

AIM: CFX
23 July 2019

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

Preliminary Results for the year ended 30 April 2019

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 0.4% to £86.36m (2018: £86.05m) in a challenging trading environment
- Pre-tax profit increased by 8.0% to £5.10m (2018: £4.72m) with another strong performance by the Decorating Division
- Earnings per share up by 3.2% to 39.3p (2018: 38.1p)
- Strong cash generation of £4.92m (2018: £5.54m) before dividends and share buybacks
- £4.32m returned to shareholders via share buybacks (2018: £2.17m)
- Net cash at year end increased to £9.5m (2018: £9.2m)
- Proposed increased final dividend of 2.70p per share (2018: 2.60p), taking total for the year to 5.20p (2018: 5.00p), a rise of 4%
- Fabric Division sales flat at £71.15m (2018: £71.11m), and down by 1.7% on constant currency basis. US sales down 2.1%, UK sales down 1.9% and European sales down 0.9%.
- Decorating Division sales increased by 1.4% to £12.50m (2018: £12.33m), due to a number of major projects completing during the year

David Green, Chief Executive, said:

"During the last year we experienced increasingly challenging trading conditions in most of our major markets. This trend has continued in the first twelve weeks of the current year and we expect trading to remain difficult.

"Our Decorating Division delivered an exceptional performance due to the completion of several significant contracts and we expect activity to return to more normal levels this year.

"The Group has a strong balance sheet with net cash of £9.5 million and we believe we are well placed to take advantage of any improvement in trading conditions in our major markets."

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COLEFAX GROUP PLC CHAIRMAN'S STATEMENT

Financial Results

Group sales for the year to 30 April 2019 increased by 0.4% to £86.36 million (2018: £86.05 million) but decreased by 1.1% on a constant currency basis. Pre-tax profits increased by 8.0% to £5.10 million (2018: £4.72 million) and earnings per share increased by 3.2% to 39.3p (2018: 38.1p). The Group ended the year with net cash of £9.5 million (2018: £9.2 million).

The Board is proposing to increase the final dividend by 4% to 2.70p per share (2018: 2.60p) making a total for the year of 5.20p (2018: 5.00p), 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 at the Group's AGM, will be paid on 10 October 2019 to shareholders on the register at the close of business on 13 September 2019.

In April 2019 the Group returned £4.32 million (2018: £2.17 million) to shareholders by way of a Tender Offer to purchase 784,560 shares at an average price of £5.50 per share and representing 8% of the issued share capital of the Group.

The 8.0% increase in pre-tax profit was achieved in a challenging trading environment particularly in the second half of the year. Sales in our core Fabric Division declined by 1.7% on a constant currency basis but the Group benefitted from a stronger US Dollar exchange rate and a reduction of £782,000 in hedging losses compared to the prior year. In addition our Decorating and Furniture Divisions both delivered an improved profit performance.

The Group had another strong year for cash generation with a cash inflow of £4.92 million before share buybacks and dividend payments (2018: £5.54 million). This reflects tight control of working capital and a below average year for capital expenditure.

The 3% increase in earnings per share was achieved despite a more normal tax charge of 24.8% compared to 18.8% last year when the Group benefitted from a one-off deferred tax adjustment of £350,000.

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 82% of Group turnover, were unchanged at £71.15 million (2018: £71.11 million) but decreased by 1.7% on a constant currency basis. Operating profit increased by 0.6% to £3.71 million (2018: £3.69 million) but excluding hedging losses was down by 16.3% to £3.89 million (2018: £4.65 million) reflecting challenging trading conditions in most of our major markets.

Sales in the US, which represent 59% of the Fabric Division's turnover, increased by 1.1% and decreased by 2.1% on a constant currency basis. This follows a 6.2% increase in sales last year on a constant currency basis. Despite a strong general economy we believe that our sector has been affected by a reduction in mortgage interest relief and other property tax deductions which accompanied the US corporate tax rate reduction in January 2018. The US remains our most important market and the focus of future investment. During the current year we will complete the refurbishment of our Los Angeles showroom and continue to invest in our showroom network.

Sales in the UK, which represent 18% of the Fabric Division's turnover, decreased by 1.9% during the year reflecting difficult trading conditions at the top end of the market. The luxury soft

furnishing industry is suffering from a decline in the number of high end housing transactions mainly caused by high rates of stamp duty. We believe that Brexit uncertainty is also negatively impacting housing transactions and major investment decisions. Despite weak trading conditions in the UK we have continued to invest in this market and in August we completed the refurbishment of our Chelsea Harbour showroom which has been well received by customers.

