Portmeirion Group PLC - PMP
Final Results
Released 07:00 09-Mar-2017

PORTMEIRION
GROUP PLC

RNS Number : 9282Y
Portmeirion Group PLC
09 March 2017

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

Preliminary results for the year ended 31 December 2016

Financial summary

	2016 £m	2015 £m	Increase/ (decrease) %
Revenue	**76.7**	68.7	11.7
Pre-tax profit	**7.8**	8.6	(9.7)
EBITDA	**9.7**	9.7	0.1
Basic earnings per share	**59.60p**	66.02p	(9.7)
Dividends paid and proposed per share in respect of the year	**32.25p**	30.00p	7.5

Highlights:

Financial

- Eighth consecutive year of record Group revenue which increased by 11.7% to £76.7 million (2015: £68.7 million).
- EBITDA is level at £9.7 million (2015: £9.7 million).
- Profit before tax down by 9.7% to £7.8 million (2015: £8.6 million).
- Total dividends paid and proposed for 2016 increased by 7.5% to 32.25p (2015: 30.00p).

Operational

- Completed £17.5 million acquisition of Wax Lyrical Limited, the UK's largest manufacturer of home fragrances.
- Received the Queen's Award for Enterprise in the category of International Trade, which recognises the Company's continuous growth in overseas sales and overall outstanding achievement in international trade over the last six years.
- Long-standing Group Finance Director, Brett Phillips, to retire from the Group in 2017.
- Appointed Michael Knapper as Operations Director and Moira MacDonald as Group Company Secretary.

Dick Steele, Non-executive Chairman commented:

"We are delighted to be reporting an eighth consecutive year of record revenue, notwithstanding the challenges faced by the Group during the period which have affected profits. Our core values of innovation, targeted product development and operational excellence remain unchanged, and we are pleased to report on the success experienced by the continued integration of Wax Lyrical. Trading in the first two months of the current year is ahead of the comparative period in 2016 on a like-for-like basis. The outlook for 2017 is positive and the issues experienced are being overcome by proactive management."

ENQUIRIES:

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David Banks	Sales

Portmeirion Group PLC
Business Review

The year under review has been challenging for Portmeirion, largely because of factors external to the business. The United Kingdom referendum on EU membership which resulted in a leave vote in June 2016 and the presidential election in the United States in November 2016 were major uncertainties in our two largest markets; uncertainty leads to caution within business and for consumers, albeit the presidential elections are regular four yearly uncertainties. These uncertainties have not yet fully played out and we are vigilant as to any future effects on international trade. South Korea, our third largest market, continued to suffer economic problems particularly in demand for luxury products. Following a huge sales increase in India in 2015, the region unfortunately did not perform as well in 2016, and returning sales to prior high levels in India will take time. Despite these problems our diversified product range, supply base, wide market access and first class people enabled us to keep Portmeirion on a steady course. Additionally, the strategic acquisition in the year of Wax Lyrical, the UK's largest manufacturer of home fragrances, provides us with excellent growth prospects.

Dividend
The Board is recommending a final dividend of 25.25 pence per share bringing the total paid and proposed for the year to 32.25 pence per share, an increase of 7.5% over the total amounts paid in respect of 2015. This is a 5.6% increase over the final dividend for 2015.

The dividends paid and proposed for 2016 are covered 1.85 times by earnings (2015: 2.2 times). The Board continues to consider that a level of dividend being twice covered is an appropriate and sustainable level for the business, although it believes a marginal fall for the 2016 dividend cover below this guideline can be temporarily accommodated.

Over the last eight years we have increased our total dividends by 10.3% per annum compound. Our share price has grown by 430% per cent. since our flotation price of £1.80 in 1988, and our total dividends paid have amounted to £3.97 per share during that period. We have never cut or withheld our dividend as a listed company.

The Board is 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, having regard to the immediate past and our view forward, and to increase our dividends whenever our results, cash balances and prudent views of future prospects and business investment needs allow us so to do. Our policy is to increase the interim dividend each year by the same percentage as the final dividend of the preceding year, subject of course to prevailing conditions.

Revenues
Revenues were £76.7 million for the year, an increase of 11.7% over the previous year (2015: £68.7 million). This represents the eighth consecutive year of record revenues for the Group. At a constant US dollar exchange rate our revenue increase would have been lower at 6.5%. The

part year sales for Wax Lyrical consolidated within the total revenues of £76.7 million were £10.4 million (2015: £nil), which represent 8 months of the financial year.

