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JAMES HALSTEAD PLC

31 March 2023

# JAMES HALSTEAD PLC

## INTERIM RESULTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2022

*Record turnover; confident in long-term progress*

James Halstead plc, the AIM listed manufacturer and international distributor of commercial floor coverings, announces its results for the six months ended 31 December 2022:

**Financial highlights**

- Revenue at £149.6 million (2021: £136.7 million)
- Operating profit at £23.1 million (2021: £25.5 million)
- Pre-tax profit at £23.2 million (2021: £25.4 million)
- Basic earnings per ordinary share 4.3p (2021: 4.7p)
- Interim dividend declared of 2.25p (2021: 2.25p)
- Cash of £44.3 million (2021: £69.4 million)

The Chief Executive, Mr. Mark Halstead, commented:
"These last three years have seen our businesses challenged by numerous unexpected factors that have added to costs significantly and to the complexity of the simple business of designing, manufacturing and selling commercial flooring. The bottom line results show a small dip in profits at the half year but this, in the view of the board, is a creditable performance."

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**CHAIRMAN'S STATEMENT**

**Trading for the six months ended 31 December 2022**

Sales revenue of £149.6 million (2021: £136.7 million) is a record level of turnover which, considering the economic backdrop in the many markets, is a satisfactory achievement. However, the effects of transportation costs, energy price increases and raw materials costs have meant that profit is lower than last year. The profit before tax is £23.2 million (2021: £25.4 million), a drop of 8.6%.

Turnover for the first half is 9.5% ahead of the comparative with UK sales 10% ahead of 2021, Europe 4% up, Australasia 16% ahead and the rest of the world up by 26%. The rest of the world turnover was driven mainly by further increases in sales across the Middle East and North America. Certain markets, most notably South America, were affected by delayed shipments due to reduced shipping route availability and consequent significant delays. There is a plethora of projects that illustrate the breadth and depth of our flooring sales: Churchill Downs Racecourse in Kentucky, the Toulouse Rugby Stadium in France, the FIFA Museum in Qatar and the Palace Hotel in Konary (Poland). Most of our export markets experienced shipping delays as global shipping routes continued to be in turmoil following the significant changes to demand patterns resulting from events of the last two years.

Distribution costs, in terms of export shipping, remained at very high levels throughout the period. Given our shipments of flooring were as diverse as the St Helene hospital in Mauritius, the student accommodation at Iceland University, the WKI Lab in East Java, the Biscotti Headquarters in Lviv or the Penfolds Wine Exhibition at Raffles City in Singapore we thank our logistics teams.

Within the Australasian markets both Australia and New Zealand reported double digit sales increases. Our business in Malaysia is growing steadily with increases in sales volumes over each quarter since its inception in 2020. As we add more sales staff to the surrounding South Asia countries, we expect further growth. However, Asia sales as a whole have been impacted by the Chinese market where the continued Covid restrictions throughout the period has seen demand and projects at very low levels.

Margins have remained under pressure throughout the period, even though in many markets we have undertaken price increases, with energy costs increasing steadily in our manufacturing sites in the UK. To an extent the growth in stock earlier in the year had a degree of hedge against energy price increases – but not significantly so. As I noted in the final results for the year ended 30 June 2022 we have, in our manufacturing businesses, adopted a lag between absorbing costs and increases in sales prices. The lag is partly the holding of prices quoted on projects in advance, partly to allow stockists to look at their price lists and in part our reticence to risk the unknown consequences of price increases on future demand. Given that many industries have passed on costs with little or no notice to the customer we have, to a degree, taken a more protective stance towards long term relationships.

Our German and Central European businesses have seen flat growth and margin erosion and have been the least effective of our businesses in achieving price increases. Overall, the adverse effects noted had an average 3% impact on margins in the period, and a price increase in most regions and all our major markets was implemented from the start of January 2023.

Overhead costs in the six months to 31 December 2022 were 4.9% higher than the prior year with the most significant increase being export shipping costs.

We noted in our full year results for the year to 30 June 2022 that at the year end our stock holding had significantly increased, partly through higher costs, but in general as a result of a key decision to hold higher volumes to defend against the uncertainties in the market (notably the risk of restrictions in energy and raw material availability). In the main, this was achieved, and as some of those uncertainties and pressures have eased, we have looked to reduce our stock levels. At the end of December, although £10 million higher than at the same time last year, stock levels had fallen just over 16% since June 2022 and have continued to fall after the half year end. It was obviously helpful to raw material supplies that the European winter was relatively mild.