Sales in Continental Europe, which represent 20% of the Fabric Division's turnover, decreased by 1.5% and by 0.9% on a constant currency basis. Trading conditions in Europe were challenging despite the benefit of significant quantitative easing by the European Central Bank and a zero per cent bank base rate. There is no reason to believe that market conditions will improve in the short term. Europe encompasses a wide range of differing tastes and we will continue to focus our efforts on opportunities to grow sales in the markets best suited to each of our brands.

Sales in the Rest of the World, which represent just 3% of the Fabric Division's turnover, increased by 0.5% during the year. The majority of sales are made through distributors as opposed to through direct sales or agents and as a result sales in the Rest of the World are likely to remain a relatively small proportion of total sales.

Historically the Group has had Fabric Division operations in both the US and the UK which have served our needs well. However, rising premises costs in London and New York mean that we are planning to move some of our UK and US operations into new office and warehouse premises in Wandsworth, South West London. This will give rise to some exceptional integration costs and capital expenditure over the next two years but will deliver synergies and cost efficiencies that will benefit the business in the longer term.

• **Furniture – Kingcome Sofas**

Sales of Kingcome furniture, which represent 4% of Product Division sales, increased by 3% to £2.70 million (2018: £2.62 million). Operating profit was £262,000 compared to £130,000 last year. The majority of furniture sales are made in the UK and the improvement in profit was achieved in generally difficult market conditions. This business is the Group's only manufacturing activity. It has a relatively fixed cost base which means that profit is sensitive to small fluctuations in sales. At the year end the forward order book was 6% ahead of last year.

Interior Decorating Division

Decorating sales, which account for 14% of Group turnover, increased by 1.4% to £12.50 million (2018: £12.33 million) and profits increased by 21.5% to £1.1 million (2018: £901,000). This represents another strong performance by the Decorating Division which is now well established at its new showroom and offices in Belgravia. The business has a broad range of international clients and the proportion of overseas work increased to 47% compared to 43% last year. The Decorating Division includes a successful antiques operation which is important to the business model although it only accounts for 7% of total sales. Customer deposits at the year end were down 17% on the exceptional level at the start of the year but remain at a historically high level.

Prospects

During the last year we experienced increasingly challenging trading conditions in most of our major markets. This trend has continued in the first twelve weeks of the current year and we expect trading to remain difficult. Our Decorating Division delivered an exceptional performance due to the completion of several significant contracts and we expect activity to return to more normal levels this year. Over the next two years we will focus on delivering cost savings and synergies through the relocation of certain Fabric Division operations into one site in Wandsworth, South West London. At the same time we will continue to invest in our brand portfolio and the expansion of our worldwide sales network. We are in a period of considerable uncertainty over Brexit. The Group has significant European imports and exports so we will be adversely affected by tariffs arising from a hard Brexit. If this eventuality does arise then we will

do everything possible to mitigate its impact on our customers. The Group has a strong balance sheet with net cash of £9.5 million and we believe we are well placed to take advantage of any improvement in trading conditions in our major markets.

David Green
Chairman

23 July 2019

COLEFAX GROUP PLC
GROUP INCOME STATEMENT
For the year ended 30 April 2019

	2019	2018
	£'000	£'000
Revenue	86,355	86,052
Cost of sales	(39,496)	(39,811)
Gross profit	46,859	46,241
Operating expenses	(41,789)	(41,520)
Profit from operations	5,070	4,721
Finance income	25	1
Finance expense	-	(3)
	25	(2)
Profit before taxation	5,095	4,719
Tax expense		
- UK	(733)	(508)
- Overseas	(532)	(379)
	(1,265)	(887)
Profit for the year attributable to equity holders of the parent	3,830	3,832
Basic earnings per share	39.3 p	38.1 p
Diluted earnings per share	39.3 p	38.1 p

GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 April 2019

	2019	2018
	£'000	£'000
Profit for the year	3,830	3,832
Other comprehensive income / (expense):		
Items that will not be reclassified to profit and loss:		
Exchange differences on translation of foreign operations	209	(743)
Remeasurement of defined benefit pension scheme	(28)	31
Tax relating to items that will not be reclassified to profit and loss	(89)	76
	92	(636)
Items that will or may be reclassified to profit and loss:		
Cash flow hedges:		
(Losses)/gains recognised directly in equity	(157)	210
Transferred to profit and loss for the year	177	959
Tax relating to items that will or may be reclassified to profit and loss	(4)	(222)
	16	947
Total other comprehensive income	108	311
Total comprehensive income for the year attributable to equity holders of the parent	3,938	4,143

