total equity attributable to shareholders of the parent	**131,084**	124,211	133,057

Consolidated Cash Flow Statement

for the half-year ended 31 December 2019

	Half-year ended 31.12.19 £'000	Half-year ended 31.12.18 £'000	Year ended 30.06.19 £'000
Profit for the period	**19,761**	19,002	37,792
Income tax expense	**5,389**	5,474	10,484
Profit before income tax	**25,150**	24,476	48,276
Finance cost	**351**	223	455
Finance income	**(243)**	(171)	(357)
Operating profit	**25,258**	24,528	48,374
Depreciation of property, plant & equipment	**1,650**	1,558	3,105
Depreciation of right of use assets	**1,487**	-	-
(Profit)/loss on sale of plant and equipment	**(6)**	24	16
Decrease in inventories	**1,044**	7,713	1,449
Decrease/(increase)in trade and other receivables	**5,685**	5,469	(621)
(Decrease)/increase in trade and other payables	**(5,657)**	(598)	9,033
Defined benefit pension scheme service cost	**318**	287	564
Defined benefit pension scheme employer contributions paid	**(1,074)**	(643)	(1,780)
Change in fair value of financial instruments	**(344)**	89	281
Share based payments	**7**	5	11
Cash inflow from operations	**28,368**	38,432	60,432
Interest received	**243**	171	357
Interest paid	**(121)**	(13)	(33)
Taxation paid	**(7,973)**	(4,581)	(10,487)
Cash inflow from operating activities	**20,517**	34,009	50,269
Purchase of property, plant and equipment	**(2,479)**	(2,038)	(4,263)
Proceeds from disposal of property, plant and equipment	**32**	34	107
Cash outflow from investing activities	**(2,447)**	(2,004)	(4,156)
Lease payments	**(1,335)**	-	-
Equity dividends paid	**(20,813)**	(20,080)	(28,405)
Shares issued	**-**	122	247
Cash outflow from financing activities	**(22,148)**	(19,958)	(28,158)
Net (decrease)/increase in cash and cash equivalents	**(4,078)**	12,047	17,955
Effect of exchange differences	**(254)**	69	30
Cash and cash equivalents at start of period	**68,664**	50,679	50,679
Cash and cash equivalents at end of period	**64,332**	62,795	68,664

Consolidated Statement of Comprehensive Income

for the half-year ended 31 December 2019

	Half-year ended 31.12.19 £'000	Half-year ended 31.12.18 £'000	Year ended 30.06.19 £'000
Profit for the period	**19,761**	19,002	37,792
Other comprehensive income net of tax:			
Remeasurement of the net defined benefit liability	**(247)**	(3,102)	(4,546)
Foreign currency translation differences	**(927)**	245	(170)
Fair value movements on hedging instruments	**246**	(798)	(689)
Other comprehensive income for the period net of tax	**(928)**	(3,655)	(5,405)
Total comprehensive income for the period	**18,833**	15,347	32,387
Attributable to equity holders of the parent			
	18,833	15,347	32,387

Notes to the Interim Results
for the half-year ended 31 December 2019

1. Basis of preparation

The interim financial statements are unaudited and do not constitute statutory accounts as defined within the Companies Act 2006.

The principal accounting policies applied in the preparation of the consolidated interim statements are those set out in the annual report and accounts for the year ended 30 June 2019, except for the adoption of IFRS16 Leases as explained in note 5.

The figures for the year ended 30 June 2019 are an abridged statement of the group audited accounts for that year. The financial statements for the year ended 30 June 2019 were audited and have been delivered to the Registrar of Companies.

As is permitted by the AIM rules, the directors have not adopted the requirements of IAS34 'Interim Financial Reporting' in preparing the interim financial statements. Accordingly, the interim financial statements are not in full compliance with IFRS.

2. Taxation

Income tax has been provided at the rate of 21.4% (2018: 22.4%).

3. Earnings per share

	Half-year ended 31.12.19 £'000	Half-year ended 31.12.18 £'000	Year ended 30.06.19 £'000
Profit for the period	**19,761**	19,002	37,792
Weighted average number of shares in issue	**208,131,108**	208,031,705	208,071,633
Dilution effect of outstanding share options	**152,678**	45,378	70,667
Diluted weighted average number shares	**208,283,786**	208,077,083	208,142,300
Basic earnings per 5p ordinary share	**9.5p**	9.1p	18.2p
Diluted earnings per 5p ordinary share	**9.5p**	9.1p	18.2p

4. Dividends

	Half-year ended 31.12.19 £'000	Half-year ended 31.12.18 £'000	Year ended 30.06.19 £'000
Equity dividends paid:			
Final dividend for the year ended 30 June 2018	**-**	20,080	20,080
Interim dividend for the year ended 30 June 2019	**-**	-	8,325
Final dividend for the year ended 30 June 2019	**20,813**	-	-
	20,813	20,080	28,405
Equity dividends declared/proposed at the end of the period			
Interim dividend	**4,423**	8,325	-
Final dividend	**-**	-	20,813

Equity dividends per share, paid and declared/proposed are as follows:

9.65p final dividend for the year ended 30 June 2018, paid on 7 December 2018
4.00p interim dividend for the year ended 30 June 2019, paid on 6 June 2019
10.00p final dividend for the year ended 30 June 2019, paid on 6 December 2019
2.125p 1st interim dividend for the year ended 30 June 2020, payable on 5 June 2020, to those shareholders on the register at the close of business on 11 May 2020

5. New accounting standard IFRS16 Leases

IFRS16 Leases has replaced IAS17 Leases. The new standard eliminates the distinction between operating and finance leases. All leases are now accounted for on the balance sheet, except for low value leases and short-term leases of one year or less. The leases are accounted for by recognising a right of use asset and a lease liability.

On recognition, the right of use asset and lease liability are measured at the present value of the lease payments discounted over the lease term. The discount rate used is the rate inherent in the lease if this can be determined, or the incremental borrowing rate.

Subsequent to initial recognition, the right of use assets are depreciated on a straight line basis over the lease term. The lease liabilities are increased by the interest cost and reduced by the lease payments made. A depreciation charge and an interest cost are recognised in the income statement.

IFRS16 has been adopted with effect from 1 July 2019. On adoption the modified retrospective approach has been applied, such that the right of use assets and lease liabilities are equal to each other, with no adjustment to opening reserves. There is no restatement of the comparative periods. The right of use assets and lease liabilities recognised on adoption at 1 July 2019 were £8,869,000.

For the half year ended 31 December 2019 the right of use assets depreciation charge was £1,487,000 and the lease interest cost was £110,000. The adoption of IFRS16 had no significant effect on the profit before income tax for the half year ended 31 December 2019.

6. Copies of the interim results

Copies of the interim results have been sent to shareholders who requested them. Further copies can be obtained from the Company's registered office, Beechfield, Hollinhurst Road, Radcliffe, Manchester, M26 1JN and on the Company's website at www.jameshalstead.com.