The United Kingdom became our largest market in 2016 due to the majority of Wax Lyrical's sales being in the United Kingdom. Excluding Wax Lyrical, sales in the United Kingdom from original Portmeirion businesses increased by 2.1% over 2015. Total United Kingdom sales were £27.1 million in 2016 (2015: £17.9 million). We remain cautious about the effect on our sales of the United Kingdom leaving the EU although it may be some time before the actual effect is known.

The United States provided a revenue uplift of 8.7% in translated figures, which is equivalent to a decrease of 3.7% in local currency. There are hopeful signs in the United States that the economy remains on the upswing, but some doubt remains about how Government policy will affect importers.

Our own internet based sales in the UK and the US totalled £3.3 million in 2016, a 31.8% increase over 2015. This sales channel provides good margins and greater visibility of and contact with our end consumer, offering a great opportunity for growth.

Sales into South Korea fell by a further 21.2% in 2016 over 2015 to £9.7 million, meaning that on a two year basis our sales to South Korea have fallen by £5.4 million. We were hopeful at the end of 2015 that this market was stabilising for us, and we remain hopeful but chastened. We are working closely with our exclusive distributor in South Korea to rebuild sales.

In 2015 our sales into India were £5.8 million, which we had planned to grow in 2016, however the performance of our Indian distributor was extremely disappointing, as we announced in July 2016, and despite immediate pro-active management sales in India in 2016 were £1.1 million. Accordingly we have changed our distribution arrangements in India so as to target specific distribution channels. Despite the sales shortfalls in South Korea and India, we continued to increase total Group sales. Wax Lyrical was the most important contributor to this increase, supported by improved sales into Europe and some Asian markets such as Hong Kong and Taiwan.

We continue to be well served by our strategy of diversifying products, customers, geographic markets and routes to market. These strategies enable us to exploit opportunities as and when they appear and to mitigate shortfalls in other areas.

Profits

Earnings before interest, taxation, depreciation and amortisation (EBITDA) were level with 2015 at £9.7 million. Profit before taxation was £7.8 million, a reduction of £0.8 million or 9.7% on the previous year. The difference in the proportions arises because of increased amortisation and depreciation as a consequence of the Wax Lyrical acquisition and a full year's depreciation of our new kiln.

Basic earnings per share decreased by 9.7% to 59.60 pence per share, while dividends have increased by 7.5%, with dividend cover remaining at a reasonable level, in the Board's opinion.

The Group's EBITDA has not increased despite the acquisition of Wax Lyrical, due to the sales shortfalls in India and South Korea, which are of UK manufactured product and so have a disproportionate adverse effect on our profits. This is a key area of focus.

Our corporate profits are subject to taxation in either the United States or the United Kingdom and are paid in accordance with statutory and ethical practices. The corporate taxation which we paid in 2016 amounted to £1.6 million (2015: £2.0 million).

Assets and Liabilities

Inventories are a continuing focus for us: we finished the year with £16.3 million of stock compared to £12.7 million at the previous year end. Most of this increase is attributable to stock holdings of Wax Lyrical, which was acquired during the year. Stocks have reduced by £3.7 million from 30 June 2016. The valuation of our stock balances is a critical accounting judgement in our figures; our methodology for providing against obsolete and slow moving stock is rigorous and unchanged from previous years.

Net borrowings were £2.3 million at the year end (2015: £11.1 million cash) after a net outflow of £13.5 million for the year. Major elements causing the net outflow include the acquisition of Wax Lyrical at £16.7 million, dividends paid of £3.2 million and tax paid of £1.6 million. Portmeirion remains a business which is cash generative and is soundly financed. Our committed bank facilities from Lloyds Bank amount to £21.0 million and consist of a £2.0 million overdraft on an annual renewal cycle, a £10.0 million loan repayable equally over five years from May 2016 of which £9.0 million was outstanding at the year end, and a £10.0 million revolving credit facility repayable in full in May 2019. We experience a large working capital swing during the year; it is not unreasonable to assume a cash swing of about £10 million in 2017. In the light of this our year end position plus committed bank facilities show a conservative approach to funding.

