



COLEFAX GROUP PLC

INTERIM RESULTS
FOR THE SIX MONTHS TO 31 OCTOBER 2019

CHAIRMAN'S STATEMENT

Financial Results

Group sales for the six months to 31 October 2019 decreased by 5.3% to £42.98 million (2018: £45.38 million) and by 7.4% on a constant currency basis. Pre-tax profits decreased by 20.4% to £2.88 million (2018: £3.62 million). Earnings per share decreased by 14.3% to 23.9p (2018: 27.9p). The Group ended the first half of the year with cash of £11.09 million (30 April 2019: £9.46 million).

The main reason for the decrease in profits in the first six months was a reduction in profit from our Decorating Division which made profits of £255,000 compared to £738,000 last year. In our core Fabric Division sales declined by 1.1% and by 3.8% on a constant currency basis reflecting challenging trading conditions in most of our major markets.

Our interim results for the current period reflect the adoption of IFRS 16 'Leases'. As permitted, prior year comparatives have not been restated. Although IFRS 16 has no impact on the Group's cash flow it does significantly alter the content of the Group's income statement and balance sheet. Property leases which were previously expensed as rent on a straight line basis over the life of the lease are now recorded in the balance sheet as a right of use asset and a corresponding lease liability. Rent expensed in the income statement has been replaced by an amortisation charge on the right of use asset and a notional finance charge on the lease liability. The impact of adopting IFRS 16 is an increase in operating profit of £514,000 but a decrease in profit before tax of £129,000.

In line with our progressive dividend policy the Board has decided to increase the interim dividend by 4.0% to 2.6p per share (2018: 2.5p). The interim dividend will be paid on 9 April 2020 to shareholders on the register at the close of business on 13 March 2020.

Product Division

- **Fabric Division - Portfolio of five brands: "Colefax and Fowler", "Cowtan and Tout", "Jane Churchill", "Manuel Canovas" and "Larsen".**

Sales in the Fabric Division, which represent 85% of the Group's sales, decreased by 1.1% to £36.50 million (2018: £36.89 million) and by 3.8% on a constant currency basis. Profits decreased by 5.4% to £2.64 million (2018: £2.79 million).

Sales in the US, which represent 62% of the Fabric Division's turnover, increased by 1.5% in reported terms but declined by 3.0% on a constant currency basis. The profit impact of the decline in sales was largely offset by a strong US Dollar versus Sterling exchange rate which averaged \$1.25 compared to \$1.30 for the prior year. The overall US economy is healthy with a buoyant stock market and low unemployment. We believe that the relatively difficult trading conditions we have experienced are linked to a decline in luxury home transactions driven by reductions in mortgage interest relief and other property tax deductions. The impact varies by state and is reflected in greater regional variations in sales performance.

During the period we completed the main phase of our Los Angeles showroom refurbishment and expect the remaining work to be finished by February. Over the next year we will focus on moving the majority of our US warehouse operation into our new UK warehouse facility. Although this will involve some one-off costs it will improve our operational efficiency and result in significantly lower premises costs in New York.

Sales in the UK, which represent 17% of the Fabric Division's turnover, declined by 5.8% during the period. Trading conditions have been challenging and we mainly attribute this to a very subdued high end housing market caused by high rates of stamp duty and Brexit uncertainty. Whilst our business is not wholly linked to high end housing transactions it does tend to lag changes in activity levels. The result of the recent General Election has removed political uncertainty and improved confidence but it will take time for this to feed through to our business.

Sales in Continental Europe, which represent 19% of the Fabric Division's turnover, decreased by 2.6% on a reported basis and by 2.8% on a constant currency basis. Trading in most of our European markets has been weak and this reflects a lack of confidence in the wider economy. In France, which is our largest market in Europe, sales were down by 7.7% due to a significant contract order in the prior year. Sales in Germany declined by 2.7% but Italy increased by 4.3%. Overall sales in Europe have shown a gradual decline over the last three years and we think this trend is likely to continue in the short to medium term. Brexit uncertainty has not helped business confidence and a free trade deal with the UK is very important to the Group because there are no simple solutions for mitigating the effect of a hard Brexit.

Sales in the Rest of the World, which represent 2% of the Fabric Division's turnover, decreased by 14.4% on a constant currency basis. Our major markets comprise the Middle East, China and Australia and for different reasons all of these markets experienced difficult trading conditions. We expect the Rest of the World to remain a relatively small proportion of Fabric Division sales.

- **Furniture – Kingcome Sofas**

Sales for the six months to October 2019 decreased by 8.1% to £1.25 million (2018: £1.36 million) and the Company made an operating profit of £51,000 compared to £102,000 in 2018. The majority of furniture sales are made in the UK, especially London and the decline in sales and profit reflects a weak high end housing market and Brexit uncertainty. Currently the order book is slightly ahead of last year and we believe that the decisive election result will have a positive impact on future trading.

