

AIM: CFX
14 September 2020

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

Preliminary Results for the year ended 30 April 2020

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

- Worldwide Covid-19 'lockdowns' significantly impacted sales, with the majority of showrooms, customers and suppliers closed for varying periods
- Sales decreased by 9.3% to £78.36m (2019 - £86.36m)
- Pre-tax profit decreased by 57.3% to £2.18m (2019 - £5.10m), including:
 - one-off charge of £0.71m relating to operational integration and
 - non-cash charge of £0.71m relating to adoption of IFRS 16 Leases
 - excluding these two items, pre-tax profit reduced by 29% to £3.59 million
- Earnings per share decreased by 46% to 21.4p (2019 - 39.3p)
- Cash at 30 April 2020 increased to £11.5m (2019 - £9.5m).
- Board is not proposing a final dividend
- Fabric Division sales decreased by 5.8% to £67.03m (2019 - £71.15m) and by 7.3% on constant currency basis
 - US sales down by 2.0%, UK sales down by 10.6% and Europe sales down by 11.1%
 - in the last six weeks of FY 2020, Fabric Division sales reduced by 45% against the same period last year
- Decorating Division sales decreased as expected to £8.96m (2019 - £12.50m) against an outperformance in the prior year
- Group utilised government support programmes where appropriate

David Green, Chief Executive of Colefax, said:

"The Covid-19 pandemic started to have a major impact on the Group in the last six weeks of the financial year ended 30 April 2020 and continued into the current year.

"The most significant impact on sales was during the total lockdown period and as restrictions have been eased we have seen a good recovery in core Fabric Division sales. Current sales trends are ahead of our initial expectations at the start of the pandemic. Sales in July and August were ahead of the prior year and we believe that this is not simply due to deferred sales but also reflects new business arising as a result of the lockdowns.

"The Group has a strong balance sheet with significant liquidity and is well placed to navigate even a severe recession and take advantage of any opportunities that may arise.

"Throughout the pandemic our priority has been the health and safety of our staff, customers and suppliers. Our staff in particular have made an extraordinary effort to respond to the challenges we have faced and I am extremely grateful to every one of them for the sacrifices they have made and for their hard work and loyalty to the Group."

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COLEFAX GROUP PLC CHAIRMAN'S STATEMENT

Financial Results

Group sales for the year to 30 April 2020 decreased by 9.3% to £78.36 million (2019 - £86.36 million) and decreased by 10.5% on a constant currency basis. Pre-tax profits decreased by 57.3% to £2.18 million (2019 - £5.10 million) and earnings per share decreased by 46% to 21.4p (2019 - 39.3p). The pre-tax profit for the year includes one-off charges of £714,000 relating to the integration of our UK and US Fabric Division operations of which £645,000 was non-cash. In addition the adoption of IFRS 16 Leases resulted in extra non-cash charges of £705,000. Excluding these two items pre-tax profit reduced by 29% to £3.59 million.

Our financial year-end on 30 April 2020 was in the middle of worldwide lockdowns to control the Covid-19 pandemic. As far as possible the Group has remained operational throughout the crisis but with the majority of our showrooms, customers and suppliers closed for varying periods of time the lockdowns inevitably had a significant impact on sales. In the last six weeks of our financial year sales in our core Fabric Division were down by £4.2 million or 45% on a like-for-like basis. The Group utilised government support where appropriate and £280,000 of furlough income is included in the income statement under other operating income. This helped to offset some of the losses arising from the restrictions put in place to control the virus.

Part of the reduction in Group sales and profit before tax was due to our Decorating Division which made a profit of £121,000 (2019 - £1.1 million) on sales of £8.96 million (2019 - £12.5 million). The prior year's performance was exceptional and the £974,000 reduction in Decorating Division profit was not due to the impact of Covid-19.

When the likely sales impact of the lockdown measures first became apparent the Board took action to conserve cash including cancelling the interim dividend of 2.6p payable on 9 April 2020. Given the adverse impact of Covid-19 on profitability and ongoing uncertainty over the extent of the post lockdown recovery, the Board have decided not to propose a final dividend for the year ended 30 April 2020.

The Group ended the year with net cash of £11.5 million (2019 - £9.5 million). This balance includes a US loan receipt of £968,000 under the coronavirus related CARES Act. Allowing for this loan the Group started the current year with net cash of £10.6 million and is in a strong position to manage the adverse consequences of the coronavirus pandemic.

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 86% of Group turnover, decreased by 5.8% to £67.03 million (2019 - £71.16 million) but decreased by 7.3% on a constant currency basis. Most of the sales decline took place in the last six weeks of the financial year during worldwide lockdowns to control Covid-19. For the ten months to February 2019 Fabric Division sales were down by 2.2% on a constant currency basis. Trading was in line with expectations in the first two weeks of March but in the last six weeks of the financial year sales declined by £4.2 million or 45% on a constant currency basis.

