

AIM: CFX
26 July 2018

COLEFAX GROUP PLC
("Colefax" or the "Group")

Preliminary Results for the year ended 30 April 2018

Colefax is an international designer and distributor of furnishing fabrics & wallpapers and owns a leading interior decorating business. The Group trades under five brand names, serving different segments of the soft furnishings marketplace; these are Colefax and Fowler, Cowtan & Tout, Jane Churchill, Manuel Canovas and Larsen.

Key Points

- Sales increased by 6.9% to £86.05m (2017: £80.48m)
- Pre-tax profit increased by 60.7% to £4.72m (2017: £2.94m), mainly reflecting reduced hedging losses and an exceptional performance from the Decorating Division
- Earnings per share up by 105% to 38.1p (2017: 18.6p), reflecting increased profitability and lower corporate tax rate
- Strong operating cash flow of £8.91m (2017: £4.18m)
- £2.2m returned to shareholders via share buybacks (2017: £2.6m)
- Net cash at year end increased to £9.2m (2017: £6.7m)
- Proposed increased final dividend of 2.60p per share (2017: 2.50p), taking total for the year to 5.00p (2017: 4.80p), a rise of 4%
- Fabric Division sales of £71.11m (2017 £70.05m), up 1.5% and by 3.3% on constant currency basis. US sales up 6.2%, UK sales up 1.0% and European sales flat.
- Decorating Division sales increased by 53% to £12.33m (2017: £8.06m), due to a number of major projects completing during the year
- Continued growth in the core US market should underpin the Group's expected performance in the current year

David Green, Chief Executive, said:

"The Group has made good progress over the last twelve months despite generally difficult trading conditions in most of our major markets. Our largest market, the US, is showing signs of continued growth and this should underpin our performance in the current year. In addition we no longer have any hedging contracts put in place prior to the Brexit referendum and will benefit from the current weakness of Sterling.

"In our other major markets, the UK and Europe, we are experiencing increasingly difficult trading conditions and we expect this to offset some of the anticipated growth in the US. In addition we expect our Decorating Division to return to a more normal level of activity following an exceptional performance last year.

"The Group has a strong balance sheet and we will continue to invest with confidence in our portfolio of luxury brands and our worldwide distribution network."

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COLEFAX GROUP PLC CHAIRMAN'S STATEMENT

Financial Results

Group sales for the year to 30 April 2018 increased by 6.9% to £86.05 million (2017: £80.48 million) and by 8.6% on a constant currency basis. Pre-tax profits increased by 60.7% to £4.72 million (2017: £2.94 million) and earnings per share increased by 105% to 38.1p (2017: 18.6p). The Group ended the year with net cash of £9.2 million (2017: £6.7 million).

The Board is proposing to increase the final dividend by 4% to 2.60p per share (2017: 2.50p) making a total for the year of 5.00p (2017: 4.80p), an increase of 4%. This increase is in line with the Group's progressive dividend policy and preferred strategy of returning surplus cash to shareholders via share buybacks. The final dividend, which is subject to shareholder approval, will be paid on 10th October 2018 to shareholders on the register at the close of business on 7th September 2018.

During the year the Group returned £2.17 million (2017: £2.58 million) to shareholders through the purchase of 413,000 shares at an average price of £5.25 per share and representing 4.2% of the issued share capital of the Company.

The improvement in our profit was for three main reasons. Firstly, losses on hedging put in place prior to the Brexit vote reduced to £959,000 from £2.0 million last year and have now come to an end. Secondly, our Decorating Division delivered an exceptional performance making a profit before tax of £901,000 compared to a profit of £108,000 last year. Thirdly, in our core Fabric Division, sales in our main US market increased by 6.2% on a constant currency basis.

Excluding share buybacks and dividend payments the Group generated cash of £5.5 million during the year (2017: £1.3 million outflow). This improvement was due to a combination of increased profitability, significantly lower capital expenditure and tight control of working capital.

Capital expenditure during the year was £2.38 million compared to an exceptional £4.1 million last year when we opened our own US showrooms in Atlanta and Boston and moved our UK based Decorating Division to a new showroom and offices in Belgravia. The benefit of these investments is reflected in our current year performance.

The 105% increase in earnings per share compared to the 60.7% increase in pre-tax profits is mainly due to a lower Group tax charge of 19% compared to 35% last year. This includes a one off deferred tax benefit of £350,000 relating to a reduction in the US corporate tax rate. From January 2018 the US federal corporate tax rate reduced from 35% to 21% and the Group will realise the full benefit of this change in future years.