Interior Decorating Division

Decorating sales, which account for just over 12% of Group turnover, decreased by 26.8% in the period to £5.23 million (2018: £7.14 million) and generated a first half profit of £255,000 compared to a profit of £738,000 for the same period last year. This performance was in line with expectations and follows an exceptionally strong performance by the Decorating Division last year. Decorating sales vary according to the timing of projects and can sometimes change for reasons beyond our control. Currently decorating deposits are significantly down against a strong prior year comparative and trading in the second half of the year is likely to be weaker than previously expected.

Prospects

The Group's performance over the last six months reflects difficult trading conditions in most of our major markets. This was not entirely unexpected given Brexit uncertainty and the low level of high end housing transactions in the US and the UK. In addition our Decorating Division has experienced lower levels of activity following an exceptional performance last year.

During the period we were able to benefit from the Brexit related weakness of Sterling against the Dollar which may not continue in the future. In the US a strong stock market is usually positively correlated with sales but we have yet to see a significant improvement in trading. Following the decisive UK election result we detect an improvement in business confidence but sales prospects in the UK and Europe are still linked to the outcome of trade deal negotiations with the EU. A free trade deal is particularly important to the Group because we have significant European imports and exports. Our business is highly operationally geared and needs modest sales growth to prosper. Our response to difficult trading conditions has been to focus on cash flow and run the business in a conservative manner. Over the next twelve months the consolidation of most of our US warehouse operations in the UK will help offset significant increases in premises costs and improve business efficiency.

The Group has a strong balance sheet with cash of £11.09 million. Although we expect trading conditions to remain relatively challenging we are well placed to take advantage of any improvements in market conditions and will continue to invest with confidence in our portfolio of luxury brands and our worldwide distribution network.

David Green
Chairman
28 January 2020

Registered Office: 19-23 Grosvenor Hill, London, W1K 3QD

INTERIM GROUP INCOME STATEMENT

	Unaudited Six months to 31 Oct 2019 £'000	Unaudited Six months to 31 Oct 2018 £'000	Audited Year to 30 April 2019 £'000
Revenue	42,979	45,384	86,355
Profit from operations	3,515	3,623	5,070
Finance income	14	3	25
Finance expense*	(647)	(1)	–
	(633)	2	25
Profit before taxation	2,882	3,625	5,095
Tax expense	(740)	(906)	(1,265)
Profit for the period attributable to equity holders of the parent	2,142	2,719	3,830
Basic earnings per share	23.9p	27.9p	39.3p
Diluted earnings per share	23.9p	27.9p	39.3p

* The increase in finance expense is due to the adoption of IFRS 16 'Leases'. We have used the modified retrospective approach and as a result, the prior year comparatives have not been restated.

INTERIM GROUP STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months to 31 Oct 2019 £'000	Unaudited Six months to 31 Oct 2018 £'000	Audited Year to 30 April 2019 £'000
Profit for the period	2,142	2,719	3,830
Other comprehensive income/(expense):			
Items that will not be reclassified to profit and loss:			
Remeasurement of defined benefit pension scheme	–	–	(28)
Tax relating to items that will not be reclassified to profit and loss	–	–	11
	–	–	(17)
Items that will or may be reclassified to profit and loss:			
Exchange differences on translation of foreign operations	(269)	838	209
Cash flow hedges:			
Losses recognised directly in equity	(84)	(145)	(157)
Transferred to profit and loss for the period	104	73	177
Tax relating to items that will or may be reclassified to profit and loss	(13)	(125)	(104)
	(262)	641	125
Total other comprehensive income/(expense)	(262)	641	108
Total comprehensive income for the period attributable to equity holders of the parent	1,880	3,360	3,938

INTERIM GROUP STATEMENT OF FINANCIAL POSITION

	Unaudited At 31 Oct 2019 £'000	Unaudited At 31 Oct 2018 £'000	Audited At 30 April 2019 £'000
Non-current assets:			
Right of use assets*	27,665	–	–
Property, plant and equipment	8,102	8,980	8,215
Deferred tax asset	110	188	113
Pension asset	–	37	–
	<u>35,877</u>	<u>9,205</u>	<u>8,328</u>
Current assets:			
Inventories and work in progress	14,554	15,963	14,923
Trade and other receivables	10,378	11,692	11,265
Cash and cash equivalents	11,086	11,078	9,458
	<u>36,018</u>	<u>38,733</u>	<u>35,646</u>
Current liabilities:			
Trade and other payables	17,804	14,576	14,847
Current corporation tax	639	708	669
	<u>18,443</u>	<u>15,284</u>	<u>15,516</u>
Net current assets	<u>17,575</u>	<u>23,449</u>	<u>20,130</u>
Total assets less current liabilities	<u>53,452</u>	<u>32,654</u>	<u>28,458</u>
Non-current liabilities:			
Lease liabilities*	25,339	–	–
Deferred rent*	–	1,977	1,992
Deferred tax liability	35	151	26
Pension liability	1	–	1
Net assets	<u>28,077</u>	<u>30,526</u>	<u>26,439</u>
Capital and reserves attributable to equity holders of the Company:			
Called up share capital	902	981	902
Share premium account	11,148	11,148	11,148
Capital redemption reserve	1,972	1,893	1,972
ESOP share reserve	(114)	(113)	(113)
Foreign exchange reserve	1,990	2,857	2,267
Cash flow hedge reserve	–	(90)	(16)
Retained earnings	12,179	13,850	10,279
Total equity	<u>28,077</u>	<u>30,526</u>	<u>26,439</u>

