Portmeirion Group PLC - PMP
Half-year Report
Released 07:00 03-Aug-2017

RNS Number : 9559M
Portmeirion Group PLC
03 August 2017

3 August 2017

PORTMEIRION GROUP PLC
('Portmeirion' or 'the Group')

Interim results for the six months ended 30 June 2017

Portmeirion Group is pleased to announce its performance for the six months ended 30 June 2017.

Highlights

- Revenue of £33.1 million up by 16% on the comparative period (2016: £28.5 million).
- Profit before tax up by 18% to £1.6 million (2016: £1.4 million).
- EBITDA up by 27% to £2.7 million (2016: £2.1 million).
- Earnings per share increased by 21% to 11.94p (2016: 9.87p).
- Interim dividend increased by 5.7% to 7.40 pence per share (2016: 7.00 pence per share).
- Net debt reduced by £8.0 million to £1.7 million (30 June 2016: £9.7 million).
- Good progress on growth and diversification in export markets.
- Integration of Wax Lyrical continues, including the launch of co-branded home fragrance products including Botanic Garden, Sophie Conran for Portmeirion and Wrendale Designs.
- Senior management team strengthened with the appointments of Mike Raybould as Group Finance Director, Mick Knapper as Operations Director, Moira MacDonald as Company Secretary and Andrew Andrea as Non-executive Director.

Dick Steele, Non-executive Chairman, commented:

"We are pleased to announce a positive trading performance for the first six months of 2017. We remain confident in our ability to create shareholder value in the short, medium and long term."

Enquiries:

Portmeirion Group PLC:

Dick Steele, Non-executive Chairman	+44 (0) 1782 744721	steele_clan@msn.com
Mike Raybould, Group Finance Director	+44 (0) 1782 744721	mraybould@portmeiriongroup.com

Bell Pottinger:

Dan de Belder	+44 (0) 203 772 2561	ddebelder@bellpottinger.com
Robert McGowan Stuart	+44 (0) 203 772 2553	rmcgowanstuart@bellpottinger.com

Panmure Gordon:
(Nominated Adviser and Broker) +44 (0) 207 886 2500
Freddy Crossley / Duncan Monteith Corporate Finance
Tom Salvesen Corporate Broking

Cantor Fitzgerald Europe:
(Joint Broker) +44 (0) 207 894 7000
Catherine Leftley / Marc Milmo Corporate Finance
Mark Westcott Sales

Interim Review

Portmeirion Group is pleased to announce a positive trading performance for the first six months of 2017. As reported in our trading statement issued on 7 July 2017, total Group sales are up 16% for the six months ended 30 June 2017 compared to the same period last year, although 2016 only included two months of Wax Lyrical sales from its acquisition in May 2016. Excluding sales from Wax Lyrical, sales for the core Portmeirion business are 3% ahead of prior year.

The trading seasonality within the business continues to place further importance upon our second half trading, with the acquisition of Wax Lyrical increasing the weighting to second half revenue and profit. In 2016, our first half revenue was 37% of the full year and our pre-tax profit was 17% of the full year, whilst in 2015 the percentages were 41% and 21% respectively. Accordingly, we remain confident for meeting expectations of the full year given the revenue and profit reported for the first half year.

Dividend
The Board is declaring an interim dividend of 7.40 pence per share (2016: 7.00 pence per share) an increase of 5.7% (2016: 14.8% increase) which is in line with the increase in the final dividend for the prior year. The interim dividend will be paid on 2 October 2017. The ex-dividend date will be 7 September 2017 with a record date of 8 September 2017.

We continue with our long-held policy of having any increase in the interim dividend determined by the increase in the prior year final dividend, rather than the interim being a predictor for the following final dividend, subject of course to prevailing conditions. The final dividend will be determined when we know the results for 2017. This approach allows us to better determine dividend increases and allocate cash outflows in proportion to our important second half year's performance.

The Board remains committed to a progressive dividend policy; we believe that this is what our shareholders expect of us. We aim to maintain a sustainable and fair level of dividend cover, with regard to the immediate past and our view forward, and increase our dividends whenever our results, cash balances and prudent views of future trading and business investment needs allow us so to do. We have now increased our dividends for eight consecutive years.

