Portmeirion Group PLC - PMP
Preliminary Results year ended 31 December 2014
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PORTMEIRION
GROUP PLC

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

Preliminary results for the year ended 31 December 2014

Financial summary

	2014	2013	Increase
	£m	£m	%
Revenue	**61.4**	58.3	5.3
Pre-tax profit	**7.6**	7.0	8.6
EBITDA	**8.9**	8.3	7.4
Basic earnings per share	**57.64p**	53.26p	8.2
Dividends paid and proposed per share in respect of the year	**26.50p**	24.00p	10.4

Highlights:

Financial

- Sixth consecutive year of record Group revenue with growth of 5.3% to £61.4 million (2013: £58.3 million)
- Profit before tax increased 8.6% to a record £7.6 million (2013: £7.0 million)
- Total dividend paid and proposed for 2014 increased by 10.4% to a record 26.50p (2013: 24.00p)
- Revenue growth in key markets of USA, UK and South Korea
- Strong revenue growth of over 25% in other export markets

Operational

- Approved £1.5 million investment in a new kiln and other equipment which will increase manufacturing capacity in the UK by over 50%
- Growth in online revenue of over 70% to £2.0 million (2013: £1.1 million)
- Record production levels with 17% increase to 150,000 best pieces per week (2013: 128,000)
- Exciting new ceramic range with Ted Baker announced
- 80 new jobs created

Dick Steele, Non-executive Chairman commented:

"We are delighted to be reporting another record year. Our core values of innovation, targeted product development and operational excellence remain unchanged. We remain confident for the future; the outlook for 2015 is positive."

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Portmeirion Group PLC
Business Review

Portmeirion enjoyed a sixth successive year of record sales in 2014 with revenues and earnings being driven to their highest ever levels. This outcome, together with our confidence for the future, has enabled us to increase our dividend for the sixth successive year. We have improved our sales in the United States but have continued to be adversely impacted in Europe with the ongoing Anti-Dumping Duty. Our diversified product range, supply base and wide markets have enabled us to maintain our steady progress.

Dividends
The Board is recommending a final dividend of 21.00 pence per share bringing the total paid and proposed for the year to 26.50 pence per share, an increase of 10.4% over the total amounts paid in respect of 2013 and a 10.5% increase over the final dividend for 2013.

The final dividend will be paid, subject to shareholders' approval at the AGM on 19 May 2015, on 27 May 2015 to shareholders on the register on 24 April 2015.

The dividends paid and proposed for 2014 are covered 2.2 times by earnings (2013: 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.

Over the last six years we have increased our total dividends by an average of 10.3% per annum compound and our total dividend is now 80% higher than it was in 2008.

We listed on the London Stock Exchange 27 years ago in 1988; the issue price of our shares at flotation was £1.80 each. Our share price has grown nearly fivefold since 1988 and our total dividends have amounted to £3.41 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, why they bought Portmeirion shares and why they continue to hold them. We aim to maintain a sustainable and fair level of dividend cover and to increase our dividends whenever our results, cash balances and prudent views of future trading and business investment needs allow us so to do. Our consistent 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 £61.4 million for the year, an increase of 5.3% over the previous year (2013: £58.3 million). This represents a sixth successive year of record revenues for the Company. At a constant US dollar exchange rate our revenue increase would have been even higher at 7.6%.

Our largest market remains the United States, which represents nearly a third of our sales. We finished the year 1.0% above last year in translated figures in the United States, but by 6.4% in local currency. Better rates of employment and lower fuel costs continue to improve our prospects in the United States.

The United Kingdom remains our second largest market accounting for just over a quarter of our revenues; here we increased sales by 3.3% over 2013. At just under a quarter of our sales South Korea had another good year for us with a sales increase of 2.0%. Sales growth in the rest of the world was an impressive 25.3% during the year, with a starring performance in India which grew by 84% to take that market to our fourth largest at nearly 4% of sales. We supply our products to over sixty countries throughout the world.

Online sales, principally to United Kingdom and United States customers, were £2.0 million and are included in the sales figures quoted above. This was an excellent increase at 74% above 2013. The increase in the United States, which commenced online sales in the second half of 2013, was 178%; we increased United Kingdom online sales by 36%. This route to market currently shows no signs of cooling.

We continue to be well served by our diversified strategy encompassing widely differing geographies, products, customers and routes to market. These strategies enable us to pursue opportunities as and when they appear.