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 83% of Group turnover, were up by 1.5% to £71.11 million (2017: £70.05 million) and up by 3.3% on a constant currency basis. Operating profit increased by 31.8% to £3.69 million (2017: £2.80 million) but excluding hedging losses was down

by 3.1% to £4.65 million (2017: £4.80 million) reflecting a weaker US Dollar average rate of \$1.34 compared to \$1.29 last year.

The main reason for the increase in Fabric Division sales on a constant currency basis was an improvement in trading conditions in our core US market, which represents 59% of the Fabric Division's turnover. US sales increased by 6.2% compared to a decline of 7.7% last year. Sales in the second half of the year increased by 7.8% compared to 4.3% for the first half. The improving trend reflects the strength of the US economy and in particular the housing market. Following the opening of our own showrooms in Atlanta and Boston last year, over 75% of US sales come from territories where we lease our own showroom as opposed to showrooms operated by agents. We believe this is the right balance for our business at the present time. In the current year we are planning the refurbishment of our existing Los Angeles showroom. As our largest and most important market the US will remain our main focus for future capital investment.

Sales in the UK, which represent 18% of the Fabric Division's turnover, increased by 1% during the year despite increasingly challenging trading conditions at the top end of the market. High rates of stamp duty continue to weigh on the number of housing transactions and the situation is not being helped by Brexit uncertainty. We believe that our sales are closely correlated with the health of the high end housing market and would like to see the top rates of stamp duty reduced to levels where they are not depressing the market. We are currently refurbishing our trade showroom in Chelsea Harbour and this project will be completed at the end of August.

Sales in Continental Europe, which represent 21% of the Fabric Division's turnover, increased by 3.5% in reported terms but were flat on a constant currency basis. Despite increased optimism in the first half of the year, overall market conditions in Europe have remained difficult and seem unlikely to improve in the short term. This is especially true in our major markets, France, Germany and Italy, and despite some improvement in the wider economy caused by significant monetary stimulus. In France, which is our largest market, sales decreased by 2%. In Germany sales were flat and in Italy sales declined by 1%. Each country in Europe has its own economic and political issues and our strategy will be to tailor our approach to each market and focus our investment on countries with the most potential.

Sales in the Rest of the World, which represent just under 3% of the Fabric Division's turnover, decreased by 8% during the year. The main markets are the Middle East, Australia, China and Russia. The decline in sales was mainly due to the Middle East where contract orders can cause significant sales fluctuations from year to year

Furniture – Kingcome Sofas

Sales of Kingcome furniture, which represent 3% of Product Division sales, increased by 11% to £2.62 million (2017: £2.35 million). Operating profit was £130,000 compared to £23,000 last year. This business is the Group's only manufacturing activity and profits are particularly sensitive to fluctuations in sales due to the relatively high fixed cost base. The increase in sales and profit was achieved despite challenging market conditions in the UK and the order book at the year end was significantly ahead of the prior year. Export sales account for just 13% of total furniture sales and this represents a growth opportunity especially given the current weakness of Sterling.

Interior Decorating Division

Decorating sales, which account for 14% of Group turnover, increased by 53% to £12.33 million (2017: £8.06 million) and profits before tax increased to £901,000 compared to a profit of £108,000 for the prior year. Last year the Decorating Division moved from 39 Brook Street to a

new showroom and offices at 89-91 Pimlico Road in Belgravia. This is the first full year of operation at the new premises and we are very pleased with the overall performance. The new showroom is popular with customers and although we have less space for antiques a more selective approach means that antique sales have exceeded expectations. Sales and profits in the Decorating Division can vary significantly according to the timing of contracts. Several major projects were completed during the year and although customer deposits remain healthy we expect activity to return to more normal levels next year. The business continues to benefit from the weakness of Sterling and we have seen an increase in the proportion of overseas work.

Prospects

The Group has made good progress over the last twelve months despite generally difficult trading conditions in most of our major markets. Our largest market the US is showing signs of continued growth and this should underpin our performance in the current year. In addition we no longer have any hedging contracts put in place prior to the Brexit referendum and will benefit from the current weakness of Sterling. However, any significant fluctuations in the Sterling US Dollar exchange rate are likely to have a material effect on Group profits. In our other major markets, the UK and Europe, we are experiencing increasingly difficult trading conditions and we expect this to offset some of the anticipated growth in the US. In addition we expect our Decorating Division to return to a more normal level of activity following an exceptional performance last year.

