JAMES HALSTEAD PLC
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PRELIMINARY ANNOUNCEMENT OF AUDITED RESULTS

FOR THE YEAR ENDED 30 JUNE 2022

Key Figures

- Revenue at £291.9 million (2021: £266.4 million) – up 9.6%
- Underlying profit before tax £51.1 million (2021: £51.3 million) – down 0.4 %
- Earnings per 5p ordinary share of 9.7p (2021: 9.6p) – up 1%
- Final dividend per ordinary share proposed of 5.5p – unchanged
- One-for-one bonus issue on 14 January 2022
- Cash £52.1 million (2021: £83.3 million)

Mr Mark Halstead, Chief Executive, commenting on the results, said:
"A solid performance for a year that started in a positive way, as the large challenges of the last two years looked set to dissipate, only to be faced by a set of new obstacles with both energy and materials costs escalating".

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: 020 7220 1666**

CHAIRMAN'S STATEMENT

Results

Revenue for the year at £291.9m (2021: £266.4m) is 9.6% ahead of the comparative year.

Underlying operating profit is £51.1 million (2021: £51.3m) - 0.4 % below last year. The reported profit for the year of £52.2m differed from this due to the one-off effect of insurance pay-outs in respect of the breakdown of one of the major production lines at our Radcliffe manufacturing plant in September 2019.

As I wrote in our trading update on 1 August 2022, the second half of the year has been, on the one hand, a period of full production for our factories in the UK but also with its challenges. The optimism at the start of the year on the decline of Covid-19, related supply problems and greater availability of labour was offset by a myriad of shortages/cost increases following the invasion of the Ukraine. Transport, fuel and energy increases were immediately obvious and whilst a significant issue during the spring/summer period, we have been mindful that the autumn/winter period may bring deeper problems. The most obvious effect on our business has been our decision to increase stockholdings as we sought to mitigate the risks associated with the potential inability to manufacture. This, in our view, seemed judicious and hopefully is over-cautious. In the event that the crisis does not escalate, then it is likely we will temporarily suspend some production for a period to bring stock levels back to normal.

Trading margins during the year decreased but are acceptable given the flood of cost increases that we have in part passed on. As I noted in the last two years' trading updates, this period was again not normal. For example, in some flooring projects that have been severely delayed, we have honoured the prices originally quoted to preserve the volume needed to feed our production lines. In other instances, we have re-priced to find volume still goes elsewhere and in many cases we have re-priced again and retained the business. This is the nature of our industry with over-capacity of supply and at least one global competitor has fallen into receivership on the back of facing similar issues. Whilst some other industries have priced daily on the back of this difficult situation, we have walked a more cautious path and I commend our teams that collectively have been successful in managing the challenges we face.

There have been some positives in the midst of a generally difficult trading environment. The general boycott in Russian trade has eased the widespread shortage of shipping containers that has prevailed since Covid-19 disrupted normal shipping routes. Similarly, with Russian bound supplies of certain raw materials facing export restrictions there was, at times, more availability to our factories as these were diverted back into the European market. Overall it was a difficult period for manufacturing.

The company and our strategy

James Halstead is a group of companies involved in the manufacture and supply of flooring for commercial and domestic purposes, based in Bury UK. James Halstead plc has been listed on the London Stock Exchange for nearly 75 years.

The group was established in 1914 and continues to operate out of the original premises in Bury. In its factories in Bury and Teesside it manufactures resilient flooring for distribution in the UK and worldwide.

The company's strategy is to constantly develop its brand identity and its reputation for quality, product innovation, durability and availability, thereby enhancing and maintaining goodwill with the aim of achieving repeat business. Our focus is to work with stockists who in turn distribute those bulk deliveries whilst promoting and representing the products to the end users and specifiers who will purchase the stock from those stockists.

This approach is designed to increase and secure revenue streams and drive profitability and cash flow which enables the continuation of dividends thereby creating shareholder wealth. In the normal course of business one key element of the company ethos is having dedicated sales personnel to present our product to our customers' clientele.

Over many years our strategy has also included a policy of continual investment in both process improvement and in product development to improve output efficiency and product offering.

