



Portmeirion Group PLC - PMP
Preliminary Results
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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 2015

Financial summary

	2015	2014	Increase
	£m	£m	%
Revenue	68.7	61.4	11.9
Pre-tax profit	8.6	7.6	13.6
EBITDA	9.7	8.9	9.8
Basic earnings per share	66.02p	57.64p	14.5
Dividends paid and proposed per share in respect of the year	30.00p	26.50p	13.2

Highlights:

Financial

- Seventh consecutive year of record Group revenue which increased by 11.9% to £68.7 million (2014: £61.4 million)
- Profit before tax increased 13.6% to an all-time high of £8.6 million (2014: £7.6 million)
- Total dividend paid and proposed for 2015 increased by 13.2% to 30.00p (2014: 26.50p)
- Revenue growth in USA, UK and Asia
- Stocks reduced by £2.8 million to £12.7 million (2014: £15.5 million)
- Cash balance increased to £11.1 million (2014: £5.9 million)

Operational

- New kiln installed within timescale and budget and now in production
- Ted Baker range wins Best Licensed Home Décor, Tableware or Housewares range at The Licensing Awards
- Attained Investors in People silver level and became first company in the UK to be awarded with the new Investment in Young People (IiYP) award
- 2016 celebrates 200th Anniversary of Blue Italian range

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. Trading in the first two months of the current year is ahead of the comparative period in 2015. The outlook for 2016 is positive.”

Portmeirion Group PLC

Business Review

Portmeirion enjoyed a seventh consecutive year of record sales in 2015 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 seventh successive year. While we have improved our sales in the United States and the United Kingdom we have suffered what we believe to be a temporary slowdown in South Korean sales as the local economic conditions and attitudes towards luxury goods have softened. However, our diversified product range, supply base and wide markets have enabled us to maintain our steady progress elsewhere.

Dividends

The Board is recommending a final dividend of 23.90 pence per share bringing the total paid and proposed for the year to 30.00 pence per share, an increase of 13.2% over the total amounts paid in respect of 2014; this is a 13.8% increase over the final dividend for 2014.

The final dividend will be paid, subject to shareholders' approval at the AGM on 19 May 2016, on 25 May 2016 to shareholders on the register on 22 April 2016.

The dividends paid and proposed for 2015 are covered 2.2 times by earnings (2014: 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 seven years we have increased our total dividends by an average of 10.7% per annum compound and our total dividend is now more than double the amount for 2008.

We listed on the London Stock Exchange 28 years ago in 1988; the issue price of our shares at flotation was £1.80 each. Our share price has grown some sixfold since 1988 and our total dividends have amounted to £3.66 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 £68.7 million for the year, an increase of 11.9% over the previous year (2014: £61.4 million). This represents a seventh consecutive year of record revenues for the Company. At a constant US dollar exchange rate our revenue increase would have been a little lower at 8.4%.

Our largest market remains the United States, which represents nearly a third of our sales. We finished the year 11.1% above last year in translated figures in the United States, but by 3.1% ahead in local currency. Continuing improvements in economic conditions in the United States give cause for optimism, however set against this must be the uncertainty around the upcoming presidential elections.

The United Kingdom remains our second largest market accounting for just over a quarter of our revenues; here we increased sales by 12.5% over 2014. The EU referendum is imminent and

that carries its own uncertainties both for the UK market and our wider EU markets. However, our sales into the EU (other than the UK) are less than 3% of our revenues, so the short term impact of an exit would be slight in terms of global sales. We do continue to identify the EU as a market of major potential.

Our sales to South Korea fell back by 18.1% compared to 2014. This is the first notable sales slowdown for us in South Korea since we first started trading there nearly two decades ago; the economy has been weak and this has translated into a greater effect on the sales of luxury brands such as Portmeirion. We believe that this market is now stabilising for us. Despite such a drop in our third largest market we have still achieved overall sales growth, this is because of our emphasis on diversified global sales.

Sales growth in the rest of the world was a very impressive 56.4% during the year, with a starring performance in India which grew by 140.8% to consolidate that market as our fourth largest at over 8% of sales. Thailand and Taiwan were also areas of high growth for us. We supply our products to over sixty countries throughout the world.