Last year we reduced dividend cover slightly to 1.85 times, we remain of the view that a cover level of approximately 2.0 times is in the long term interests of the company and shareholders; subject to our full year performance and our views of future prospects we will look to rebuild the level of cover over time.

Revenue
Revenue for the first six months of 2017 was £33.1 million (2016 first half year: £28.5 million), 16% higher than the comparative period. Our 2016 total Group revenue was £76.7 million. The Wax Lyrical sales for the period were £5.4 million (2016: £1.5 million for two months of ownership). Excluding sales from Wax Lyrical, sales for the core Portmeirion business were £27.7 million (2016: £27.0 million), an increase of 3% over 2016. If we express our half year figure excluding Wax Lyrical at a constant exchange rate then our total revenue would have been 2% below prior year.

The United Kingdom became our largest geographical market in 2017 as the majority of Wax Lyrical's sales are currently in this market. Overall sales in the UK grew by 29% over 2016 because of the additional four months revenue from Wax Lyrical. Excluding Wax Lyrical this market was marginally down on prior year due to the phasing of orders but we expect it to be up for the full year. We continue to monitor the impact of Brexit and potential economic uncertainty. Our emphasis in this market is on seeking new opportunities in own retail and e-commerce, new product development and new trade customers.

Our second largest market, the United States, remains a challenging market with some well documented difficulties in the retail environment. Our sales decreased by 25% in local currency and by 15% when translated into sterling. The impact of some 2016 orders not repeating and some one-off customer specific challenges were the main factors in this decrease. We are confident of growth in the second half and expect strong orders for Christmas Tree and the new home fragrance ranges.

The South Korean market, our third largest for many years, remains under focus. The first half was down on the same period last year. We anticipate strong demand in the second half of the year in line with the prior year. On an encouraging note, we have received our first order for home fragrance from this market that will ship in the second half of the year.

We have had a strong first half and have been able to diversify our Group sales to the rest of the world, with revenue more than double the same period in 2016. We have seen strong growth in Europe and the Far East, which is very pleasing given our aim of reducing the reliance on our three key markets and diversifying our range of distribution channels and products.

Profits

Profit before tax has increased by 18% over the comparative period to £1,614,000 (2016 first half year: £1,363,000, 2016 full year: £7,806,000); earnings before interest, taxation, depreciation and amortisation increased by 27% to £2,686,000 (2016 first half year: £2,111,000, 2016 full year: £9,746,000).

Our first half profit continues to not be a reliable indicator of our full year profit; in particular this is because of our anticipated second half revenue increase against a largely evenly dispersed fixed cost base. The 2016 acquisition of Wax Lyrical has further accentuated the importance of the second half of the year, with increased profit generated during the busy UK Christmas trade period and acquisition financing costs being broadly incurred on a straight line basis across the year.

Wax Lyrical

We acquired Wax Lyrical in May 2016 for a headline cash price of £17.5 million which reduced to £16.7 million taking account of cash in the business at the date of acquisition. Wax Lyrical is the UK's largest manufacturer of home fragrances and is based in the Lake District. For the year to 31 December 2016, Wax Lyrical contributed £10.4 million to Group revenue and £1.5 million to operating profit over the 8 months of consolidated ownership. The revenue generated by Wax Lyrical for the first six months of 2017 amounts to £5.4 million, compared to £1.5 million for the two month period of ownership in the first six months of 2016. The trading profit impact of ownership compared to 2016 is an increase of £0.4 million, less the financing and amortisation costs of £0.3 million which leaves a net profit benefit of £0.1 million.

Good progress has been made on leveraging synergies from this acquisition. These include developing new UK accounts, expanding in export markets and co-developing product. In total 147 home fragrance products have been developed in the first half and we have visibility of a good order book for the second half against these new ranges. We remain pleased with the addition of Wax Lyrical to the Group and are confident for its future prospects.

Balance Sheet

Our net debt position at 30 June 2017 was £1.7 million, which compares with net debt of £9.7 million at 30 June 2016 and net debt of £2.3 million at 31 December 2016. We are pleased with the £8.0 million reduction in net debt and this is ahead of our expectations. This was driven by a number of factors including improved working capital with both lower inventory and trade receivables. Our committed bank facilities total £20.0 million.

Our stock balances are £18.5 million compared to £20.0 million at 30 June 2016 and £16.3 million at 31 December 2016. Due to the seasonal working capital needs of the business an increase from the year end position is to be expected, and the reduction from the prior half year figure is creditable given the growth experienced in the first half year and expected in the second half.