Corporate governance and corporate social responsibility and the environment

The board has over many years recognised its responsibility towards good corporate governance. It is part of our character and, I believe, contributes to our ability to deliver long-term shareholder value. Increasingly companies are, quite rightly, tasked with demonstrating that their environmental credentials and supply chain management are supported by social and sustainability dimensions with appropriate stewardship.

We can say, with some pride, that almost 100% of our electric usage is now derived from renewables. Our bi-annual Sustainability Report was published in 2021 and we have this report independently audited to further under-line our credentials. (Available to download on our website).

PVC polymer is one of our main raw materials and we began recycling waste into our processes in the 1950s and have continued to use waste PVC as part of the process of manufacturing in ever increasing volumes. For many years we have funded waste collection with Recofloor – our UK joint venture that collects post installation waste PVC within our industry. We are also founder members of the European PVC recycling venture, the AgPr, which funds the recycling of post-consumer PVC waste and diverts waste from landfill back into the manufacturing process.

An important point to note about PVC is that it has evolved and it is no longer just derived from petrochemicals. It is increasingly produced from biomass. Indeed, many of the by-products of PVC manufacturing are indispensable to the medical and food industries. PVC manufacture has the lowest consumption of primary energy of any of the major commodity plastics and our PVC flooring is made with over 80% renewable materials. Our recycling initiatives further reduce our footprint on the environment.

As part of our focus on the future and the footprint of our industry we are major partners in industry wide bodies. We are, for example, active members of the ERFMI (the European Resilient Flooring Manufacturing Institute). ERFMI activities range from involvement in the EU carbon neutral strategy through to funding new recycling initiatives to extend the ability of PVC to be recovered and recycled.

The UK may have left the European Union but our work on standards, the circular economy, sustainability and meaningful recycling is both Europe wide and globally focused and is progressing at pace. In no way has "Brexit" lessened our involvement as Europeans in the flooring industry.

Dividend

Our cash balances stand at £52.1 million (2021: £83.3 million) with the major reason for the reduction being, obviously, increased stock. The inventory at the year end is £112.3 million (2021: £60.7 million) which is about 85% higher than the prior year comparative.

Also of note regarding the cash flow for the year is taxation paid of £9.9 million (2021: £9.9 million) – unchanged and equity dividends paid of £32.3 million (2021: £34.1 million) – down 5.3%.

Having this large investment in our stockholdings and with the challenges facing our companies in terms of cash flow, the Board do not propose to increase the final dividend which will remain at the level of last year and will be paid in December 2022.

The interim dividend of 2.25p (2021: 4.25p) was paid in June 2022.

Acknowledgements

As is customary, I would like to thank our staff for their continued efforts in achieving this year's result.

In addition, I feel I must note the death of HM Queen Elizabeth II. The brand 'Polyflor' was created in 1950, just prior to start of her reign. Her Majesty's service over the years since has no doubt been the rock on which the reputation of the United Kingdom has been built and helped in the growth of our exports over the last 70 years.

Our thanks also to the UK Contract Flooring Association for their members' accolades with Polyflor being awarded the 2022 Manufacturer of the Year, as well as the Healthcare Installation of the Year (Kitwood House Care Home in Cheshire) and International Installation of the Year (Live Sport Offices, Prague).

Outlook

Trading from the year-end to date has been positive. Post year end, prices have been increased and demand has remained strong.

Sales volume is higher and we have continued to pass on cost increases. Costs, most particularly energy, have continued to rise. The fall in the value of sterling, most markedly against the US dollar, in recent days will no doubt have implications to certain input costs but equally, given our level of exports, will have some positives.

We cannot forecast the effects of energy costs on the myriad of materials and goods that are needed to undertake mass volume manufacture but with the vast array of skills, knowledge and entrepreneurs within our collective, each challenge should be overcome.

In the light of current demand, with the accumulated industry experience at our disposal, I, and the Board, remain confident of progress over the medium term, notwithstanding the short term challenges I have highlighted in my statement.

Anthony Wild
Chairman

CHIEF EXECUTIVE'S REVIEW

As noted by the Chairman, it has been a mixed year. For the largest input costs to our manufacturing, we have had to accept price increases. Be it energy or raw materials it has been a constant adverse situation. The simple idea that these costs are passed on is complicated.