Online sales, principally to United Kingdom and United States customers, were £2.5 million and are included in the sales figures quoted above. This was an excellent increase at 26.6% above 2014. This route to market continues to provide growth opportunities and sits firmly within our emphasis on diversity.

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 9.8% to £9.7 million in the year (2014: £8.9 million). Profit before taxation was £8.6 million, an increase of 13.6% over the comparative year (2014: £7.6 million). Both of these figures represent another record year for Portmeirion.

Basic earnings per share increased by 14.5%, dividends have been increased by 13.2%; dividend cover is well within comfort levels.

Profit growth remains ahead of revenue growth; as we have a manufacturing facility with a fixed cost base then revenue growth feeds through to improved profit growth.

We continue to suffer from the imposition of Anti-Dumping Duty which has been applied to some of our European sales. The cost to the business is cumulatively over £2 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 2015 amounted to £2.0 million.

Balance Sheet

A significant reduction in inventories has been achieved this year, peak stocks in 2015 were £17.4 million (2014 peak: £17.3 million), our year end stock balances were £12.7 million (2014 year end: £15.5 million). This is an area for ongoing management focus in 2016. Our stock provisioning policies are unchanged and rigorous.

Cash balances finished the year at £11.1 million, being £5.2 million above 2014 year end (2014: £5.9 million). In addition to the strong revenue, profit and dividend growth this excellent increase in our cash balances is one of the most significant achievements of the year. These cash balances were delivered after paying dividends of £2.9 million (2014: £2.6 million), corporate taxation of £2.0 million (2014: £1.5 million) and capital investments of £1.5 million (2014: £0.9

million) during the year. We have a large working capital swing during the year, our year end cash balances being broadly the peak level that we achieve; it is not unreasonable for us to assume a cash swing approaching £9 million for 2016 and so in the light of this our year end cash balance is comfortable, but not excessive.

The pension scheme deficit on the defined benefit scheme which we closed seventeen years ago reduced to £3.1 million from £4.2 million at the previous year end predominantly because of the cash payment made and the discount rates used to evaluate the liabilities. £0.9 million of cash contributions were made to this scheme in 2015; there was no trading benefit to Portmeirion Group from the payment.

We have used treasury shares with a book value of £74,000 to satisfy share options exercised during the year, these treasury shares were originally bought at an average price of £1.87 each. We have 242,780 treasury shares remaining on the balance sheet which will be used to satisfy share options where appropriate. We have also acquired a further 149,377 shares for an employee benefit trust during the year. Our balance of such employee benefit trust shares now stands at 339,048, 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, explaining in part the difference between our balance sheet value and our stock market value. 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 £33 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.

Our oldest continuously produced pattern is Spode Blue Italian, a traditional cobalt blue on finest English earthenware. 2016 marks the 200th anniversary of the launch of Blue Italian. Josiah Spode the Younger numbered his designs consecutively, Blue Italian being Number 2614 which gives some indication of his work ethic which we are proud to maintain. The pattern around the outer edge is an Imari design, Imari being the Japanese port from which much fine porcelain was exported to Europe five hundred years ago. The central motif of Blue Italian may be based on work by Frederik de Moucheron or perhaps that by Giovanni Battista Piranesi, the truth is lost in the mists of time. What is certain is that our annual sales of Blue Italian exceed £1.5 million. Shareholders may wish to visit YouTube and search for ‘Spode UK’ and watch the short video which shows how the pattern is made today in our Stoke-on-Trent factory.

Ted Baker Portmeirion tableware patterns, a range of licensed designs produced in collaboration with the popular British fashion designer, were launched in 2015; sales were above budget.

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 Giallo extension to Blue Italian is a good example of how some product development can build on existing ranges, as is the continuing strengthening of our Wrendale offering.

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. Customers in the United States should go to www.portmeirion.com.

Production and Sourcing

Whether our sales are of United Kingdom manufactured product (from our own factory, or elsewhere in Stoke-on-Trent) 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.