Though profit for the first half of our year is lower we, as a board, are satisfied overall with the outcome relative to the challenges. Most of our businesses are progressing, though in Germany where we are more exposed to the retail and domestic markets we saw both lower volumes and lower margins. Cost control continues to be the focus of our attention.

The UK group has a final salary pension scheme (also known as a defined benefit scheme) and though this scheme was closed to new entrants in 2002 it has now been closed to future accrual. Since the number of employees in the scheme was less than 70 it was inevitable that this would happen at some point.

**Earnings per Share and Dividend**

Our cash, which stands at £44.3 million as of 31 December 2022 compared with £69.4 million at 31 December 2021, continues to be a key strength. Since 31 December 2021 we have distributed £32.3 million in dividends and increased our stock levels in the six months to 30 June 2022 as a defensive precaution against energy and raw material shortages.

With regard to our cash and profitability, we have decided to declare an unchanged interim dividend of 2.25p per share, payable on 9 June 2023 to those shareholders on the register at 12 May 2023.

**Environmental, sustainability, social responsibility and governance**

The detailed Sustainability Report that we issue annually is now in its 18th edition and continues to underline the Group's commitment to ESG and sustainability. Our commitment as a business to these matters is not new. In addition, we have identified the members of our committee in respect of addressing the TCFD (Taskforce on Climate-related Financial Disclosures) and whilst these disclosures seem in some ways to be a degree pretensive, we will continue our many sustainability and environmental initiatives undertaken not only at the company level but also at our industry level alongside our competitors. In addition, we are participants within European and international organisations regarding recycling, environmental, sustainability and product standards. Examples include EPDs (environmental product declarations which document environmental impact from life cycle analysis) and ESOS (the energy savings opportunity scheme) which differentiate UK and European manufacturers from suppliers importing products from often less environmentally-conscious regions.

As a manufacturer we see this as a key way of communicating our place in, and contribution to, society, and the many and varied actions that are ongoing inside the business and relevant to our place in the global community. It is of advantage that we are manufacturers that can and do actively recycle waste material, and our UK produced goods have up to 40% recyclate and up to 85% natural material content by physical weight.

Achieving our environmental and sustainable business targets continues to be a key focus.

**Outlook**

The past three years have seen numerous extraordinary factors impact on the business (Covid-19, raw material shortages and price increases, freight price increases and availability, the energy crisis) and to come through all of these, in the view of the board, is a creditable performance. However, the profits of the business reported in the first six months of the trading year are lower. Nevertheless, the demand for flooring for refurbishment projects across healthcare, social housing and education is significant with projects such as Terminal 1 at the Paris Charles de Gaulle airport, the Sema Park urban regeneration project in Romania and the Kāinga Ora state housing projects in New Zealand.

As we move into the second half of the year, energy costs appear to be holding stable, with the mild winter in Europe helping the wholesale gas prices fall from their peak in August 2022. Whilst energy costs are still in excess of prior comparatives there are positives. Availability and cost of shipping to our global markets is vastly improved. Raw material availability and the costs of those materials are more favourable. Production from our UK factories is higher, and with that we should see improved productivity. Most importantly, sales in recent weeks in the UK and many export markets have been very encouraging with our core commercial vinyl ranges experiencing especially robust demand.

I, and the board, are confident of our progress.

Anthony Wild
Chairman
31 March 2023

# Consolidated Income Statement
for the half-year ended 31 December 2022

| | **Half-year ended 31.12.22 £'000** | Half-year ended 31.12.21 £'000 | Year ended 30.06.22 £'000 |
|---|---|---|---|
| Revenue | **149,638** | 136,654 | 291,860 |
| Operating profit | **23,085** | 25,507 | 52,258 |
| Finance income | **230** | 18 | 42 |
| Finance cost | **(95)** | (120) | (237) |
| Profit before income tax | **23,220** | 25,405 | 52,063 |
| Income tax expense | **(5,176)** | (5,692) | (11,735) |
| Profit for the period | **18,044** | 19,713 | 40,328 |
| Earnings per ordinary share of 5p: | | | |
| -basic | **4.3p** | 4.7p | 9.7p |
| -diluted | **4.3p** | 4.7p | 9.7p |

All amounts relate to continuing operations.