We carry significant goodwill and intangible asset values on our balance sheet. These balances largely relate to the Wax Lyrical acquisition and the goodwill is reviewed annually. The intangible assets are amortised over a range of ten and twenty years depending on their nature.

Products and Brands
We continue to introduce new products, launching both exciting new ranges as well as refreshing and extending existing collections. In 2017, we launched a new collection with Sara Miller which has received a very positive reaction, along with key introductions into the Sophie Conran for Portmeirion and Royal Worcester Wrendale Designs ranges. We are very excited about our new Portmeirion Choices range which has received an extremely positive response from customers around the world. New items have also been developed with Wax Lyrical and home fragrance products are now available in our key ranges including Botanic Garden and Sophie Conran for Portmeirion.

Pictures, descriptions, prices and availabilities of our current patterns can be found at www.portmeirion.co.uk, www.spode.co.uk, www.royalworcester.co.uk, www.pimpernelinternational.co.uk and www.wax-lyrical.com. Customers in the United States can find us at www.portmeirion.com. Online purchasing is available at all these sites.

Senior management
The management team has been significantly strengthened, with immediate benefit being felt by the business. Mike Raybould joined the board on 26 May 2017 as Group Finance Director, and also has management responsibility for Wax Lyrical. Mick Knapper was promoted to the main board as Operations Director on 1 March 2017; he is responsible for production, sourcing, logistics and IT and has been with the Group since 1998. Andrew Andrea was appointed as a Non-executive Director on 20 June 2017, bringing wide-ranging experience in finance and consumer brands. Moira MacDonald, who joined the Group in 2007, was promoted to Company Secretary on 1 March 2017.

We are delighted with these promotions and appointments, and with the ripple effect that they cause throughout the company. The business is now benefitting from the new thinking that such changes bring.

Outlook
We remain confident in our ability to create shareholder value in the short, medium and long term.

The powerful combination of our brands, heritage, quality standards, people, production facilities, logistics and designs is without equal in our worldwide markets, and we continue to leverage these assets to drive profitable growth.

Our strategy remains unchanged.

Dick Steele
Non-executive Chairman

Lawrence Bryan
Chief Executive

Independent Review Report to Portmeirion Group PLC

Introduction

We have been engaged by Portmeirion Group PLC to review the interim financial information for the six months ended 30 June 2017, which comprises the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of cash flows, the reconciliation of movement in shareholders' equity and related notes 1 to 7. We have read the other information contained in the interim statement and considered whether it contains any apparent misstatements or material inconsistencies with the interim financial information.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have formed.

Respective responsibilities of directors and auditors

The interim statement, including the interim financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim statement in accordance with the AIM Rules issued by the London Stock Exchange, which require that the interim statement must be prepared and presented in a form consistent with that which will be adopted in the Company's annual accounts having regard to the accounting standards applicable to such annual accounts.

Our responsibility is to express to the Company a conclusion on the consolidated interim financial information in the interim statement based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial information in the interim statement does not give a true and fair view of the financial position of the Company as at 30 June 2017 and of its financial performance and its cash flows for the six months then ended, in accordance with the AIM Rules issued by the London Stock Exchange.

Mazars LLP
Chartered Accountants
The Pinnacle
160 Midsummer Boulevard
Milton Keynes
MK9 1FF
2 August 2017

Notes:
(a) The maintenance and integrity of the Portmeirion Group PLC website is the responsibility of the directors; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the interim statement since it was initially presented on the website.
(b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Consolidated Income Statement
Unaudited

	Notes	**Six months to 30 June 2017 £'000**	Six months to 30 June 2016 £'000	Year to 31 December 2016 £'000
Revenue	**2**	**33,134**	28,527	76,677
Operating costs		**(31,421)**	(27,158)	(68,713)
Operating profit		**1,713**	1,369	7,964
Interest income		**14**	27	31
Finance costs	**3**	**(225)**	(122)	(387)
Share of results of associated undertakings		**112**	89	198
Profit before tax		**1,614**	1,363	7,806
Tax	**4**	**(363)**	(333)	(1,581)
Profit for the period attributable to equity holders		**1,251**	1,030	6,225
Earnings per share	**6**	**11.94p**	9.87p	59.60p
Diluted earnings per share	**6**	**11.86p**	9.76p	59.10p
Dividends proposed and paid per share	**5**	**7.40p**	7.00p	32.25p

All the above figures relate to continuing operations.