Profits

Earnings before interest, taxation, depreciation and amortisation (EBITDA) increased by 7.4% to £8.9 million in the year (2013: £8.3 million). Profit before taxation was £7.6 million, an increase of 8.6% over the comparative year (2013: £7.0 million). Both of these figures represent another record year for Portmeirion.

Basic earnings per share increased by 8.2%, dividends have been increased by 10.4%; dividend cover is fractionally below last year but still well within comfort levels.

EBITDA and profit growth continue to be ahead of revenue growth, albeit only marginally as we are increasingly nudging against manufacturing inefficiencies.

We continue to suffer from the imposition of Anti-Dumping Duty which has been forced on some of our European sales. The cost to the business in 2014 was approximately £0.8 million.

Nearly all of our corporate profits are subject to taxation in either the United Kingdom or the United States. We do not engage in any exotic tax planning exercises. The corporate taxation which we paid in 2014 amounted to £1.5 million.

Balance Sheet

High inventories have been a factor this year; as we have struggled to achieve the stock deliveries demanded by our customer base, our stock receipts, balances and controls have been less than optimum with peak stocks in 2014 hitting £17.3 million; these were reduced to £15.5 million by the year end, £3.8 million above 2013. This is an area for further management focus in 2015. Our stock provisioning policies are unchanged and rigorous.

Cash balances finished the year at £5.9 million, being £0.3 million below 2013 year end. Stronger stock controls would have added more cash from our stock balances, but at the expense of revenue and profits. Cash balances remain strong even after paying dividends of £2.6 million, corporate taxation of £1.5 million and capital investments of £0.9 million during 2014.

The pension scheme deficit on the defined benefit scheme which we closed sixteen years ago increased to £4.2 million from £2.4 million at the year end predominantly because of the discount rates used to evaluate the liabilities. £0.8 million of cash contributions were made to this scheme in 2014; there was no trading benefit to Portmeirion Group from the payment.

We have used treasury shares with a book value of £37,834 to satisfy share options exercised during the year, these treasury shares were originally bought at an average price of £1.87 each. We have 282,388 treasury shares remaining on the balance sheet which will be used to satisfy share options where appropriate. We have also acquired a further 95,671 shares for an employee benefit trust during the year. Our balance of such employee benefit trust shares now stands at 189,671, these will also be used to satisfy share options.

Products and Brands

We have four brand names – Portmeirion, Spode, Royal Worcester and Pimpernel. It is in our brands that much of the value of Portmeirion Group lies. The long and illustrious history of our brands stretches back to the mid eighteenth century with Spode and Royal Worcester. Some of our major tableware patterns are also brand names in their own rights.

Portmeirion Botanic Garden is a major pattern with a worldwide following. Since its launch in 1972 it has continued to evolve and grow. Sales last year were over £28 million, a conservative estimate would be that over 50 million pieces of Botanic Garden are still in use and on display all over the world. Other companies have tried to imitate the success of Botanic Garden and we are alert to any infringement of our intellectual property. Botanic Garden remains at the heart of our future prosperity.

Spode Christmas Tree is our second largest pattern, its main market is in North America where it consistently achieves sales in excess of $10 million per annum. From shortly after its launch in 1938 Christmas Tree has been a dominant Christmas tableware pattern; we also have other Christmas patterns such as The Holly and The Ivy, Sophie Conran for Portmeirion Christmas and Christmas Wish.

Our oldest continuous pattern is Spode Blue Italian, a traditional cobalt blue on finest English earthenware. In 2016 Blue Italian will have enjoyed 200 years of sales and we plan to celebrate this anniversary.

We have just launched Ted Baker Portmeirion tableware patterns, we have high hopes for these ranges and early responses are encouraging.

Product development remains key to our future. We continue to develop, extend, refresh and refine our existing patterns, and to launch new patterns and products, so as to retain and improve customer appeal. Central to our product development work is commercial reality; innovation is important but it is subordinate to profit. The Ted Baker Portmeirion launch in 2015 is a great example of new pattern development (albeit drawing heavily on a shape that we first introduced fifty years ago).The forty new SKUs introduced into Botanic Garden in 2014 clearly show the continuing development of existing patterns.

A list of our current patterns can be found at www.portmeirion.co.uk, www.spode.co.uk, www.royalworcester.co.uk and www.pimpernelinternational.co.uk.