Details of dividends paid and declared/proposed are given in note 4.

# Consolidated Statement of Comprehensive Income
for the half-year ended 31 December 2022

| | **Half-year ended 31.12.22 £'000** | Half-year ended 31.12.21 £'000 | Year ended 30.06.22 £'000 |
|---|---|---|---|
| Profit for the period | **18,044** | 19,713 | 40,328 |
| Other comprehensive income net of tax: | | | |
| Remeasurement of the net defined benefit liability | **(4,948)** | 1,963 | 7,090 |
| Foreign currency translation differences | **63** | (310) | 926 |
| Fair value movements on hedging instruments | **(1,297)** | (218) | (111) |
| Other comprehensive income for the period net of tax | **(6,182)** | 1,435 | 7,905 |
| Total comprehensive income for the period | **11,862** | 21,148 | 48,233 |
| Attributable to equity holders of the parent | **11,862** | 21,148 | 48,233 |

# Consolidated Balance Sheet
as at 31 December 2022

| | **Half-year ended 31.12.22 £'000** | Half-year ended 31.12.21 £'000 | Year ended 30.06.22 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | **36,265** | 36,599 | 36,671 |
| Right of use assets | **8,914** | 5,565 | 5,634 |
| Intangible assets | **3,232** | 3,232 | 3,232 |
| Retirement benefit obligations | **499** | - | 6,144 |
| Deferred tax assets | **236** | 356 | 234 |
| | **49,146** | 45,752 | 51,915 |
| **Current assets** | | | |
| Inventories | **93,863** | 83,191 | 112,279 |
| Trade and other receivables | **39,053** | 37,539 | 51,171 |
| Derivative financial instruments | **286** | 1,700 | 2,166 |
| Cash and cash equivalents | **44,325** | 69,381 | 52,144 |
| | **177,527** | 191,811 | 217,760 |
| **Total assets** | **226,673** | 237,563 | 269,675 |
| **Current liabilities** | | | |
| Trade and other payables | **49,788** | 72,705 | 84,507 |
| Derivative financial instruments | **1,406** | 71 | 517 |
| Current income tax liabilities | **2,198** | 865 | 2,097 |
| Lease liabilities | **2,906** | 2,846 | 2,166 |
| | **56,298** | 76,487 | 89,287 |
| **Non-current liabilities** | | | |
| Retirement benefit obligations | **-** | 1,390 | - |
| Other payables | **432** | 448 | 453 |
| Deferred tax liabilities | **1,425** | 648 | 2,929 |
| Lease liabilities | **6,093** | 2,843 | 3,548 |
| Preference shares | **200** | 200 | 200 |
| | **8,150** | 5,529 | 7,130 |
| **Total liabilities** | **64,448** | 82,016 | 96,417 |
| **Net assets** | **162,225** | 155,547 | 173,258 |
| **Equity** | | | |
| Equity share capital | **20,838** | 10,419 | 20,837 |
| Equity share capital (B shares) | **160** | 160 | 160 |
| | **20,998** | 10,579 | 20,997 |
| Share premium account | **13** | 4,934 | - |
| Capital redemption reserve | **-** | 1,174 | - |
| Currency translation reserve | **5,975** | 4,676 | 5,912 |
| Hedging reserve | **(356)** | 834 | 941 |
| Retained earnings | **135,595** | 133,350 | 145,408 |
| **Total equity attributable to shareholders of the parent** | **162,225** | 155,547 | 173,258 |