Consolidated Statement of Comprehensive Income
Unaudited

	Six months to 30 June 2017 £'000	Six months to 30 June 2016 £'000	Year to 31 December 2016 £'000
Profit for the period	**1,251**	1,030	6,225
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of net defined benefit pension scheme liability	**-**	-	(5,357)
Deferred tax relating to items that will not be reclassified subsequently to profit or loss	**-**	-	815
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	**(364)**	624	1,293
Deferred tax relating to items that may be reclassified subsequently to profit or loss	**-**	-	193
Other comprehensive income for the period	**(364)**	624	(3,056)
Total comprehensive income for the period attributable to equity holders	**887**	1,654	3,169

Consolidated Balance Sheet

Unaudited

	30 June 2017 £'000	30 June 2016 £'000	31 December 2016 £'000
Non-current assets			
Goodwill	**7,229**	7,229	7,229
Intangible assets	**6,283**	6,857	6,566
Property, plant and equipment	**10,264**	11,129	10,617
Interests in associates	**2,445**	2,163	2,313
Deferred tax asset	**1,387**	430	1,475
Total non-current assets	**27,608**	27,808	28,200
Current assets			
Inventories	**18,455**	19,987	16,267
Trade and other receivables	**7,786**	9,445	12,485
Cash and cash equivalents	**6,221**	3,179	6,540
Total current assets	**32,462**	32,611	35,292
Total assets	**60,070**	60,419	63,492
Current liabilities			
Trade and other payables	**(8,319)**	(7,819)	(8,738)
Current income tax liabilities	**(715)**	(387)	(1,005)
Borrowings	**(1,961)**	(4,921)	(1,961)
Total current liabilities	**(10,995)**	(13,127)	(11,704)
Non-current liabilities			
Pension scheme deficit	**(6,617)**	(2,336)	(7,130)
Deferred tax liability	**(921)**	(1,060)	(961)
Borrowings	**(5,929)**	(7,923)	(6,909)
Total non-current liabilities	**(13,467)**	(11,319)	(15,000)
Total liabilities	**(24,462)**	(24,446)	(26,704)
Net assets	**35,608**	35,973	36,788
Equity			
Called up share capital	**550**	550	550
Share premium account	**6,624**	6,624	6,624
Investment in own shares	**(2,389)**	(2,936)	(2,936)
Share-based payment reserve	**526**	451	496
Translation reserve	**2,536**	2,038	2,900
Retained earnings	**27,761**	29,246	29,154
Total equity	**35,608**	35,973	36,788

Consolidated Statement of Cash Flows
Unaudited

	Six months to 30 June 2017 £'000	Six months to 30 June 2016 £'000	Year to 31 December 2016 £'000
Operating profit	**1,713**	1,369	7,964
Adjustments for:			
Depreciation of property, plant and equipment	**671**	588	1,328
Amortisation of intangible assets	**302**	154	454
Contributions to defined benefit pension scheme	**(600)**	(800)	(1,400)
Charge for share-based payments	**30**	81	144
Exchange (loss)/gain	**(57)**	(8)	205
Profit on sale of tangible fixed assets	**(5)**	(12)	(2)
Operating cash flows before movements in working capital	**2,054**	1,372	8,693
Increase in inventories	**(2,428)**	(4,210)	(342)
Decrease/(increase) in receivables	**4,580**	2,114	(709)
(Decrease)/increase in payables	**(328)**	178	1,096
Cash generated from/(used by) operations	**3,878**	(546)	8,738
Interest paid	**(110)**	(21)	(233)
Income taxes paid	**(628)**	(782)	(1,620)
Net cash inflow/(outflow) from operating activities	**3,140**	(1,349)	6,885
Investing activities			
Interest received	**14**	27	31
Proceeds on disposal of property, plant and equipment	**30**	29	34
Purchase of property, plant and equipment	**(372)**	(557)	(744)
Purchase of intangible assets	**(19)**	(11)	(20)
Acquisition of subsidiary	**-**	(16,669)	(16,669)
Net cash outflow from investing activities	**(347)**	(17,181)	(17,368)
Financing activities			
Equity dividends paid	**(2,641)**	(2,491)	(3,217)
Shares issued under employee share schemes	**544**	207	207
New bank loans raised	**-**	12,844	16,844
Repayment of borrowings	**(1,000)**	-	(8,000)
Net cash (outflow)/inflow from financing activities	**(3,097)**	10,560	5,834
Net decrease in cash and cash equivalents	**(304)**	(7,970)	(4,649)
Cash and cash equivalents at beginning of period	**6,540**	11,130	11,130
Effect of foreign exchange rate changes	**(15)**	19	59
Cash and cash equivalents at end of period	**6,221**	3,179	6,540