During the year we have paid £1.4 million into our long-closed defined benefit pension scheme. Largely due to the reduction in the discount rate applied, the accounting deficit recorded in these accounts has increased from £3.1 million at the end of 2015 to £7.1 million in 2016. Many companies carry defined pension scheme deficits, we are fortunate in that we were an early mover in closing our scheme and so our deficit is comparatively light. We continue to keep this under review.

Goodwill and intangible assets are major elements on our balance sheet compared to the previous year totalling £13.8 million (2015: £1.0 million). The increase is mainly due to the acquisition of Wax Lyrical during the year.

As at the period end, we held treasury shares with a book value of £448,000 to satisfy employee share schemes. These treasury shares were originally bought at an average price of £1.87 each, amounting to 239,477 shares, of which we used 3,303 during the year. We also hold 307,048 shares in the Portmeirion Employees' Share Trust ("ESOP shares") to satisfy employees share options. These ESOP shares have a book value of £2,488,000, having been bought in the market at a blended cost of £8.10 each. We have used 32,000 during the year. No treasury shares or ESOP shares were acquired during the year.

Wax Lyrical

We acquired Wax Lyrical on 4 May 2016 for a headline cash price of £17.5 million which, taking account of cash in the acquired business, reduced to £16.7 million. This acquisition cost was well within our cash and borrowing capabilities, indeed it would not have been in shareholders' interests to issue shares for the acquisition. Wax Lyrical is the UK's largest manufacturer of home fragrances and is based in Cumbria, England. Wax Lyrical's sales of £10.4 million and operating profits of £1.5 million generated from the date of acquisition to the year end have been included in the Group's consolidated results. As we continue to integrate the new business the break-out of Wax Lyrical's figures will become less meaningful. We are delighted with this acquisition; future integration benefits will be significant.

Products and Brands

We have five major brand names – Portmeirion, Spode, Royal Worcester, Wax Lyrical and Pimpernel. Brands are germane to our business model and investing in our brands, by product development, marketing, trade shows, public relations and intellectual property protection is what we do as daily business; that investment is a revenue expense and so does not show on our balance sheet.

Portmeirion Botanic Garden is a major pattern with worldwide recognition; it is hard to identify any other tableware pattern with such a level of sales. On an ongoing basis Botanic Garden generates nearly £30 million of sales per annum and there are over 50 million pieces of Botanic Garden in use worldwide today. We are ever-vigilant of imitators to Botanic Garden, or indeed any of our other patterns, and hardnosed in legal protection. Botanic Garden was launched in 1972.

Spode Christmas Tree, launched in 1938, is our second largest pattern and, on an ongoing basis, generates sales of over $10 million per annum mainly from the US. It is the dominant Christmas tableware pattern in the North American market and is supported by a number of other Christmas patterns which we sell including The Holly and The Ivy and Christmas Wish. Spode Blue Italian is our oldest continuously produced pattern having been extant for over two centuries. It is hard to identify any other tableware pattern with such a continuous history. Cobalt blue pattern on finest English earthenware is a traditional English look; on an ongoing basis it continues to generate annual worldwide sales of over £2.5 million. There is a YouTube short film under "Spode UK" which shows how the pattern is produced today in our Stoke-on-Trent factory.

Product development is a vital component of brand value. We continue to develop, extend, refresh and refine our existing patterns and products so as to retain and build customer appeal. Last year saw new patterns released of which Strawberry Thief, licensed from Morris & Co is an outstanding example. There were also hundreds of line extensions to existing patterns. In the current year-to-date, Choices and Sara Miller have been well received amongst a number of new patterns, Wrendale continues to expand, and we are additionally pulling home fragrance products into our established ceramic ranges as we tie more closely to Wax Lyrical.

A list 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 should go to www.portmeirion.com.

Production and Sourcing

It is customer demand which determines whether a ceramic product is manufactured at our own factory in Stoke-on-Trent, at another Stoke-on-Trent factory or elsewhere. Our Stoke-on-Trent factory produces the finest English earthenware, it does not produce bone china, porcelain, stoneware or any of a myriad other styles of ceramics. Regardless of what products are demanded, all are manufactured to our high quality standards, as our reputation is in the backstamp.

Because of the decline in sales to South Korea and India, markets which take large volumes of English made product, in 2016 our factory production was pulled back; tableware products excluding home fragrance were 40% UK production and 60% overseas production in 2016 whereas in 2015 the proportions were 46% to 54%.