Production and Sourcing

Whether our sales are of United Kingdom manufactured product or overseas sourced product is determined by the products being demanded. Our Stoke-on-Trent factory produces finest English earthenware, it does not produce bone china or porcelain which are different clay mixes and have different firing temperatures. Irrespective of the place of production all of our products are manufactured to our exacting quality standards and carry our reputation on the backstamp.

The mix between own manufactured and sourced product was 48:52 in 2014, whereas in 2013 it was 44:56 and in 2012 it was 41:59. With steadily increasing sales overlaid on this trend it is clear that our own production is rising. Our factory has been at the forefront of our results for 2014 as greater production volumes have continued to be driven out, albeit at some cost to production and working capital efficiencies. Average weekly production of best quality pieces is a reasonable proxy for production volume; in 2014 we achieved 150,000 per week, in 2013 it was 128,000 per week and in 2012 115,000 per week. In January 2015 we announced an extensive expansion of our production capacity in Stoke-on-Trent. By the last quarter of 2015 we will have commissioned a new tunnel kiln and other associated production equipment at a cost of £1.5 million which will be met from our current cash facilities. This expansion will enable us to drive our UK production to 250,000 per week; as demand increases we will be able to meet it.

Despite a 16% increase in sales of own manufactured products in 2014, energy costs only increased by 2.6% as we continued to drive firing efficiencies and benefitted from energy price reductions.

People

We created 80 new jobs in 2014; the average number of employees during the year increased from 578 to 631. We anticipate further job creation in 2015. Average sales per employee were £97,258 in 2014, a marginal fall on 2013 reflecting, in part, the inherent inefficiencies that we met as production levels were driven closer to capacity constraints. EBITDA per employee was £14,059, also showing a marginal reduction on 2013 for similar reasons to sales.

We are the first company in the UK to receive the Investment in Young People award. This award recognises the practical support and considerable time and effort we have committed towards the development of employability skills and identification of potential career options of local young people.

Staff costs are the biggest item of expense in our business. Most of our people are in the United Kingdom, and the majority are based at our Stoke-on-Trent factory and warehouse sites. We employ 36 people in the United States, mainly at our Connecticut warehouse, but also in our Manhattan office and showroom. Total staff costs were £17.9 million in 2014, an increase of 10.8% over 2013 compared to a 9.2% increase in staff numbers. Average staff cost per head is £28,331.

We operate a non-contractual annual incentive scheme; for 2014 most of our people received a payment under this scheme by way of thanks for their contribution to the continuing success of Portmeirion.

The Environment
We recognise our environmental responsibilities and strive for more efficient use of resources and elimination of waste with considerable success. For example, we have achieved a reduction of 16.7% in our ‘Primary Specific Energy Consumption’, a measure of energy efficiency under our Climate Change Agreement, for the period from 2013 to 2014.

Risks
Our annual report and accounts lists the principal risks to which we consider the business is subject; five of these risks merit a little more discussion here:

Currency risks remain broadly covered as our US dollar receivables from our US sales are matched by our US dollar payables for our purchases from the Far East. Other foreign exchange net exposures are managed as appropriate.

Political and regulatory decisions are often unforeseen. The recent Anti-Dumping Duty problems from Brussels were not on the horizon until three years ago, similarly we have to worry about carbon tax measures when compared to other economic areas. The 1997 political decision about pension schemes referred to below were completely unforeseen but the impact continues. We remain as alert as possible to these dangers and mitigate them as best we can.

Energy costs are a major item of expenditure for us. Recent energy pricing has proved favourable and we will maintain our aggressive stance on energy conservation.

We have a diversified approach to product sourcing, from our own factory and other sources in the UK and overseas. This diversification increases the likelihood of problems occurring, but also increases our ability to deal with those problems.

Our long closed defined benefit pension scheme continues to absorb cash. In 2014 we paid in £0.8 million with no future economic benefit for the business, however this does not affect reported profits by this amount. We continue to take action to de-risk this scheme.

Corporate Governance
We are an AIM listed company and so are not subject to the full panoply of listing requirements and corporate governance rules which apply to companies on the main market. Nevertheless, we recognise and welcome the benefits of many of these corporate governance requirements which

are not mandated upon us and we implement them enthusiastically when we can see tangible shareholder benefit. We consider our approach to be forward looking in a number of areas, in particular in seeking annual re-election of all directors and in the strenuous efforts which we make to get shareholders to engage with us.

