JAMES HALSTEAD PLC

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JAMES HALSTEAD plc

100 years

31 March 2022

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INTERIM RESULTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2021

Key Figures

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

- Revenue at £136.7 million (2020: £130.45 million)
- Operating profit at £25.5 million (2020: £26.2 million)
- Pre-tax profit at £25.4 million (2020: £26.0 million)
- Basic earnings per ordinary share 4.73p (2020: 4.89p)
- Interim dividend declared of 2.25p (2020: 2.125p)
- Cash at 31 December 2021 of £69.4 million

The Chief Executive, Mr. Mark Halstead, commented:
"I, and the Board, believe we have delivered a solid performance given the continued tumult that has challenged our businesses, compounded by inflationary pressures not seen in a generation. These challenges continue and we are fully focused on the balance of the financial year armed with our collective experience and committed workforces as major assets."

Enquiries:

James Halstead:
Mark Halstead, Chief Executive — **Telephone: 0161 767 2500**
Gordon Oliver, Finance Director

Hudson Sandler:
Nick Lyon — **Telephone: 020 7796 4133**
Nick Moore

Panmure Gordon (NOMAD & Joint Broker):
Dominic Morley — **Telephone: 020 7886 2500**

WH Ireland (Joint Broker):
Ben Thorne — **Telephone: 0207 220 1666**

CHAIRMAN'S STATEMENT

Trading for the six months ended 31 December 2021

Sales revenue of £136.7 million (2020: £130.45 million) is another record, which considering the turmoil in the market many companies have faced, is a satisfactory achievement. There has been a small drop in profits for the period, and while disappointing, given the increased costs in both raw materials and energy, I can only describe this as a commendable result.

The year on year comparison of turnover for the period shows an overall 5% increase in sales. In looking at the geographic distribution of the markets we have seen 9% growth in the UK, 2% in Europe, a 2% decline in Australasia and 13% growth in other markets. The decline in Australasia is largely as a result of New Zealand which has, of all our markets, been most affected by Covid lockdowns. The growth in other markets has been driven mostly by South America, the Middle East, and North America. The currency translation effect on turnover, as result of exchange rates, has been adverse when compared to the comparative to the extent of around 3%.

There are positives to be seen in the trading of the last few months as many markets and sectors recovered, and indeed show a degree of buoyancy as the long period of Covid-19 disruption moved into a period of “vaccinated confidence”. We have seen a degree of change in the types of flooring being bought in significant sectors (such as healthcare and education) with a focus more on sheet vinyl (which is our area of supply) for expansion and more significantly refurbishment, to the detriment of commercial carpet and carpet tile (which we do not manufacture). On a more cautious note there is a tardiness of Government-funded projects in many markets which may be funding related but all have been lower priority as, understandably, efforts on Covid-19 containment and vaccine delivery have absorbed resources and attention.

Margin has been affected by raw material and energy cost increases but has been offset by the mix of sales and decisions about which products to manufacture. It must be noted that not only were raw material costs much higher but in short supply. Additionally, labour was restricted and production capacity for periods was capped. As a consequence, high volume sales that are normally fundamental to large scale manufacturing were not sought and in cases declined because these sales are usually at a lower margin. Whilst a focus on higher margin products has been a necessity, it is not a strategy that helps medium to long term success. Rather than detail the decisions made, I think it suffices to note that gross margins in the period were 40.2% (2020: 42.1%). Profit before tax of £25.4 million is a slight decrease on the prior year (2020: £26.0 million), largely due to higher material costs.

Margins have been under pressure and although we have undertaken price increases (with further increases due in 2022) these increases lag the costs with a consequent impact on profit. The lag is partly because of prices quoted on projects in advance, in part to allow stockists to look at their price lists and in part our reticence in facing unknown consequence of price increases on future demand. In many cases our stockists apply price increases at the same time as ourselves which increases the price of their stock holdings. This practice does allow us to see the effects of the price increases on the demand from end customers earlier than would otherwise be the case. As the first six months of our trading year progressed we have seen increases in demand in several key markets. The reasons for this are varied and no doubt include the availability for immediate delivery, brand confidence and appreciation of our measured and cautionary approach in passing on costs.

Overheads in the six months to 31 December 2021 were 21.6% relative to turnover (2020: 21.9%). However, to note the overhead in the period against its comparative is not to compare like with like. There has been a return to more normal levels of expenditure in areas such as marketing spend on sales support, travel costs etc but with a decline in the cost of PPE, Covid-19 testing and remote working costs. In addition, we have started to catch up on plant maintenance that could not be undertaken due to labour shortages and Covid-19 concerns.