Our new kiln came on line in 2016 just a few weeks before we saw the reality of falling demand from India and South Korea. However it has helped relieve a bottleneck with our existing glost kiln, is more fuel efficient than the existing tunnel kilns and significantly more fuel and labour efficient than the four intermittent kilns that we have had to use during high throughput periods. We are confident that should demand require it we can raise production to 170,000 pieces of best per week, and with some planning and reorganisation achieve 250,000 pieces of best per week. Average weekly production of best per week has been 130,000 in 2016. The search for new manufacturing efficiencies is unrelenting including seeking more automated ways of working. Clearly, putting more volumes through the factory would be a marginal cost benefit with a great effect on profits.

People

We had 788 people employed with us at the year end, this compares to 691 at the end of 2015. Of these 153 were with Wax Lyrical so we have reduced existing headcount by 56. We have had to balance production against demand and have avoided new hirings allowing natural reductions through retirements and leavers to adjust our cost base. Our workforce is flexible in respect of their skill base, which has helped.

We have an apprenticeship programme and a graduate programme. Average sales per employee were £99,323 in 2016, a 1.1% reduction on the 2015 level. EBITDA per employee was just over £12,600 which is reduction of 11.3% over 2015. Average wage costs per employee were just over £27,800, a 2.7% reduction on 2015. These average sales, EBITDA and wage costs per employee are key performance indicators. At over £21 million per annum, staff costs are the biggest item of expense in our business. Most of our people are in the UK at our Stoke-on-Trent factory, offices and warehouse, at our UK stores and at our Cumbrian factory, warehouse and offices; nearly 40 of our people are in the US at our warehouse, offices and showroom.

We operate a non-contractual annual incentive scheme; for 2016 most of our people will receive a payment under this scheme, albeit it at generally lower levels than in previous years, by way of thanks for their continuing contribution and commitment to the long term success of Portmeirion. No director of Portmeirion Group PLC will receive an incentive payment in respect of 2016.

The Environment
We recognise our environmental responsibilities and strive for more efficient use of resources and elimination of waste. We continue to beat the challenging targets on energy efficiency set as part of ongoing membership of a Climate Change Agreement. Our annual energy bills exceed £1.3 million per annum; it makes good commercial sense for us to care about energy usage. Our factory in Cumbria makes extensive use of renewable energy.

Corporate Governance
We recognise and welcome the benefits of corporate governance requirements and we implement them enthusiastically when we can see tangible shareholder benefits. We are an AIM listed company and so are not subject to the full listing requirements and corporate governance rules which apply to companies with a full listing on the main market. In short, we comply where reasonable and where not we explain.

We consider our approach to be forward looking and proactive in a number of areas, in particular in seeking re-election of all continuing directors each year and in the efforts which we make to get shareholders to engage with us.

The invaluable guidance provided by the Quoted Companies Alliance, of which we are enthusiastic members, is a vital yardstick for companies of our size. Good corporate governance provides shareholder value.

Senior Management
This year Brett Phillips, Group Finance Director and Portmeirion UK Managing Director, is retiring. Brett has been a big part of Portmeirion since 1988 when he was appointed as Group Finance Director, he is probably the longest serving Finance Director on the Stock Exchange. His careful guidance, industry and company knowledge, conservative financial approach and cheerful disposition will be missed. We are currently recruiting a replacement. We wish Brett well for the future and have asked him to retain a link to Portmeirion by chairing Furlong Mills Limited, an associate company which provides us with raw materials, for at least a year after his retirement.

The Board has been strengthened by the appointment of Mick Knapper as Operations Director and by the appointment of Moira MacDonald as Company Secretary.

Outlook
Trading in the first two months of the current year is over 20% ahead of the comparative period in 2016 with Wax Lyrical's sales in for the first time. Excluding Wax Lyrical, the business is currently trading marginally ahead of 2016. However, as we remain increasingly second half

weighted, sales in these first two months of the year are low in comparison to the balance of the year.

Our business is worldwide for revenues and for supplies; our ranges have longevity and our brands have heritage and strength.