COLEFAX GROUP PLC
GROUP STATEMENT OF FINANCIAL POSITION
At 30 April 2019

	2019 £'000	2018 £'000
Non-current assets:		
Property, plant and equipment	8,215	8,692
Deferred tax asset	113	173
Pension asset	-	34
	<u>8,328</u>	<u>8,899</u>
Current assets:		
Inventories and work in progress	13,740	14,086
Trade and other receivables	11,265	11,130
Cash and cash equivalents	9,458	9,177
	<u>34,463</u>	<u>34,393</u>
Current liabilities:		
Trade and other payables	13,664	13,678
Current corporation tax	669	306
	<u>14,333</u>	<u>13,984</u>
Net current assets	<u>20,130</u>	<u>20,409</u>
Total assets less current liabilities	<u>28,458</u>	<u>29,308</u>
Non-current liabilities:		
Deferred rent	1,992	1,878
Deferred tax	26	11
Pension liability	1	-
Net assets	<u>26,439</u>	<u>27,419</u>
Capital and reserves attributable to equity holders of the Company:		
Called up share capital	902	981
Share premium account	11,148	11,148
Capital redemption reserve	1,972	1,893
ESOP share reserve	(113)	(113)
Foreign exchange reserve	2,267	2,158
Cash flow hedge reserve	(16)	(32)
Retained earnings	10,279	11,384
Total equity	<u>26,439</u>	<u>27,419</u>

COLEFAX GROUP PLC
GROUP STATEMENT OF CASH FLOWS
For the year ended 30 April 2019

	2019 £'000	2018 £'000
Operating activities		
Profit before taxation	5,095	4,719
Finance income	(25)	(1)
Finance expense	-	3
Loss on disposal of property, plant and equipment	8	235
Depreciation	2,800	2,735
Cash flows from operations before changes in working capital	7,878	7,691
Decrease / increase in inventories and work in progress	482	(301)
Decrease in trade and other receivables	47	463
(Decrease) / increase in trade and other payables	(500)	1,056
Cash generated from operations	7,907	8,909
Taxation paid		
UK corporation tax paid	(374)	(350)
Overseas tax paid	(606)	(679)
	(980)	(1,029)
Net cash inflow from operating activities	6,927	7,880
Investing activities		
Payments to acquire property, plant and equipment	(2,046)	(2,382)
Receipts from sales of property, plant and equipment	14	49
Interest received	25	-
Net cash outflow from investing	(2,007)	(2,333)
Financing activities		
Purchase of own shares including related costs	(4,421)	(2,172)
Interest paid	-	(3)
Equity dividends paid	(497)	(488)
Net cash outflow from financing	(4,918)	(2,663)
Net increase in cash and cash equivalents	2	2,884
Cash and cash equivalents at beginning of year	9,177	6,710
Exchange gains / (losses) on cash and cash equivalents	279	(417)
Cash and cash equivalents at end of year	9,458	9,177

COLEFAX GROUP PLC
GROUP STATEMENT OF CHANGES IN EQUITY
For the year ended 30 April 2019

	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 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
Re-measurement 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
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

COLEFAX GROUP PLC
NOTES TO THE FINANCIAL INFORMATION
At 30 April 2019

1. Earnings per share

Basic earnings per share have been calculated on the basis of profit on ordinary activities after tax of £3,830,000 (2018: £3,832,000) and on 9,738,402 (2018: 10,067,216) 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 £3,830,000 (2018: £3,832,000) and on 9,738,402 (2018: 10,067,216) 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:

	2019	2018
	£'000	£'000
Cash at bank and in hand	9,458	9,177

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

3. 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 2019 has been extracted from the statutory accounts which will be delivered to the Registrar of Companies following the Company's Annual General Meeting. We expect the Independent Auditors Report on the 2019 financial statements will be unqualified. The comparative financial information is based on the statutory accounts for the financial year ended 30 April 2018 which have been delivered to the Registrar of Companies. The Independent Auditors' Report on the 2018 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 29 July 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.

4. Annual General Meeting

The Annual General Meeting of Colefax Group plc will be held at 19-23 Grosvenor Hill, London W1K 3QD on 18 September 2019 at 11.00 a.m.