We have been associated with many projects around the world and I would normally note a few of these. The projects are global and we trade with almost every country. I would like to note just a few that we have been proud to be associated with: the shipyards in Odesa, the Solonko Sovyak Dentistry Center in Lviv and the International Airport of Boryspil located in the oblast of Kyiv.

Russia is a market that we no longer trade with.

The level of stock has risen over the period to £83.2 million (2020: £61.9 million) and the increase reflects three factors:

Firstly, the build-up of stock as our production lines have been able to run more normally following long periods of workforce disruption (owing to Covid-19) and raw material shortages. Secondly, the increased cost of stock as a result of the increased costs of materials, shipping and packaging. Thirdly, our stock as at 31 December 2021 includes launch stocks for new ranges to be launched early in the new calendar year. This growth in stock has reduced the cash balances held but offers our business a far greater return than any interest receipts that will be foregone.

For over 18 months we have been unable to build stock and we perceive it an advantage that we have now done so. Although, arguably, at 31 December 2021, the Group was over stocked we do not consider this to be problematical in the prevailing market conditions.

Earnings per Share and Dividend

Our cash, which stands at £69.4 million compared with £74.4 million at 31 December 2020, continues to be a key strength. The cash has reduced in the period as a result of the increase in stock.

With regard to our cash and profitability, we have decided to declare an increased interim dividend of 2.25p per share payable on 10 June 2022 to those shareholders on the register on 6 May 2022. This represents a 5.9% increase on the interim dividend paid last year (2.125p).

Having agreed a deficit reduction plan following the triennial scheme valuation on the defined benefit pension scheme, there has been a large reduction in the deficit. Based on the valuation methods under IAS 19, the deficit is now £1.4 million against the comparative at 31 December 2020 of £13.4 million. The reduction is in part from contributions, in part investment performance and in part changes in interest rates.

Our basic earnings per share at 4.73p are lower than the comparative period of 4.89p by 3.3%.

Environmental, sustainability, social responsibility and governance

We recently published our 2021 Sustainability Report underlining the Group's commitment to ESG. Sustainability is a key metric in this report that encompasses environmental considerations as well as our corporate social responsibility and indeed governance. In addition, our sustainability underpins energy usage, water usage and our footprint on the planet. I would note that our report is audited with each claim documented and independently verified. This verification is to the very high standard of BES6001 and we achieved the high rating of "excellent". The full report is available on the Company website.

As a manufacturer we see this as a key way of communicating our place in, and contribution to, society, and the many and varied actions that are ongoing inside the business. Whether it is the independent review of our supply chain or the verification of our products to the standards of indoor air quality or energy consumption, we look always for credible, independent verification rather than "green marketing" labels.

Achieving our environmental and sustainable business targets continue to be a key focus.

In terms of governance we, as a board, continue to believe in a straightforward approach to accounting and that a prudent and conservative attitude serves the Company and shareholders alike. Each year has its challenges and its successes and in the simplest of terms we endeavour in our business to do no harm.

Acknowledgements

It must be recognised that our workforce have faced difficult times over the last two years. Some were working from home, many did not have that option and many have had a "hybrid" existence.

It is clear that teams and departments work best together and not on conference calls and on behalf of our Board I offer our thanks for their efforts and forbearance for those many months where they have continued to work despite the challenges imposed upon us all.

Outlook

Since the half year end we have made several key product launches that have been well received by the market. As was noted in the review above, increased prices in the period do not seem to have moderated demand and I can report that in key markets, and most empathically in February and March, sales have increased. Given that December itself was at a record level, we can be reasonably confident that stock bought by distributors in advance of an increase in prices in January 2022 has been sold onwards.

We have continued to maintain production at normal levels (though there were higher levels of Covid-19 for several weeks) and hence a degree of improved productivity from running longer hours in our production facilities. Again, as noted in the comments under the paragraphs on trading, availability of stock for customers is crucial.

It is not yet the case that our markets have returned to normality, with Covid-19 still disrupting several parts of the world. In addition, there are ongoing inflationary pressures and the uncertainty following the invasion of Ukraine has clearly added to those stresses immediately affecting the cost of freight and energy prices. It is, as yet, unclear how the many interdependencies of Russian sanctions and Ukrainian disruption with the global market will affect our business. It is to be anticipated that both inflation and interest rates will face upward momentum.