Our strategy and core values remain unchanged: we believe in attentive design, assured quality, a professional sales approach, nurtured brands, prudent financing and progressive dividends. The greatest of these beliefs is dividends, and our ability to maintain our dividend policy is dependent on the delivery of our strategy and the strength of our core values.

Of immediate importance to us is volume throughput in our factories and leveraging the benefits of the Wax Lyrical acquisition. We will continue to seek out acquisition opportunities to match our demanding criteria. Our brands, quality standards, people, production facilities, suppliers, logistics, designs and finances are all in fine fettle. We remain confident in our ability to create shareholder value in the short, medium and long term.

Dick Steele
Non-executive Chairman

Lawrence Bryan
Chief Executive

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Revenue	3	**76,677**	68,669
Operating costs		**(68,713)**	(60,102)
Operating profit		**7,964**	8,567
Interest income		**31**	19
Finance costs	5	**(387)**	(177)
Share of profit of associated undertakings		**198**	240
Profit before tax		**7,806**	8,649
Tax		**(1,581)**	(1,752)
Profit for the year attributable to equity holders		**6,225**	6,897
Earnings per share	2	**59.60p**	66.02p
Diluted earnings per share	2	**59.10p**	65.48p
Dividends paid and proposed per share	4	**32.25p**	30.00p

All the above figures relate to continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

	2016 £'000	2015 £'000
Profit for the year	**6,225**	6,897
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of net defined benefit pension scheme liability	**(5,357)**	261
Deferred tax relating to items that will not be reclassified subsequently to profit or loss	**815**	(245)
Items that will be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**1,293**	385
Deferred tax relating to items that may be reclassified subsequently to profit or loss	**193**	17
Other comprehensive income for the year	**(3,056)**	418
Total comprehensive income for the year attributable to equity holders	**3,169**	7,315

CONSOLIDATED BALANCE SHEET
31 December 2016

	2016 £'000	2015 £'000
Non-current assets		
Goodwill	**7,229**	-
Intangible assets	**6,566**	1,032
Property, plant and equipment	**10,617**	9,639
Interests in associates	**2,313**	2,044
Deferred tax asset	**1,475**	566
Total non-current assets	**28,200**	13,281
Current assets		
Inventories	**16,267**	12,700
Trade and other receivables	**12,485**	9,312
Cash and cash equivalents	**6,540**	11,130
Total current assets	**35,292**	33,142
Total assets	**63,492**	46,423
Current liabilities		
Trade and other payables	**(8,738)**	(5,986)
Current income tax liabilities	**(1,005)**	(830)
Borrowings	**(1,961)**	-
Total current liabilities	**(11,704)**	(6,816)
Non-current liabilities		
Pension scheme deficit	**(7,130)**	(3,085)
Deferred tax liability	**(961)**	-
Borrowings	**(6,909)**	-
Total non-current liabilities	**(15,000)**	(3,085)
Total liabilities	**(26,704)**	(9,901)
Net assets	**36,788**	36,522
Equity		
Called up share capital	**550**	550
Share premium account	**6,624**	6,612
Investment in own shares	**(2,936)**	(3,137)
Share-based payment reserve	**496**	370
Translation reserve	**2,900**	1,414
Retained earnings	**29,154**	30,713
Total equity	**36,788**	36,522

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016

	Share capital £'000	Share premium account £'000	Investment in own shares £'000	Share-based payment reserve £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2015	549	6,456	(1,814)	292	1,012	26,552	33,047
Profit for the year	-	-	-	-	-	6,897	6,897
Other comprehensive income for the year	-	-	-	-	402	16	418
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**402**	**6,913**	**7,315**
Dividends paid	-	-	-	-	-	(2,852)	(2,852)
Increase in share-based payment reserve	-	-	-	175	-	-	175
Transfer on exercise or lapse of options	-	-	-	(97)	-	97	-
Shares issued under employee share schemes	1	156	74	-	-	(21)	210
Purchase of own shares	-	-	(1,397)	-	-	(7)	(1,404)
Deferred tax on share-based payment	-	-	-	-	-	31	31
At 1 January 2016	**550**	**6,612**	**(3,137)**	**370**	**1,414**	**30,713**	**36,522**
Profit for the year	-	-	-	-	-	6,225	6,225
Other comprehensive income for the year	-	-	-	-	1,486	(4,542)	(3,056)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**1,486**	**1,683**	**3,169**
Dividends paid	-	-	-	-	-	(3,217)	(3,217)
Increase in share-based payment reserve	-	-	-	144	-	-	144
Transfer on exercise or lapse of options	-	-	-	(18)	-	18	-
Shares issued under employee share schemes	-	12	201	-	-	(6)	207
Deferred tax on share-based payment	-	-	-	-	-	(37)	(37)
At 31 December 2016	**550**	**6,624**	**(2,936)**	**496**	**2,900**	**29,154**	**36,788**