Pre-tax profit decreased by 46.1% to £2.0 million (2019 - £3.71 million). Excluding one-off UK-US operational integration costs of £714,000 and a non cash cost of £679,000 from adopting IFRS 16 Leases, pre-tax profits decreased by 9% to £3.4 million. The profit impact of the decline in sales was partly offset by a stronger US Dollar exchange rate which averaged \$1.26 during the year and improved gross profit margins in the US by £427,000.

As a result of the Covid-19 pandemic sales trends prior to the virus are no longer a helpful guide

to the future. It is more meaningful to look at the rate at which sales are recovering as lockdown measures are eased. Not surprisingly this varies significantly by market and reflects differences in the timing of the lockdowns and their subsequent easing.

Sales in the US, which represent 62% of the Fabric Division's turnover, decreased by 2.0% and by 4.8% on a constant currency basis. For the ten months to the end of February sales were down by 0.5%. Like-for-like sales in March were down by 7% and April sales were down by 47%. Since the year end like for like sales were down by 36% in May, 20% in June but up by 3% in July and 4% in August.

In February 2020 we completed the refurbishment of our Los Angeles showroom and although we will not now see an immediate benefit we believe it will help to grow sales in the future. Operationally we have started to run-down fabric stocks at our US warehouse as part of the transfer of the majority of our warehouse operations to the UK. This project will be completed in the second half of the current year.

Sales in the UK, which represent 17% of the Fabric Division's turnover, decreased by 10.6%. For the ten months to the end of February sales were down by 4% reflecting fairly difficult trading conditions linked to a weak high-end housing market. In March when the UK lockdown started sales were down by 19% and in April sales were down by 73%. Since the year end like for like sales were down by 67% in May, 34% in June but encouragingly were up by 8% in July and 3% in August.

Sales in Continental Europe, which represent 19% of the Fabric Division's turnover, decreased by 11.1% and by 10.7% on a constant currency basis. For the ten months to the end of February sales in Europe were down by 3.6% reflecting weak economic conditions in most countries. The lockdowns in much of Europe started slightly earlier than the UK and sales in March were down by 24% and in April by 67%. Since the year end like-for-like sales were down by 35% in May and by 20% in June but were up by 14% in July and 8% in August. This is ahead of the US and UK and we attribute this to the earlier lockdowns that took place in Europe.

Sales in the Rest of the World, which represent just 2% of the Fabric Division's turnover, decreased by 11.6% during the year. Our major markets in the Rest of the World are the Middle East, China and Australia and we expect these territories to remain a small proportion of total Fabric Division sales

- **Furniture – Kingcome Sofas**

Sales of Kingcome furniture, which represent 3% of Product Division sales, decreased by 12.1% to £2.37 million (2019 - £2.70 million). Operating profit reduced by 62% to £100,000 (2019 - £262,000). At the end of February Kingcome was on course for another good year with sales up by 4% for the first ten months. When the lockdown started our London showroom closed and the majority of staff at our Devon factory were furloughed for three weeks after which production was restarted with a skeleton team. Sales are recognised when orders are delivered to the customer and very little furniture could be delivered during the April lockdown reducing sales by 69% compared to the prior year. The order book at the end of the year was only down by 1% but this was mainly due to the factory shutdown in April. The Kingcome Sofas showroom reopened in mid-June. Orders were down by 62% in May and 38% in June but up by 8% in July and 2% in August in line with the pattern seen in the UK Fabric Division.

Interior Decorating Division

Decorating sales, which account for 11% of Group turnover, decreased by 28.3% to £8.96 million (2019 - £12.50 million) and profits decreased to £121,000 (2019 - £1.1 million). This result follows two years of exceptional performance by the Decorating Division and although activity levels were significantly restricted in the last six weeks of the year the lockdowns were not the main reason for the reduction in sales and profit. The Decorating Division has a relatively fixed cost base and significant fluctuations in sales and profits are a feature of the business and occur due to variations in the timing of major projects. During the lockdowns it was not possible to travel overseas or visit new and existing clients. This will inevitably have some knock-on impact on the timing of projects

and the volume of work that can be carried out in the current year. Restrictions on overseas travel are a particular concern because typically around 40% of Decorating Division sales relate to overseas projects.

Prospects

The Covid-19 pandemic started to have a major impact on the Group in the last six weeks of the financial year ended 30 April 2020 and continued into the current year. The timing of our year end means that two financial years will be significantly affected by the worldwide actions taken to contain the virus. The most significant impact on sales was during the total lockdown period and as restrictions have been eased we have seen a good recovery in core Fabric Division sales. Current sales trends are ahead of our initial expectations at the start of the pandemic. Sales in July and August were ahead of the prior year and we believe that this is not simply due to deferred sales but also reflects new business arising as a result of the lockdowns.