As a manufacturer we are experiencing levels of inflation not seen in a generation. The passing on of costs is a necessary consequence and whilst we do not know yet we are mindful that demand may be affected. The probable increases in interest rates through the coming months may exacerbate the issue. To date they have not.

With the caveat of the unknown effects of recent events on input availability and costs to our businesses, I am confident of progress in our business going forward, with sales performance continuing to be positive and many markets returning to a more normal footing.

Anthony Wild

Chairman

31 March 2022

Consolidated Income Statement
for the half-year ended 31 December 2021

	Half-year ended 31.12.21 £'000	Half-year ended 31.12.20 £'000	Year ended 30.06.21 £'000
Revenue	**136,654**	130,447	266,362
Operating profit	**25,507**	26,232	51,773
Finance income	**18**	33	48
Finance cost	**(120)**	(277)	(553)
Profit before income tax	**25,405**	25,988	51,268
Income tax expense	**(5,692)**	(5,639)	(11,407)
Profit for the period	**19,713**	20,349	39,861
Earnings per ordinary share of 5p:			
-basic	**4.73p**	4.89p	9.58p
-diluted	**4.73p**	4.89p	9.57p

All amounts relate to continuing operations.

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

The earnings per share have been adjusted to reflect the effect of the one-for-one bonus issue on 14 January 2022.

Consolidated Balance Sheet
as at 31 December 2021

	Half-year ended 31.12.21 £'000	Half-year ended 31.12.20 £'000	Year ended 30.06.21 £'000
Non-current assets			
Property, plant and equipment	**36,599**	38,302	37,242
Right of use assets	**5,565**	7,799	6,015
Intangible assets	**3,232**	3,232	3,232
Deferred tax assets	**356**	2,568	254
	45,752	51,901	46,743
Current assets			
Inventories	**83,191**	61,861	60,684
Trade and other receivables	**37,539**	28,257	42,949
Derivative financial instruments	**1,700**	1,097	848
Cash and cash equivalents	**69,381**	74,445	83,261
	191,811	165,660	187,742
Total assets	**237,563**	217,561	234,485
Current liabilities			
Trade and other payables	**72,705**	54,006	65,551
Derivative financial instruments	**71**	1,791	92
Current income tax liabilities	**865**	1,461	1,160
Lease liabilities	**2,846**	3,496	2,948
	76,487	60,754	69,751
Non-current liabilities			
Retirement benefit obligations	**1,390**	13,446	4,357
Other payables	**448**	455	447
Deferred tax liabilities	**648**	-	-
Lease liabilities	**2,843**	4,428	3,236
Preference shares	**200**	200	200
	5,529	18,529	8,240
Total liabilities	**82,016**	79,283	77,991
Net assets	**155,547**	138,278	156,494
Equity			
Equity share capital	**10,419**	10,407	10,408
Equity share capital (B shares)	**160**	160	160
	10,579	10,567	10,568
Share premium account	**4,934**	4,072	4,122
Capital redemption reserve	**1,174**	1,174	1,174
Currency translation reserve	**4,676**	5,688	4,986
Hedging reserve	**834**	(200)	1,052
Retained earnings	**133,350**	116,977	134,592
Total equity attributable to shareholders of the parent	**155,547**	138,278	156,494

Consolidated Cash Flow Statement

for the half-year ended 31 December 2021

	Half-year ended 31.12.21 £'000	Half-year ended 31.12.20 £'000	Year ended 30.06.21 £'000
Profit for the period	**19,713**	20,349	39,861
Income tax expense	**5,692**	5,639	11,407
Profit before income tax	**25,405**	25,988	51,268
Finance cost	**120**	277	553
Finance income	**(18)**	(33)	(48)
Operating profit	**25,507**	26,232	51,773
Depreciation of property, plant & equipment	**1,879**	1,738	3,541
Depreciation of right of use assets	**1,590**	1,485	3,115
Profit on sale of property, plant and equipment	**(73)**	(34)	(64)
Defined benefit pension scheme service cost	**253**	245	620
Defined benefit pension scheme employer contributions paid	**(991)**	(3,080)	(4,144)
Change in fair value of financial instruments	**(14)**	(654)	(90)
Share based payments	**3**	4	8
(Increase)/decrease in inventories	**(23,198)**	6,488	6,346
Decrease/(increase) in trade and other receivables	**5,165**	(865)	(15,573)
Increase in trade and other payables	**6,986**	8,286	20,248
Cash inflow from operations	**17,107**	39,845	65,780
Taxation paid	**(5,730)**	(4,520)	(9,895)
Cash inflow from operating activities	**11,377**	35,325	55,885
Purchase of property, plant and equipment	**(1,466)**	(1,649)	(2,811)
Proceeds from disposal of property, plant and equipment	**129**	52	131
Cash outflow from investing activities	**(1,337)**	(1,597)	(2,680)
Interest received	**18**	33	48
Interest paid	**(7)**	(15)	(26)
Lease interest paid	**(73)**	(82)	(173)
Lease capital paid	**(1,634)**	(1,424)	(3,010)
Equity dividends paid	**(22,921)**	(25,237)	(34,083)
Shares issued	**823**	-	51
Cash outflow from financing activities	**(23,794)**	(26,725)	(37,193)
Net (decrease)/ increase in cash and cash equivalents	**(13,754)**	7,003	16,012
Effect of exchange differences	**(126)**	(3)	(196)
Cash and cash equivalents at start of period	**83,261**	67,445	67,445
Cash and cash equivalents at end of period	**69,381**	74,445	83,261