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2016

	2016 £'000	2015 £'000
Operating profit	**7,964**	8,567
Adjustments for:		
Depreciation of property, plant and equipment	**1,328**	978
Amortisation of intangible assets	**454**	192
Contributions to defined benefit pension scheme	**(1,400)**	(937)
Charge for share-based payments	**144**	175
Exchange gain	**205**	58
Profit on sale of tangible fixed assets	**(2)**	(1)
Operating cash flows before movements in working capital	**8,693**	9,032
(Increase)/decrease in inventories	**(342)**	3,096
(Increase)/decrease in receivables	**(709)**	1,607
Increase/(decrease) in payables	**1,096**	(934)
Cash generated from operations	**8,738**	12,801
Interest paid	**(233)**	(50)
Income taxes paid	**(1,620)**	(2,045)
Net cash from operating activities	**6,885**	10,706
Investing activities		
Interest received	**31**	19
Proceeds on disposal of property, plant and equipment	**34**	2
Purchase of property, plant and equipment	**(744)**	(1,420)
Purchase of intangible assets	**(20)**	(47)
Acquisition of subsidiary	**(16,669)**	-
Net cash outflow from investing activities	**(17,368)**	(1,446)
Financing activities		
Equity dividends paid	**(3,217)**	(2,852)
Shares issued under employee share schemes	**207**	210
Purchase of own shares	**-**	(1,404)
New bank loans raised	**16,844**	-
Repayments of borrowings	**(8,000)**	-
Net cash inflow/(outflow) from financing activities	**5,834**	(4,046)
Net (decrease)/increase in cash and cash equivalents	**(4,649)**	5,214
Cash and cash equivalents at beginning of year	**11,130**	5,905
Effect of foreign exchange rate changes	**59**	11
Cash and cash equivalents at end of year	**6,540**	11,130

NOTES TO THE PRELIMINARY RESULTS

1. This announcement was approved by the Board of Directors on 8 March 2017.

1.1 The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2016 or 2015, but is derived from those accounts. Statutory accounts for 2015 have been delivered to the Registrar of Companies and those for 2016 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts: their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under Sections 498(2) or (3) of the Companies Act 2006.

1.2 For the year ended 31 December 2016 the Group has prepared its annual report and accounts in accordance with accounting standards adopted for use in the European Union (International Financial Reporting Standards).

This financial information has been prepared in accordance with the accounting policies stated in the Group's financial statements for the year ended 31 December 2016.

The financial statements have been prepared on the historical cost basis, with the exception of derivative financial instruments which are stated at their fair value.

1.3 At 31 December 2016 the Group had net debt of £2.3 million and had a bank facility of £21 million. It manufactures approximately 48% of its products and sources the remainder from third party suppliers. The Group sells into a number of different markets worldwide and has a spread of customers within its major UK and US markets.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

NOTES TO THE PRELIMINARY RESULTS
Continued

2. Earnings per share

The calculation of basic and diluted earnings per share is based on the following data:

	Earnings £'000	**2016 Weighted average number of shares**	**Earnings per share (pence)**	Earnings £'000	2015 Weighted average number of shares	Earnings per share (pence)
Basic earnings per share	**6,225**	**10,445,140**	**59.60**	6,897	10,446,483	66.02
Effect of dilutive securities: employee share options	**-**	**87,517**	**-**	-	87,095	-
Diluted earnings per share	**6,225**	**10,532,657**	**59.10**	6,897	10,533,578	65.48

3. Geographical analysis

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

	2016 £'000	2015 £'000
United Kingdom	**27,084**	17,924
United States	**24,216**	22,287
South Korea	**9,724**	12,346
Rest of the World	**15,653**	16,112
	76,677	68,669

4. Dividends

The Directors recommend that a final dividend for 2016 of 25.25p (2015: 23.90p) per ordinary share be paid, subject to shareholders' approval, on 30 May 2017 to shareholders on the register on 28 April 2017. The total dividend paid and proposed for the year is 32.25p (2015: 30.00p) per share.