Reconciliation of Movement in Shareholders' Equity
Unaudited

	Six months to 30 June 2017 £'000	Six months to 30 June 2016 £'000	Year to 31 December 2016 £'000
Opening balance	**36,788**	36,522	36,522
Total comprehensive income for the period	**887**	1,654	3,169
Dividends paid	**(2,641)**	(2,491)	(3,217)
Shares issued under employee share schemes	**544**	207	207
Increase in share-based payment reserve	**30**	81	144
Deferred tax on share-based payment	**-**	-	(37)
Closing balance	**35,608**	35,973	36,788

Notes to the Interim Financial Information

1. **Basis of preparation**

The interim financial information has not been audited and does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 but has been reviewed by the auditors in accordance with International Standard on Review Engagements (UK and Ireland) 2410 issued by the Auditing Practices Board. The Group's statutory accounts for the year ended 31 December 2016, prepared in accordance with accounting standards adopted for use in the European Union (International Financial Reporting Standards (IFRS)), have been delivered to the Registrar of Companies; the report of the auditors on these accounts was unqualified and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

The interim financial information has been prepared in accordance with IFRS on the historical cost basis, except that derivative financial instruments are stated at their fair value. The same accounting policies, presentation and methods of computation are followed in the interim financial information as were applied in the Group's last annual audited financial statements.

2. **Geographical segments**

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the products:

	Six months to 30 June 2017 £'000	Six months to 30 June 2016 £'000	Year to 31 December 2016 £'000
United Kingdom	**11,421**	8,855	27,084
United States	**7,047**	8,292	24,216
South Korea	**3,663**	6,022	9,724
Rest of the World	**11,003**	5,358	15,653
	33,134	28,527	76,677

3. **Finance costs**

	Six months to 30 June 2017 £'000	Six months to 30 June 2016 £'000	Year to 31 December 2016 £'000
Interest paid	**138**	71	281
Realised losses on financial derivatives	**-**	-	8
Unrealised losses on financial derivatives	**-**	-	10
Net interest expense on pension scheme deficit	**87**	51	88
	225	122	387

4. **Taxation**

Tax for the interim period is charged at 22.5% (year to 31 December 2016: 20.3%) representing the best estimate of the weighted average annual corporation tax rate expected for the full year. Deferred tax has been calculated at a rate of 17%.

5. **Dividend**

A dividend of 7.40p (2016: 7.00p) per ordinary share will be paid on 2 October 2017 to shareholders on the register on 8 September 2017.

6. **Earnings per share**

The earnings per share is calculated on profit after tax of £1,251,000 (June 2016: £1,030,000; December 2016: £6,225,000) and the weighted average number of ordinary shares of 10,473,939 (June 2016: 10,431,624; December 2016: 10,445,140) in issue during the period. The share options in existence during the six months ended 30 June 2017 have a dilutive effect. Diluted earnings per share is calculated on earnings of £1,251,000 (June 2016: £1,030,000; December 2016: £6,225,000) and the weighted average number of ordinary shares in issue adjusted to assume conversion of all dilutive potential ordinary shares of 10,546,781 (June 2016: 10,557,853; December 2016: 10,532,657).

7. **Reconciliation of earnings before interest, tax, depreciation and amortisation (EBITDA)**

	Six months to 30 June 2017 £'000	Six months to 30 June 2016 £'000	Year to 31 December 2016 £'000
Operating profit	**1,713**	1,369	7,964
Add back:			
Depreciation	**671**	588	1,328
Amortisation	**302**	154	454
Earnings before interest, tax, depreciation and amortisation	**2,686**	2,111	9,746

8. **Availability of document**

A copy of the interim results will shortly be available on the Company website at www.portmeiriongroup.com.