Consolidated Statement of Comprehensive Income
for the half-year ended 31 December 2021

	Half-year ended 31.12.21 £'000	Half-year ended 31.12.20 £'000	Year ended 30.06.21 £'000
Profit for the period	**19,713**	20,349	39,861
Other comprehensive income net of tax:			
Remeasurement of the net defined benefit liability	**1,963**	5,763	12,708
Foreign currency translation differences	**(310)**	87	(615)
Fair value movements on hedging instruments	**(218)**	(163)	1,089
Other comprehensive income for the period net of tax	**1,435**	5,687	13,182
Total comprehensive income for the period	**21,148**	26,036	53,043
Attributable to equity holders of the parent	**21,148**	26,036	53,043

Notes to the Interim Results
for the half-year ended 31 December 2021

1. Basis of preparation

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

The principal accounting policies applied in the preparation of the consolidated interim statements are those set out in the annual report and accounts for the year ended 30 June 2021.

The figures for the year ended 30 June 2021 are an abridged statement of the group audited accounts for that year. The financial statements for the year ended 30 June 2021 were audited and have been delivered to the Registrar of Companies.

As is permitted by the AIM rules, the directors have not adopted the requirements of IAS 34 'Interim Financial Reporting' in preparing the interim financial statements. Accordingly the interim financial statements are not in full compliance with IFRS.

2. Taxation

Income tax has been provided at the rate of 22.4% (2020: 21.7%).

3. Earnings per share

	Half-year ended 31.12.21 £'000	Half-year ended 31.12.20 £'000	Year ended 30.06.21 £'000
Profit for the period	**19,713**	20,349	39,861
Weighted average number of shares in issue	**416,431,865**	416,282,216	416,283,040
Dilution effect of outstanding share options	**276,142**	250,450	246,330
Diluted weighted average number shares	**416,708,007**	416,532,666	416,529,370
Basic earnings per 5p ordinary share	**4.73p**	4.89p	9.58p
Diluted earnings per 5p ordinary share	**4.73p**	4.89p	9.57p

The earnings per share and the weighted average number of ordinary shares have been adjusted to reflect the effect of the one-for-one bonus issue on 14 January 2022.

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4. Dividends

	Half-year ended 31.12.21 £'000	Half-year ended 31.12.20 £'000	Year ended 30.06.21 £'000
Equity dividends paid:			
Interim dividend for the year ended 30 June 2020	**-**	4,423	4,423
Final dividend for the year ended 30 June 2020	**-**	20,814	20,814
Interim dividend for the year ended 30 June 2021	**-**	-	8,846
Final dividend for the year ended 30 June 2021	**22,924**	-	-
	22,924	25,237	34,083
Equity dividends declared/proposed after the end of the period			
Interim dividend	**9,377**	8,846	-
Final dividend	**-**	-	22,924

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

1.0625p interim dividend for the year ended 30 June 2020 paid 10 September 2020
5.00p final dividend for the year ended 30 June 2020, paid on 11 December 2020
2.125p interim dividend for the year ended 30 June 2021, paid on 4 June 2021
5.50p final dividend for the year ended 30 June 2021, paid on 17 December 2021

2.25p interim dividend for the year ended 30 June 2022, payable on 10 June 2022, to those shareholders on the register at the close of business on 6 May 2022.

The equity dividends per share have been adjusted to reflect the effect of the one-for-one bonus issue on 14 January 2022.

6. Copies of the interim results

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