We will continue to be energetic but practical in our pursuit of effective and efficient corporate governance relative to our size, markets and business structure. The guidance provided by the Quoted Companies Alliance is a vital yardstick for companies of our size.

Outlook

Our business is worldwide for revenues and for supplies; our ranges have longevity and our brands have a value far above the figures ascribed to them in our balance sheet.

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 is dividends, and they depend on the others.

We continue to seek out acquisition opportunities to match our demanding criteria.

Trading in the first two months of the current year is ahead of the comparative period in 2014. However, as we have become increasingly second-half weighted, sales in these months are low in comparison to the rest of the year. We remain confident in our business model for the short and long terms.

Richard Steele	**Lawrence Bryan**
Non-executive Chairman	**Chief Executive**

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2014

	Notes	**2014 £'000**	2013 £'000
Revenue	**3**	**61,370**	58,295
Operating costs		**(53,811)**	(51,233)
Operating profit		**7,559**	7,062
Interest income		**16**	52
Finance costs	**5**	**(152)**	(246)
Share of profit of associated undertakings		**188**	141
Profit before tax		**7,611**	7,009
Tax		**(1,538)**	(1,400)
Profit for the year attributable to equity holders		**6,073**	5,609
Earnings per share	**2**	**57.64p**	53.26p
Diluted earnings per share	**2**	**57.30p**	52.84p
Dividends paid and proposed per share	**4**	**26.50p**	24.00p

All the above figures relate to continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2014

	2014 **£'000**	2013 £'000
Profit for the year	**6,073**	5,609
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of net defined benefit liability	**(2,455)**	1,947
Deferred tax relating to items that will not be reclassified subsequently to profit or loss	**491**	(660)
Items that will be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**368**	(156)
Deferred tax relating to items that may be reclassified subsequently to profit or loss	**45**	(28)
Other comprehensive income for the year	**(1,551)**	1,103
Total comprehensive income for the year attributable to equity holders	**4,522**	6,712

CONSOLIDATED BALANCE SHEET
31 December 2014

	2014 £'000	2013 £'000
Non-current assets		
Intangible assets	**1,177**	1,419
Property, plant and equipment	**9,168**	9,285
Interests in associates	**1,854**	1,778
Deferred tax asset	**832**	222
Total non-current assets	**13,031**	12,704
Current assets		
Inventories	**15,544**	11,713
Trade and other receivables	**10,772**	10,889
Cash and cash equivalents	**5,905**	6,205
Total current assets	**32,221**	28,807
Total assets	**45,252**	41,511
Current liabilities		
Trade and other payables	**(6,856)**	(6,465)
Current income tax liabilities	**(1,196)**	(1,141)
Total current liabilities	**(8,052)**	(7,606)
Non-current liabilities		
Pension scheme deficit	**(4,153)**	(2,404)
Total non-current liabilities	**(4,153)**	(2,404)
Total liabilities	**(12,205)**	(10,010)
Net assets	**33,047**	31,501
Equity		
Called up share capital	**549**	548
Share premium account	**6,456**	6,375
Investment in own shares	**(1,814)**	(1,139)
Share-based payment reserve	**292**	742
Translation reserve	**1,012**	599
Retained earnings	**26,552**	24,376
Total equity	**33,047**	31,501

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2014

	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 2013	541	5,802	(767)	601	783	19,887	26,847
Profit for the year	-	-	-	-	-	5,609	5,609
Other comprehensive income for the year	-	-	-	-	(184)	1,287	1,103
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(184)**	**6,896**	**6,712**
Dividends paid	-	-	-	-	-	(2,376)	(2,376)
Increase in share-based payment reserve	-	-	-	141	-	-	141
Shares issued under employee share schemes	7	573	202	-	-	(60)	722
Purchase of own shares	-	-	(574)	-	-	(3)	(577)
Deferred tax on share-based payment	-	-	-	-	-	32	32
At 1 January 2014	**548**	**6,375**	**(1,139)**	**742**	**599**	**24,376**	**31,501**
Profit for the year	-	-	-	-	-	6,073	6,073
Other comprehensive income for the year	-	-	-	-	413	(1,964)	(1,551)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**413**	**4,109**	**4,522**
Dividends paid	-	-	-	-	-	(2,587)	(2,587)
Increase in share-based payment reserve	-	-	-	194	-	-	194
Transfer on exercise or lapse of options	-	-	-	(644)	-	644	-
Shares issued under employee share schemes	1	81	38	-	-	(34)	86
Purchase of own shares	-	-	(713)	-	-	(3)	(716)
Deferred tax on share-based payment	-	-	-	-	-	47	47
At 31 December 2014	**549**	**6,456**	**(1,814)**	**292**	**1,012**	**26,552**	**33,047**