The Group has a strong balance sheet with net cash of £9.2 million and we will continue to invest with confidence in our portfolio of luxury brands and our worldwide distribution network.

David Green
Chairman

26 July 2018

COLEFAX GROUP PLC
GROUP INCOME STATEMENT
For the year ended 30 April 2018

	2018	2017
	£'000	£'000
Revenue	86,052	80,475
Cost of sales	39,811	36,119
Gross profit	46,241	44,356
Operating expenses	41,520	41,419
Profit from operations	4,721	2,937
Finance income	1	1
Finance expense	(3)	(1)
	(2)	-
Profit before taxation	4,719	2,937
Tax expense		
- UK	(508)	39
- Overseas	(379)	(1,081)
	(887)	(1,042)
Profit for the year attributable to equity holders of the parent	3,832	1,895
Basic earnings per share	38.1 p	18.6 p
Diluted earnings per share	38.1 p	18.6 p

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 April 2018

	2018	2017
	£'000	£'000
Profit for the year	3,832	1,895
Other comprehensive income / (expense):		
Items that will not be reclassified to profit and loss:		
Exchange differences on translation of foreign operations	(743)	1,628
Remeasurement of defined benefit pension scheme	31	101
Tax relating to items that will not be reclassified to profit and loss	76	(449)
	(636)	1,280
Items that will or may be reclassified to profit and loss:		
Cash flow hedges:		
Gains/(losses) recognised directly in equity	210	(2,611)
Transferred to profit and loss for the year	959	2,006
Tax relating to items that will or may be reclassified to profit and loss	(222)	109
	947	(496)
Total other comprehensive income	311	784
Total comprehensive income for the year attributable to equity holders of the parent	4,143	2,679

COLEFAX GROUP PLC
GROUP STATEMENT OF FINANCIAL POSITION
At 30 April 2018

	2018 £'000	2017 £'000
Non-current assets:		
Property, plant and equipment	8,692	9,669
Deferred tax asset	173	386
Pension asset	34	-
	<u>8,899</u>	<u>10,055</u>
Current assets:		
Inventories and work in progress	14,086	13,938
Trade and other receivables	11,130	11,805
Current corporation tax	-	170
Cash and cash equivalents	9,177	6,710
	<u>34,393</u>	<u>32,623</u>
Current liabilities:		
Trade and other payables	13,678	13,961
Current corporation tax	306	-
	<u>13,984</u>	<u>13,961</u>
Net current assets	<u>20,409</u>	<u>18,662</u>
Total assets less current liabilities	<u>29,308</u>	<u>28,717</u>
Non-current liabilities:		
Deferred rent	1,878	1,992
Deferred tax	11	734
Pension liability	-	55
Net assets	<u>27,419</u>	<u>25,936</u>
Capital and reserves attributable to equity holders of the Company:		
Called up share capital	981	1,022
Share premium account	11,148	11,148
Capital redemption reserve	1,893	1,852
ESOP share reserve	(113)	(113)
Foreign exchange reserve	2,158	2,779
Cash flow hedge reserve	(32)	(979)
Retained earnings	11,384	10,227
Total equity	<u>27,419</u>	<u>25,936</u>

COLEFAX GROUP PLC
GROUP STATEMENT OF CASH FLOWS
For the year ended 30 April 2018

	2018	2017
	£'000	£'000
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Operating activities		
Profit before taxation	4,719	2,937
Finance income	(1)	(1)
Finance expense	3	1
Loss on disposal of property, plant and equipment	235	-
Depreciation	2,735	2,720
	<hr/>	<hr/>
Cash flows from operations before changes in working capital	7,691	5,657
Increase in inventories and work in progress	(301)	(1,140)
Decrease / (Increase) in trade and other receivables	463	(2,172)
Increase in trade and other payables	1,056	1,835
	<hr/>	<hr/>
Cash generated from operations	8,909	4,180
<hr/>		
Taxation paid		
UK corporation tax paid	(350)	(224)
Overseas tax paid	(679)	(1,141)
	<hr/>	<hr/>
	(1,029)	(1,365)
	<hr/>	<hr/>
Net cash inflow from operating activities	7,880	2,815
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Investing activities		
Payments to acquire property, plant and equipment	(2,382)	(4,126)
Receipts from sales of property, plant and equipment	49	40
Interest received	-	1
	<hr/>	<hr/>
Net cash outflow from investing	(2,333)	(4,085)
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Financing activities		
Purchase of own shares	(2,172)	(2,583)
Interest paid	(3)	(1)
Equity dividends paid	(488)	(478)
	<hr/>	<hr/>
Net cash outflow from financing	(2,663)	(3,062)
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Net increase/ (decrease) in cash and cash equivalents	2,884	(4,332)
Cash and cash equivalents at beginning of year	6,710	10,085
Exchange gains on cash and cash equivalents	(417)	957
	<hr/>	<hr/>
Cash and cash equivalents at end of year	9,177	6,710