(a) Complicated by the project related nature of quotations and the time from quotation to supply of the stock, reality of losing business at high prices or maintaining it at a loss.

(b) Complicated by the fact that at least two generations that have never seen inflation of this scale and who are partly in denial as to its reality, duration and implications.

(c) Complicated by the possibility that this may yet affect the continuous production we have enjoyed over many, many years.

These challenges are faced by many of our European competitors and inevitably there is a degree of margin erosion which manufacturers from all types of industry face.

Reviewing the businesses in more detail:

Objectflor / Karndean and James Halstead France, our European operations

In Germany sales growth of near 12% came largely from cost surcharges and price increases as costs increased during the year. In one of the most competitive markets for flooring, volumes were maintained. The year was one of two halves with the earlier part facing stock shortages due to adverse shipping conditions. There were key product launches that were delayed by both the availability of complete stock ranges and difficulties in supply of marketing materials to support launches. The stock situation improved as the year progressed.

In France sales were increased by 18%, volumes also increased though by a lesser percentage. Investments in regional sales teams were key to the sales growth. Stock levels have grown, once again largely planned in the expectation of supply problems.

Polyflor Pacific – encompassing Australia, New Zealand and Asia

In Australia, sales were some 6% ahead of the prior year with increases in profitability that resulted from increased margin due to favourable product mix and staff costs savings compared to the prior year. The staff savings were the result of difficulties in recruitment leaving vacancies for periods of time. The favourable product mix was due to higher margin domestic flooring sales having taken a larger proportion of sales than commercial flooring. This was, no doubt, in part because Covid-19 restrictions were in place for a long part of the first half financial year. Freight costs, as with all markets, were greater. Stock levels increased.

In New Zealand sales were lower than the comparative year. This market had the longest Covid restrictions of our major markets. Operational restrictions impacted the economy and the building sector in particular. Supplying New Zealand was challenging with shipments of flooring from the UK taking up to 8 months from order due to sea freight complexities such as shortages of shipping containers in Europe and severe congestion in ports such as Singapore. The supply of flooring into nationwide social housing contracts continues to be an important source of revenue and will continue as backlogs in the roll-out programme alleviate. One negative was the supply of cushion vinyl from European manufacturers which was severely disrupted. Nevertheless, it is pleasing to report increased market share and customer satisfaction – largely due to our company having stock and offering service levels far better than competitors. Stock levels have been increased.

This was the first full year of our Malaysian business (which also covers the South Eastern markets of Indonesia, Singapore, Thailand, Vietnam and the Philippines) and we can be satisfied with the progress made to date. The start of the year was again hampered by various lockdowns and travel movements across the territories, but as the year progressed, we saw the order book and sales grow, with sales across the region 153% ahead of last year.

The order book remains healthy, and we have every expectation that sales will continue to grow. At the end of the financial year, we strengthened the sales team further by employing salespeople directly in Vietnam and Thailand to support the distributors, and similar plans are in place for the Philippines before the end of 2022.

Polyflor and Riverside Flooring, based in UK

We continue to see growth in the heterogeneous ranges manufactured at Teesside, and a falloff in certain of the 'older' ranges manufactured in Radcliffe. Overall volumes were maintained. Output was increased as we returned to a situation of being able to run all production lines, albeit with continued absenteeism levels that are above the "normal" levels that existed prior to the Covid-19 pandemic.

The increase in energy and raw material costs have put pressure on our margins and whilst we have a proportion of our energy consumption on forward contracts, costs continue to rise to unprecedented levels. The recent announcement by the government, whilst welcome, will only limit the increase, not reduce it. Availability of raw materials has improved, but costs remain high. The impact of rising energy costs on the production costs has been a significant issue.

We have made several price increases during the year across our ranges and across all markets to pass on these increases. This continues to be the case after the year end.

Stocks in the UK also increased, both in manufactured and merchanted goods. Delays in product launches earlier in the year compounded the issue as we waited for marketing material, such as shade cards and display boards. This was another fallout of the Ukraine war due to the lack of wood pulp and related materials.