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2014

	2014 £'000	2013 £'000
Operating profit	**7,559**	7,062
Adjustments for:		
Depreciation of property, plant and equipment	**1,001**	906
Amortisation of intangible assets	**311**	289
Contributions to defined benefit pension scheme	**(800)**	(800)
Charge for share-based payments	**194**	141
Exchange (loss)/gain	**(20)**	37
Profit on sale of tangible fixed assets	**-**	(9)
Operating cash flows before movements in working capital	**8,245**	7,626
Increase in inventories	**(3,506)**	(200)
Decrease/(increase) in receivables	**332**	(1,369)
Increase in payables	**316**	771
Cash generated from operations	**5,387**	6,828
Interest paid	**(59)**	(30)
Income taxes paid	**(1,525)**	(1,261)
Net cash from operating activities	**3,803**	5,537
Investing activities		
Interest received	**16**	76
Proceeds on disposal of property, plant and equipment	**16**	46
Purchase of property, plant and equipment	**(860)**	(4,579)
Purchase of intangible assets	**(69)**	(99)
Net cash outflow from investing activities	**(897)**	(4,556)
Financing activities		
Equity dividends paid	**(2,587)**	(2,376)
Shares issued under employee share schemes	**86**	722
Purchase of own shares	**(716)**	(577)
Net cash outflow from financing activities	**(3,217)**	(2,231)
Net decrease in cash and cash equivalents	**(311)**	(1,250)
Cash and cash equivalents at beginning of year	**6,205**	7,450
Effect of foreign exchange rate changes	**11**	5
Cash and cash equivalents at end of year	**5,905**	6,205

NOTES TO THE PRELIMINARY RESULTS

1. This announcement was approved by the Board of Directors on 11 March 2015.

1.1 The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2014 or 2013, but is derived from those accounts. Statutory accounts for 2013 have been delivered to the Registrar of Companies and those for 2014 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 2014 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 2014.

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 2014 the Group had a cash balance of £5.9 million and an unused bank facility with available funding of £4 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.

2. Earnings per share

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

	Earnings £'000	**2014 Weighted average number of shares**	**Earnings per share (pence)**	Earnings £'000	2013 Weighted average number of shares	Earnings per share (pence)
Basic earnings per share	**6,073**	**10,535,950**	**57.64**	5,609	10,531,715	53.26
Effect of dilutive securities: employee share options	**-**	**62,308**	**-**	-	82,372	-
Diluted earnings per share	**6,073**	**10,598,258**	**57.30**	5,609	10,614,087	52.84

3. Geographical analysis

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

	2014 £'000	2013 £'000
United Kingdom	**15,939**	15,435
United States	**20,052**	19,854
South Korea	**15,077**	14,783
Rest of the World	**10,302**	8,223
	61,370	58,295

4. Dividends

The Directors recommend that a final dividend for 2014 of 21.00p (2013: 19.00p) per ordinary share be paid, subject to shareholders' approval, on 27 May 2015 to shareholders on the register on 24 April 2015. The total dividend paid and proposed for the year is 26.50p (2013: 24.00p) per share.

5. Finance costs

	2014 £'000	2013 £'000
Interest paid	**43**	43
Realised losses on financial derivatives	**3**	7
Unrealised losses on financial derivatives	**12**	-
Defined benefit pension scheme – other finance costs	**94**	196
	152	246

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

	2014 £'000	2013 £'000
Operating profit	**7,559**	7,062
Add back:		
Depreciation	**1,001**	906
Amortisation	**311**	289
Earnings before interest, tax, depreciation and amortisation	**8,871**	8,257

The accounts for the year ended 31 December 2014 will be posted to shareholders on or before 16 April 2015 and laid before the Company at the Annual General Meeting on 19 May 2015. 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.