We have taken action to reduce costs wherever possible including salary cuts. The Group has a strong balance sheet with net cash at the start of the year of £10.6 million and is well placed to navigate even a severe recession and take advantage of any opportunities that may arise.

Throughout the pandemic our priority has been the health and safety of our staff, customers and suppliers. Our staff in particular have made an extraordinary effort to respond to the challenges we have faced and I am extremely grateful to every one of them for the sacrifices they have made and for their hard work and loyalty to the Group

David Green
Chairman

14 September 2020

GROUP INCOME STATEMENT
For the year ended 30 April 2020

	2020	2019
	£'000	£'000
Revenue	78,364	86,355
Cost of sales	(34,602)	(39,496)
Gross profit	43,762	46,859
Operating expenses	(40,655)	(41,789)
Other income	280	-
Profit from operations	3,387	5,070
Finance income	20	25
Finance expense	(1,231)	-
Profit before taxation	2,176	5,095
Tax expense		
-UK	(269)	(733)
-Overseas	13	(532)
	(256)	(1,265)
Profit for the year attributable to equity holders of the parent	1,920	3,830
Basic earnings per share	21.4p	39.3p
Diluted earnings per share	21.4p	39.3p

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 April 2020

	2020 £'000	2019 £'000
Profit for the year	1,920	3,830
Other comprehensive income / (expense):		
Items that will not be reclassified to profit and loss:		
Remeasurement of defined benefit pension scheme	-	(28)
Other movements	(1)	-
Tax relating to items that will not be reclassified to profit and loss	-	11
	(1)	(17)
Items that will or may be reclassified to profit and loss:		
Exchange differences on translation of foreign operations	122	209
Cash flow hedges:		
Gains/(losses) recognised directly in equity	(84)	(157)
Transferred to profit and loss for the year	104	177
Tax relating to items that will or may be reclassified to profit and loss	(54)	(104)
	88	125
Total other comprehensive income	87	108
Total comprehensive income for the year attributable to equity holders of the parent	2,007	3,938

COLEFAX GROUP PLC
GROUP STATEMENT OF FINANCIAL POSITION
At 30 April 2020

	2020 £'000	2019 £'000
Non-current assets:		
Property, plant and equipment	8,524	8,215
Right of use asset	26,057	-
Deferred tax asset	118	113
Pension asset	-	-
	34,699	8,328
Current assets:		
Inventories and work in progress	15,518	14,923
Trade and other receivables	6,499	11,265
Cash and cash equivalents	11,538	9,458
Current corporation tax	332	-
	33,887	35,646
Current liabilities:		
Trade and other payables	11,007	14,847
Lease liabilities	4,612	-
Other loans	977	-
Current corporation tax	-	669
	16,596	15,516
Net current assets	17,291	20,130
Total assets less current liabilities	51,990	28,458
Non-current liabilities:		
Lease liabilities	23,780	-
Deferred rent	-	1,992
Deferred tax liability	-	26
Pension liability	-	1
Net assets	28,210	26,439
Capital and reserves attributable to equity holders of the Company:		
Called up share capital	902	902
Share premium account	11,148	11,148
Capital redemption reserve	1,972	1,972
ESOP share reserve	(114)	(113)
Foreign exchange reserve	2,339	2,267
Cash flow hedge reserve	0	(16)
Retained earnings	11,963	10,279
Total equity	28,210	26,439

COLEFAX GROUP PLC
GROUP STATEMENT OF CASH FLOWS
For the year ended 30 April 2020

	2020 £'000	2019 £'000
Operating activities		
Profit before taxation	2,176	5,095
Finance income	(20)	(25)
Finance expense	1,231	-
Loss on disposal of property, plant and equipment	(28)	8
Depreciation	3,071	2,800
Depreciation on right of use assets	4,193	-
Cash flows from operations before changes in working capital	10,623	7,878
(Increase) / decrease in inventories and work in progress	(497)	1,765
Decrease in trade and other receivables	4,914	47
Decrease in trade and other payables	(4,461)	(1,783)
Cash generated from operations	10,579	7,907
Taxation paid		
UK corporation tax paid	(602)	(374)
Overseas tax paid	(748)	(606)
	(1,350)	(980)
Net cash inflow from operating activities	9,229	6,927
Investing activities		
Payments to acquire property, plant and equipment	(3,183)	(2,046)
Receipts from sales of property, plant and equipment	39	14
Interest received	20	25
Net cash outflow from investing	(3,124)	(2,007)
Financing activities		
Proceeds from loans and borrowings	968	-
Purchase of own shares including related costs	-	(4,421)
Principal paid on lease liabilities	(3,646)	-
Interest paid on lease liabilities	(1,231)	-
Equity dividends paid	(242)	(497)
Net cash outflow from financing	(4,151)	(4,918)
Net increase in cash and cash equivalents	1,954	2
Cash and cash equivalents at beginning of year	9,458	9,177
Exchange gains/(losses) on cash and cash equivalents	126	279
Cash and cash equivalents at end of year	11,538	9,458