NOTES TO THE PRELIMINARY RESULTS
Continued

5. Finance costs

	2016 **£'000**	2015 £'000
Interest paid	**281**	20
Realised losses on financial derivatives	**8**	10
Unrealised losses on financial derivatives	**10**	17
Net interest expense on pension scheme deficit	**88**	130
	387	177

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

	2016 **£'000**	2015 £'000
Operating profit	**7,964**	8,567
Add back:		
Depreciation	**1,328**	978
Amortisation	**454**	192
Earnings before interest, tax, depreciation and amortisation	**9,746**	9,737

7. Acquisition of subsidiary

On 4 May 2016, the Group acquired the entire issued share capital of Lighthouse Holdings Limited for a total cash consideration of £17,500,000 plus surplus cash as at 30 April 2016.

Lighthouse Holdings Limited's wholly owned operating subsidiary, Wax Lyrical Limited, is the UK's largest manufacturer of home fragrances. Wax Lyrical is based in the Lake District and is both a wholesaler and retailer of its home fragrance products, primarily scented candles and reed diffusers, to both UK and export markets. Manufactured in the UK, its leading brands of Wax Lyrical and Colony are sold in high quality stores together with ranges produced for some of the world's leading luxury brands. Wax Lyrical exports to over 40 countries around the world.

Lighthouse's audited accounts for the year ended 31 December 2015 recorded revenue of £13,813,000, a pre-tax profit of £2,065,000 and net assets as at 31 December 2015 of £7,648,000.

The acquisition brings the following strategic benefits for Portmeirion:
- the acquisition was earnings enhancing in 2016;
- Wax Lyrical, with its high quality brands and "Made in Britain" pedigree represents a strong strategic fit for Portmeirion; and
- the combined Group will benefit from a wider product offering and access to a larger customer base.

Significant growth opportunities for Wax Lyrical's products are envisaged within the Group's existing markets and distribution channels. In particular, the Group expects to grow Wax Lyrical's sales through Portmeirion's existing UK customers, websites and retail outlets as well as into export markets such as the United States and South Korea.

NOTES TO THE PRELIMINARY RESULTS
Continued

7. Acquisition of subsidiary continued

The amounts recognised at fair value in respect of the identifiable assets acquired and liabilities assumed are as follows:

	£'000
Cash and cash equivalents	1,432
Trade and other receivables	2,040
Inventory	2,549
Property, plant and equipment	1,482
Trade and other payables	(1,362)
Current income tax liabilities	(163)
Identifiable intangible assets	5,968
Less deferred tax liability	(1,074)
Total identifiable assets	10,872
Goodwill	7,229
Total consideration	**18,101**

	£'000
Satisfied by:	
Cash and cash equivalents	5,257
Borrowings	12,844
Total consideration transferred	**18,101**

	£'000
Net cash outflow arising on acquisition:	
Cash consideration	18,101
Less: cash and cash equivalent balances acquired	(1,432)
Net cash outflow	**16,669**

The goodwill of £7,229,000 arising from the acquisition consists of the anticipated synergies of combining the existing Group operations with those of Wax Lyrical. This will include shared product development, distribution channels, access to new customers in the UK and export markets and other operational synergies. None of the goodwill is expected to be deductible for income tax purposes. The intangible assets value of £5,968,000 represents intellectual property and customer lists recognised at their fair value, which are being amortised over their estimated useful lives of 15 and 10 years respectively.

Acquisition-related costs (included in operating costs) amount to £170,000.

Wax Lyrical contributed £10,355,000 revenue and £1,455,000 to the Group's profit for the period between the date of acquisition and the balance sheet date. If the acquisition of Wax Lyrical had been completed on the first day of the financial year, Group revenue for the period would have been £80,716,000 and Group pre-tax profit would have been £7,921,000.

The accounts for the year ended 31 December 2016 will be posted to shareholders on or before 12 April 2017 and laid before the Company at the Annual General Meeting on 25 May 2017. Copies will be available from the Company Secretary at Portmeirion Group PLC, London Road, Stoke-on-Trent, Staffs., ST4 7QQ, or from the website www.portmeiriongroup.com.