COLEFAX GROUP PLC
GROUP STATEMENT OF CHANGES IN EQUITY
For the year ended 30 April 2018

	Share capital	Share premium account	Capital redemption reserve	ESOP share reserve	Foreign exchange reserve	Cash flow hedge reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 May 2017	1,022	11,148	1,852	(113)	2,779	(979)	10,227	25,936
Profit for the year	-	-	-	-	-	-	3,832	3,832
Foreign exchange	-	-	-	-	(743)	-	-	(743)
Re-measurement of defined benefit pension scheme	-	-	-	-	-	-	31	31
Cash flow hedges:								
Gains	-	-	-	-	-	210	-	210
Transfers	-	-	-	-	-	959	-	959
Tax on other comprehensive income	-	-	-	-	122	(222)	(46)	(146)
Total comprehensive income for the year	-	-	-	-	(621)	947	3,817	4,143
Share buybacks	(41)	-	41	-	-	-	(2,172)	(2,172)
Dividends paid	-	-	-	-	-	-	(488)	(488)
At 30 April 2018	981	11,148	1,893	(113)	2,158	(32)	11,384	27,419
At 1 May 2016	1,076	11,148	1,798	(113)	1,559	(483)	11,333	26,318
Profit for the year	-	-	-	-	-	-	1,895	1,895
Foreign exchange	-	-	-	-	1,628	-	-	1,628
Re-measurement of defined benefit pension scheme	-	-	-	-	-	-	101	101
Cash flow hedges:								
Losses	-	-	-	-	-	(2,611)	-	(2,611)
Transfers	-	-	-	-	-	2,006	-	2,006
Tax on other comprehensive income	-	-	-	-	(408)	109	(41)	(340)
Total comprehensive income for the year	-	-	-	-	1220	(496)	1,955	2,679
Share buybacks	(54)	-	54	-	-	-	(2,583)	(2,583)
Dividends paid	-	-	-	-	-	-	(478)	(478)
At 30 April 2017	1,022	11,148	1,852	(113)	2,779	(979)	10,227	25,936

COLEFAX GROUP PLC
NOTES TO THE FINANCIAL INFORMATION
At 30 April 2018

1. Earnings per share

Basic earnings per share have been calculated on the basis of profit on ordinary activities after tax of £3,832,000 (2017: £1,895,000) and on 10,067,216 (2017: 10,185,206) ordinary shares, being the weighted average number of ordinary shares in issue during the year. Shares owned by the Colefax Group Plc Employees' Share Ownership Plan (ESOP) Trust are excluded from the basic earnings per share calculation.

Diluted earnings per share have been calculated on the basis of profit on ordinary activities after tax of £3,832,000 (2017: £1,895,000) and on 10,067,216 (2017: 10,185,206) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

2. Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following:

	2018	2017
	£'000	£'000
Cash at bank and in hand	9,177	6,710
Bank overdrafts	-	-
	<hr/> 9,177	<hr/> 6,710

The fair value of cash and cash equivalents are considered to be their book value.

3. The above financial information, which has been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union, does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006.

The financial information for the year ended 30 April 2018 has been extracted from the statutory accounts which will be delivered to the Registrar of Companies following the Company's annual general meeting. The comparative financial information is based on the statutory accounts for the financial year ended 30 April 2017 which have been delivered to the Registrar of Companies. The Independent Auditors' Report on both of those financial statements was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under Section 498(2) and Section 498(3) of the Companies Act 2006.

4. Annual General Meeting

The Annual General Meeting of Colefax Group plc will be held at 19-23 Grosvenor Hill, London W1K 3QD on 13 September 2018 at 11.00 a.m.