Polyflor Nordic comprising Polyflor Norway based in Oslo and Falck Design based in Sweden

The markets have been re-organised to bring both Norway and Sweden under one reporting structure. In Norway sales are 17% ahead of the prior year largely supported by price increases. Net profit rose by just under 6%. Heterogeneous flooring (supplied by Riverside) grew and there has been investment in additional staff in internal sales and regional sales areas. In Sweden, sales increased 37% and the volume of product supplied from our UK factories increased by near 50%. It must be noted that the prior year comparatives were subdued by Covid-19 but nevertheless this is a good result for both countries.

Polyflor Canada, based in Toronto

A record year for sales and a significant increase in net profit against a generally sluggish economy. Our market share is still embryonic in this market but with the shadow of Covid-19 having crippled travel for much of the financial year this was a creditable performance. Our Canadian business is very largely project based and these have faced delays in funding and progress but the business is well placed for further growth.

Rest of the World

Our products are sold in many markets across the globe and the preceding sections cover some of the key markets where we have a local presence and warehousing. These markets have been long established for the sales of our flooring and there has also been significant growth in several other markets when compared to last year. Spain was up 30%, South America up 48% and the Middle East up 59%. In some instances the comparative for 2021 was affected by the impact of the Covid-19 virus (most notably in Spain). It is pleasing to see these markets have recovered, this has been hard to achieve with the cost of international freight and equally as problematical have been delays and difficulties in available shipping. The markets that did not grow in the year were Africa and North Asia.

The North Asia markets have experienced a challenging year due to the increase in Covid-19 cases and the "zero-Covid" policy adopted across China. This meant our local warehouse in China, which became operational last year supplying smaller and local orders, as well as being able to support other Asian markets, could not despatch products. Several larger Asian projects, which are shipped direct, have been delayed. Latterly we have started to see some improvement but sales for 2022 fell by 28% against the previous year.

In conclusion

Given the circumstances we can only be pleased with the results for the year. The hard work, dedication and experience of our subsidiary directors and management has been a key factor in this achievement.

However, the challenges have not lessened.

Mark Halstead
Chief Executive

Audited Consolidated Income Statement
for the year ended 30 June 2022

	Year ended 30.06.22 £'000	Year ended 30.06.21 £'000
Revenue	**291,860**	266,362
Cost of sales	**(178,355)**	(154,722)
Gross profit	**113,505**	111,640
Selling and distribution costs	**(50,316)**	(46,335)
Administration expenses	**(10,931)**	(13,532)
Operating profit	**52,258**	51,773
Finance income	**42**	48
Finance cost	**(237)**	(553)
Profit before income tax	**52,063**	51,268
Income tax expense	**(11,735)**	(11,407)
Profit for the year attributable to equity shareholders	**40,328**	39,861
Earnings per ordinary share of 5p:		
-basic	**9.7p**	9.6p
-diluted	**9.7p**	9.6p

All amounts relate to continuing operations.

The earnings per ordinary share of 5p for the year ended 30 June 2021 have been restated for the effect of the one-for-one bonus issue on 14 January 2022.

Audited Consolidated Statement of Comprehensive Income
for the year ended 30 June 2022

	Year ended 30.06.22 £'000	Year ended 30.06.21 £'000
Profit for the year	**40,328**	39,861
Other comprehensive income net of tax:		
Items that will not be reclassified subsequently to the income statement:		
Remeasurement of the net defined benefit liability	**7,090**	12,708
	7,090	12,708
Items that could be reclassified subsequently to the income statement if specific conditions are met		
Foreign currency translation differences	**926**	(615)
Fair value movements on hedging instruments	**(111)**	1,089
	815	474
Other comprehensive income for the year	**7,905**	13,182
Total comprehensive income for the year	**48,233**	53,043
Attributable to equity holders of the company	**48,233**	53,043

Items in the statement above are disclosed net of tax.