COLEFAX GROUP PLC
GROUP STATEMENT OF CHANGES IN EQUITY
For the year ended 30 April 2020

	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 2019	902	11,148	1,972	(113)	2,267	(16)	10,279	26,439
Profit for the year	-	-	-	-	-	-	1,920	1,920
Foreign exchange	-	-	-	-	122	-	-	122
Other movements	-	-	-	(1)	-	-	-	(1)
Cash flow hedges:								
Losses	-	-	-	-	-	(84)	-	(84)
Transfers	-	-	-	-	-	104	-	104
Tax on other comprehensive income	-	-	-	-	(50)	(4)	-	(54)
Total comprehensive income for the year	-	-	-	(1)	72	16	1,920	2,007
Share buybacks	-	-	-	-	-	-	6	6
Dividends paid	-	-	-	-	-	-	(242)	(242)
At 30 April 2020	902	11,148	1,972	(114)	2,339	0	11,963	28,210
At 1 May 2018	981	11,148	1,893	(113)	2,158	(32)	11,384	27,419
Profit for the year	-	-	-	-	-	-	3,830	3,830
Foreign exchange	-	-	-	-	209	-	-	209
Remeasurement of defined benefit pension scheme	-	-	-	-	-	-	(28)	(28)
Cash flow hedges:								
Losses	-	-	-	-	-	(157)	-	(157)
Transfers	-	-	-	-	-	177	-	177
Tax on other comprehensive income	-	-	-	-	(100)	(4)	11	(93)
Total comprehensive income for the year	-	-	-	-	109	16	3,813	3,938
Share buybacks	(79)	-	79	-	-	-	(4,421)	(4,421)
Dividends paid	-	-	-	-	-	-	(497)	(497)
At 30 April 2019	902	11,148	1,972	(113)	2,267	(16)	10,279	26,439

NOTES TO THE FINANCIAL INFORMATION

1. Earnings per share

Basic earnings per share have been calculated on the basis of profit on ordinary activities after tax of £1,920,000 (2019: £3,830,000) and on 8,962,440 (2019 - 9,738,402) 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 are the same as basic earnings per share as there are no outstanding share options in force at 30 April 2020.

2. Cash and Cash equivalents

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

	2020 £'000	2019 £'000
Cash at bank and in hand	11,538	9,458

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

3. Going Concern

In response to the Covid-19 risk the directors have prepared detailed profit and cash flow forecasts for each subsidiary covering a period of at least twelve months from the date of approving the financial statements and taking into account all of the principal risks and uncertainties facing the business. The forecasts have been stress tested by considering the profit and cash flow impact of a range of sales scenarios up to a maximum decline of 50% compared to the year ended 30 April 2020. Even under the worst case scenario the Group has significant headroom in terms of cash resources and has no need for any bank borrowing. As a result the directors are satisfied that the Group has adequate resources and that there is no material uncertainty that would prevent the Group from continuing in operational existence for the foreseeable future and have adopted the going concern basis in preparing the consolidated financial statements for the year ended 30 April 2020.

4. Financial Information

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 2020 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 2019 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.

Copies of the Annual Report and full Financial Statements will be posted to shareholders during the week commencing 21 September 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

5. Annual General Meeting

This year's Annual General Meeting is due to take place on 19 October 2020 at 11.00am. However, the continuing Covid-19 pandemic has led to the imposition of

severe restrictions on the way in which we all conduct business and in particular on public gatherings. This means that, in accordance with the Government's social distancing guidelines, the Directors have decided to facilitate holding the Annual General Meeting with minimal face to face contact, while still endeavouring to create a forum for the conduct of the formal business set out in the notice of the Annual General Meeting.

We therefore have to notify you that unfortunately it will not be possible for members to attend the Annual General Meeting in person. Two Directors will be present so as to constitute the quorum of two members required for the Annual General Meeting proceedings to be valid. Members may submit questions ahead of the Annual General Meeting by emailing rob.barker@coifax.com. The Board encourages members to submit proxy forms and to appoint the Chairman of the meeting as their proxy with their voting instructions.

Further details and guidance can be found at note 1 to the notice of Annual General Meeting set out in the 2020 Annual Report. If these arrangements should change for any reason prior to the Annual General Meeting we will notify members of such change and make appropriate announcement(s) via the regulated news service and the company's website.