* The figures for ROU assets, lease liabilities and the absence of deferred rent are due to the adoption of IFRS 16 'Leases'. We have used the modified retrospective approach and as a result the prior year comparatives have not been restated.

INTERIM GROUP STATEMENT OF CASH FLOWS

	Unaudited Six months to 31 Oct 2019 £'000	Unaudited Six months to 31 Oct 2018 £'000	Audited Year to 30 April 2019 £'000
Operating activities			
Profit before taxation	2,882	3,625	5,095
Finance income	(14)	(3)	(25)
Finance expense	647	1	–
(Profit)/loss on disposal of property, plant and equipment	(17)	(7)	8
Amortisation of lease liabilities	2,127	–	–
Depreciation	1,353	1,406	2,800
Cash flows from operations before changes in working capital	6,978	5,022	7,878
Decrease /(increase) in inventories and work in progress	377	(1,687)	1,765
Decrease /(increase) in trade and other receivables	929	(280)	47
(Decrease)/increase in trade and other payables	(2,035)	535	(1,783)
Cash generated from operations	6,249	3,590	7,907
Taxation paid			
UK corporation tax paid	(351)	(20)	(374)
Overseas tax paid	(427)	(503)	(606)
	(778)	(523)	(980)
Net cash inflow from operating activities	5,471	3,067	6,927
Investing activities			
Payments to acquire property, plant and equipment	(1,203)	(1,271)	(2,046)
Receipts from sales of property, plant and equipment	27	7	14
Interest received	14	3	25
Net cash outflow from investing	(1,162)	(1,261)	(2,007)
Financing activities			
Cash payment of lease liabilities	(2,526)	–	–
Purchase of own shares	–	–	(4,421)
Interest paid	–	(1)	–
Equity dividends paid	(242)	(253)	(497)
Net cash outflow from financing	(2,768)	(254)	(4,918)
Net increase in cash and cash equivalents	1,541	1,552	2
Cash and cash equivalents at beginning of period	9,458	9,177	9,177
Exchange gains /(losses) on cash and cash equivalents	87	349	279
Cash and cash equivalents at end of period	11,086	11,078	9,458

NOTES

1. The Group prepares its annual financial statements in accordance with International Financial Reporting Standards (IFRS). These interim results have been prepared in accordance with the accounting policies expected to be applied in the next annual financial statements for the year ending 30 April 2020.

These standards and interpretations are subject to ongoing review and endorsement by the EU or possible amendment by interpretive guidance from the International Financial Reporting Interpretations Committee ('IFRIC') and are therefore still subject to change.

2. During the financial period ended 31 October 2019, the Company paid a final dividend for the year ended 30 April 2019 of 2.70p per ordinary share amounting to £242,000.

The proposed interim dividend of 2.6p (2018: 2.5p) per share is payable on 9 April 2020 to qualifying shareholders on the register at the close of business on 13 March 2020.

3. Basic earnings per share have been calculated on the basis of earnings of £2,142,000 (2018: £2,719,000) and on 8,962,000 (2018: 9,747,000) ordinary shares being the weighted average number of ordinary shares in issue during the period.
4. Diluted earnings per share have been calculated on the basis of earnings of £2,142,000 (2018: £2,719,000) and on 8,962,000 (2018: 9,747,000) ordinary shares being the weighted average number of ordinary shares in the period adjusted to assume conversion of all dilutive potential ordinary shares of nil (2018: nil).
5. The financial information for the year ended 30 April 2019 does not constitute the full statutory accounts for that period. The Annual Report and Financial Statements for the year ended 30 April 2019 have been filed with the Registrar of Companies. The Independent Auditors' Report on the Annual Report and Financial Statements for the year ended 30 April 2019 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.
6. Copies of the interim report are being sent to shareholders and will be available from the Group's website on www.colefaxgroupplc.com. Copies will also be made available on request to members of the public at the Company's registered office at 19-23 Grosvenor Hill, London W1K 3QD.