Our Stoke-on-Trent factory produced volumes in 2015 at a similar level as in 2014 and maintained high quality standards at the same time as successfully coping with the building of a new tunnel kiln and major movements of equipment to accommodate it. The installation of the new kiln was not without its challenges, but it is now fully commissioned and we have just started to increase production by some 20,000 best quality pieces per week. Other bottlenecks will occur as we increase this even further, particularly in decoration, but we continue to believe that we can add another 80,000 pieces a week on top of this 20,000 pieces – subject of course to there being sufficient customer demand. We have purchased a hollowware decal application machine and will be increasing our use of heat transfer decals in order to drive greater production efficiencies.

The mix between own manufactured and sourced product during the year was 46:54 whereas in 2014 it was 48:52, in 2013 it was 44:56 and in 2012 it was 41:59. Our factory has remained at the forefront of our results for 2015 as excellent production volumes have continued to be driven out, albeit at some cost to production efficiencies.

Average weekly production of best quality pieces is a reasonable proxy for production volume; in 2015 it was 148,000 per week, in 2014 we achieved 150,000 per week, in 2013 it was 128,000 per week and in 2012 115,000 per week.

People

We created 19 new jobs in 2015; the average number of employees during the year increased from 631 to 684. We have an apprenticeship programme and a graduate programme. We anticipate further job creation in 2016. Average sales per employee were £100,393 in 2015, a marginal increase on 2014 slightly above the increase in average employment costs per person. EBITDA per employee was £14,235, also showing a marginal increase on 2014.

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 37 people in the United States, mainly at our Connecticut warehouse, but also in our Manhattan office and showroom.

Total staff costs were £19.6 million in 2015, an increase of 9.5% over 2014 compared to an 8.4% increase in average staff numbers. Average staff cost per head is £28,610.

We operate a non-contractual annual incentive scheme; for 2015 most of our people will receive a payment under this scheme by way of thanks for their contribution to the continuing success of Portmeirion.

We continue to recruit new people and in 2016 we anticipate making a number of senior appointments below board level with a view to helping to secure our results in future years.

The Environment

We recognise our environmental responsibilities and strive for more efficient use of resources and elimination of waste with considerable success. For example, the Company continued to beat the challenging targets on energy efficiency set as part of its ongoing membership of a Climate Change Agreement.

Corporate Governance

We are an AIM listed company and so are not subject to the full 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 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 are very strong.

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 2015. However, as we have become increasingly second-half weighted, sales in these months are low in comparison to the rest of the year. Our brands, quality standards, people, production facilities, suppliers, logistics, designs and finances are all in fine fettle. We remain confident in our business model for the short, medium and long terms.

Richard Steele
Non-executive Chairman

Lawrence Bryan
Chief Executive

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2015

	Notes	2015 £'000	2014 £'000
Revenue	3	68,669	61,370
Operating costs		(60,102)	(53,811)
Operating profit		8,567	7,559
Interest income		19	16
Finance costs	5	(177)	(152)
Share of profit of associated undertakings		240	188
Profit before tax		8,649	7,611
Tax		(1,752)	(1,538)
Profit for the year attributable to equity holders		6,897	6,073
Earnings per share	2	66.02p	57.64p
Diluted earnings per share	2	65.48p	57.30p
Dividends paid and proposed per share	4	30.00p	26.50p

All the above figures relate to continuing operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2015

	2015	2014
	£'000	£'000
Profit for the year	6,897	6,073
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of net defined benefit pension scheme liability	261	(2,455)
Deferred tax relating to items that will not be reclassified subsequently to profit or loss	(245)	491
Items that will be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	385	368
Deferred tax relating to items that may be reclassified subsequently to profit or loss	17	45
Other comprehensive income for the year	418	(1,551)
Total comprehensive income for the year attributable to equity holders	7,315	4,522

CONSOLIDATED BALANCE SHEET
31 December 2015

	2015 £'000	2014 £'000
Non-current assets		
Intangible assets	1,032	1,177
Property, plant and equipment	9,639	9,168
Interests in associates	2,044	1,854
Deferred tax asset	566	832
Total non-current assets	13,281	13,031
Current assets		
Inventories	12,700	15,544
Trade and other receivables	9,312	10,772
Cash and cash equivalents	11,130	5,905
Total current assets	33,142	32,221
Total assets	46,423	45,252
Current liabilities		
Trade and other payables	(5,986)	(6,856)
Current income tax liabilities	(830)	(1,196)
Total current liabilities	(6,816)	(8,052)
Non-current liabilities		
Pension scheme deficit	(3,085)	(4,153)
Total non-current liabilities	(3,085)	(4,153)
Total liabilities	(9,901)	(12,205)
Net assets	36,522	33,047
Equity		
Called up share capital	550	549
Share premium account	6,612	6,456
Investment in own shares	(3,137)	(1,814)
Share-based payment reserve	370	292
Translation reserve	1,414	1,012
Retained earnings	30,713	26,552
Total equity	36,522	33,047