Audited Consolidated Balance Sheet
as at 30 June 2022

	As at 30.06.22 £'000	As at 30.06.21 £'000
Non-current assets		
Property, plant and equipment	**36,671**	37,242
Right of use assets	**5,634**	6,015
Intangible assets	**3,232**	3,232
Retirement benefit obligations	**6,144**	-
Deferred tax assets	**234**	254
	51,915	46,743
Current assets		
Inventories	**112,279**	60,684
Trade and other receivables	**51,171**	42,949
Derivative financial instruments	**2,166**	848
Cash and cash equivalents	**52,144**	83,261
	217,760	187,742
Total assets	**269,675**	234,485
Current liabilities		
Trade and other payables	**84,507**	65,551
Derivative financial instruments	**517**	92
Current income tax liabilities	**2,097**	1,160
Lease liabilities	**2,166**	2,948
	89,287	69,751
Non-current liabilities		
Retirement benefit obligations	**-**	4,357
Other payables	**453**	447
Deferred tax liabilities	**2,929**	-
Lease liabilities	**3,548**	3,236
Preference shares	**200**	200
	7,130	8,240
Total liabilities	**96,417**	77,991
Net assets	**173,258**	156,494
Equity		
Equity share capital	**20,837**	10,408
Equity share capital (B shares)	**160**	160
	20,997	10,568
Share premium account	**-**	4,122
Capital redemption reserve	**-**	1,174
Currency translation reserve	**5,912**	4,986
Hedging reserve	**941**	1,052
Retained earnings	**145,408**	134,592
Total equity attributable to shareholders of the parent	**173,258**	156,494

Audited Consolidated Cash Flow Statement
for the year ended 30 June 2022

	Year ended 30.06.22 £'000	Year ended 30.06.21 £'000
Profit for the year attributable to equity shareholders	**40,328**	39,861
Income tax expense	**11,735**	11,407
Profit before income tax	**52,063**	51,268
Finance cost	**237**	553
Finance income	**(42)**	(48)
Operating profit	**52,258**	51,773
Depreciation of property, plant and equipment	**3,794**	3,541
Depreciation of right of use assets	**3,139**	3,115
Profit on sale of plant and equipment	**(198)**	(64)
Defined benefit pension scheme service cost	**500**	620
Defined benefit pension scheme employer contributions paid	**(1,970)**	(4,144)
Change in fair value of financial instruments	**703**	(90)
Share based payments	**6**	8
(Increase)/decrease in inventories	**(50,272)**	6,346
(Increase) in trade and other receivables	**(7,451)**	(15,573)
Increase in trade and other payables	**15,905**	20,248
Cash inflow from operations	**16,414**	65,780
Taxation paid	**(9,879)**	(9,895)
Cash inflow from operating activities	**6,535**	55,885
Purchase of property, plant and equipment	**(3,248)**	(2,811)
Proceeds from disposal of property, plant and equipment	**280**	131
Cash outflow from investing activities	**(2,968)**	(2,680)
Interest received	**42**	48
Interest paid	**(20)**	(26)
Lease interest paid	**(143)**	(173)
Lease capital paid	**(3,233)**	(3,010)
Equity dividends paid	**(32,298)**	(34,083)
Shares issued	**823**	51
Cash outflow from financing activities	**(34,829)**	(37,193)
Net (decrease)/increase in cash and cash equivalents	**(31,262)**	16,012
Effect of exchange differences	**145**	(196)
Cash and cash equivalents at start of year	**83,261**	67,445
Cash and cash equivalents at end of year	**52,144**	83,261

NOTES

1. The final dividend of 5.5p per ordinary share will be paid, subject to the approval of the shareholders, on 16 December 2022 to shareholders on the register as at 18 November 2022. The annual report and accounts will be posted to shareholders on 14 October 2022.

2. The financial information in this statement does not represent the statutory accounts of the Group. Statutory accounts for the year ended 30 June 2021 have been delivered to the Registrar of Companies, carrying an unqualified audit report and no statement under section 498 (2) or (3) of the Companies Act 2006.

3. Statutory accounts for the year ended 30 June 2022 have not yet been delivered to the Registrar of Companies. They will carry an unqualified audit report and no statement under section 498 (2) or (3) of the Companies Act 2006.

4. Earnings per ordinary share

	2022 **£'000**	2021 £'000
Profit for the year attributable to equity shareholders	**40,328**	39,861
Weighted average number of shares in issue	**416,586,675**	416,283,040
Dilution effect of outstanding share options	**201,425**	246,330
Diluted weighted average number of shares	**416,788,100**	416,529,370
Basic earnings per ordinary share	**9.7p**	9.6p
Diluted earnings per ordinary share	**9.7p**	9.6p

The figures for the year ended 30 June 2021 have been restated for the effect of the one-for-one bonus issue on 14 January 2022.