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2015

	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 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 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 31 December 2015	550	6,612	(3,137)	370	1,414	30,713	36,522

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2015

	2015	2014
	£'000	£'000
Operating profit	8,567	7,559
Adjustments for:		
Depreciation of property, plant and equipment	978	1,001
Amortisation of intangible assets	192	311
Contributions to defined benefit pension scheme	(937)	(800)
Charge for share-based payments	175	194
Exchange gain/(loss)	58	(20)
Profit on sale of tangible fixed assets	(1)	-
Operating cash flows before movements in working capital	9,032	8,245
Decrease/(increase) in inventories	3,096	(3,506)
Decrease in receivables	1,607	332
(Decrease)/increase in payables	(934)	316
Cash generated from operations	12,801	5,387
Interest paid	(50)	(59)
Income taxes paid	(2,045)	(1,525)
Net cash from operating activities	10,706	3,803
Investing activities		
Interest received	19	16
Proceeds on disposal of property, plant and equipment	2	16
Purchase of property, plant and equipment	(1,420)	(860)
Purchase of intangible assets	(47)	(69)
Net cash outflow from investing activities	(1,446)	(897)
Financing activities		
Equity dividends paid	(2,852)	(2,587)
Shares issued under employee share schemes	210	86
Purchase of own shares	(1,404)	(716)
Net cash outflow from financing activities	(4,046)	(3,217)
Net increase/(decrease) in cash and cash equivalents	5,214	(311)
Cash and cash equivalents at beginning of year	5,905	6,205
Effect of foreign exchange rate changes	11	11
Cash and cash equivalents at end of year	11,130	5,905

NOTES TO THE PRELIMINARY RESULTS

1. This announcement was approved by the Board of Directors on 8 March 2016.
- 1.1 The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2015 or 2014, but is derived from those accounts. Statutory accounts for 2014 have been delivered to the Registrar of Companies and those for 2015 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 2015 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 2015.

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 2015 the Group had a cash balance of £11.1 million and an unused bank facility with available funding of £4 million. It manufactures approximately 46% 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:

	2015			2014		
	Earnings	Weighted	Earnings	Earnings	Weighted	Earnings
	£'000	average	per	£'000	average	per
		number of	share		number of	share
		shares	(pence)		shares	(pence)
Basic earnings per share	6,897	10,446,483	66.02	6,073	10,535,950	57.64
Effect of dilutive securities: employee share options	-	87,095	-	-	62,308	-
Diluted earnings per share	6,897	10,533,578	65.48	6,073	10,598,258	57.30

NOTES TO THE PRELIMINARY RESULTS

Continued

3. Geographical analysis

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

	2015 £'000	2014 £'000
United Kingdom	17,924	15,939
United States	22,287	20,052
South Korea	12,346	15,077
Rest of the World	16,112	10,302
	68,669	61,370

4. Dividends

The Directors recommend that a final dividend for 2015 of 23.90p (2014: 21.00p) per ordinary share be paid, subject to shareholders' approval, on 25 May 2016 to shareholders on the register on 22 April 2016. The total dividend paid and proposed for the year is 30.00p (2014: 26.50p) per share.

5. Finance costs

	2015 £'000	2014 £'000
Interest paid	20	43
Realised losses on financial derivatives	10	3
Unrealised losses on financial derivatives	17	12
Net interest expense on pension scheme deficit	130	94
	177	152

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

	2015 £'000	2014 £'000
Operating profit	8,567	7,559
Add back:		
Depreciation	978	1,001
Amortisation	192	311
Earnings before interest, tax, depreciation and amortisation	9,737	8,871

The accounts for the year ended 31 December 2015 will be posted to shareholders on or before 15 April 2016 and laid before the Company at the Annual General Meeting on 19 May 2016. 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.