# Consolidated Cash Flow Statement

for the half-year ended 31 December 2022

| | **Half-year ended 31.12.22 £'000** | Half-year ended 31.12.21 £'000 | Year ended 30.06.22 £'000 |
|---|---|---|---|
| Profit for the period | **18,044** | 19,713 | 40,328 |
| Income tax expense | **5,176** | 5,692 | 11,735 |
| Profit before income tax | **23,220** | 25,405 | 52,063 |
| Finance cost | **95** | 120 | 237 |
| Finance income | **(230)** | (18) | (42) |
| Operating profit | **23,085** | 25,507 | 52,258 |
| Depreciation of property, plant & equipment | **1,712** | 1,879 | 3,794 |
| Depreciation of right of use assets | **1,578** | 1,590 | 3,139 |
| Profit on sale of property, plant and equipment | **(26)** | (73) | (198) |
| Defined benefit pension scheme service cost | **154** | 253 | 500 |
| Defined benefit pension scheme employer contributions paid | **(975)** | (991) | (1,970) |
| Change in fair value of financial instruments | **(564)** | (14) | 703 |
| Share based payments | **12** | 3 | 6 |
| Decrease/(increase) in inventories | **19,008** | (23,198) | (50,272) |
| Decrease/(increase) in trade and other receivables | **11,975** | 5,165 | (7,451) |
| (Decrease)/increase in trade and other payables | **(33,225)** | 6,986 | 15,905 |
| Cash inflow from operations | **22,734** | 17,107 | 16,414 |
| Taxation paid | **(4,957)** | (5,730) | (9,879) |
| Cash inflow from operating activities | **17,777** | 11,377 | 6,535 |
| | | | |
| Purchase of property, plant and equipment | **(1,143)** | (1,466) | (3,248) |
| Proceeds from disposal of property, plant and equipment | **47** | 129 | 280 |
| Cash outflow from investing activities | **(1,096)** | (1,337) | (2,968) |
| | | | |
| Interest received | **99** | 18 | 42 |
| Interest paid | **(7)** | (7) | (20) |
| Lease interest paid | **(88)** | (73) | (143) |
| Lease capital paid | **(1,573)** | (1,634) | (3,233) |
| Equity dividends paid | **(22,921)** | (22,921) | (32,298) |
| Shares issued | **14** | 823 | 823 |
| Cash outflow from financing activities | **(24,476)** | (23,794) | (34,829) |
| | | | |
| Net decrease in cash and cash equivalents | **(7,795)** | (13,754) | (31,262) |
| | | | |
| Effect of exchange differences | **(24)** | (126) | 145 |
| Cash and cash equivalents at start of period | **52,144** | 83,261 | 83,261 |
| | | | |
| Cash and cash equivalents at end of period | **44,325** | 69,381 | 52,144 |

# Notes to the Interim Results
for the half-year ended 31 December 2022

1. Basis of preparation

The interim financial statements are unaudited and do not constitute statutory accounts as defined within the Companies Act 2006.

The principal accounting policies applied in the preparation of the consolidated interim statements are those set out in the annual report and accounts for the year ended 30 June 2022.

The figures for the year ended 30 June 2022 are an abridged statement of the group audited accounts for that year. The financial statements for the year ended 30 June 2022 were audited and have been delivered to the Registrar of Companies.

As is permitted by the AIM rules, the directors have not adopted the requirements of IAS 34 'Interim Financial Reporting' in preparing the interim financial statements. Accordingly the interim financial statements are not in full compliance with IFRS.

2. Taxation

Income tax has been provided at the rate of 22.3% (2021: 22.4%).

3. Earnings per share

| | **Half-year ended 31.12.22 £'000** | Half-year ended 31.12.21 £'000 | Year ended 30.06.22 £'000 |
|---|---|---|---|
| Profit for the period | **18,044** | 19,713 | 40,328 |
| Weighted average number of shares in issue | **416,751,498** | 416,431,865 | 416,586,675 |
| Dilution effect of outstanding share options | **23,830** | 276,142 | 201,425 |
| Diluted weighted average number shares | **416,775,328** | 416,708,007 | 416,788,100 |
| Basic earnings per 5p ordinary share | **4.3p** | 4.7p | 9.7p |
| Diluted earnings per 5p ordinary share | **4.3p** | 4.7p | 9.7p |

4. Dividends

| | **Half-year ended 31.12.22 £'000** | Half-year ended 31.12.21 £'000 | Year ended 30.06.22 £'000 |
|---|---|---|---|
| Equity dividends paid: | | | |
| Final dividend for the year ended 30 June 2021 | **-** | 22,921 | 22,921 |
| Interim dividend for the year ended 30 June 2022 | **-** | - | 9,377 |
| Final dividend for the year ended 30 June 2022 | **22,921** | - | - |
| | **22,921** | 22,921 | 32,298 |

| | | | |
|---|---|---|---|
| Equity dividends declared/proposed after the end of the period | | | |
| Interim dividend | **9,377** | 9,377 | - |
| Final dividend | **-** | - | 22,921 |

Equity dividends per share, paid and declared/proposed are as follows:

11.00p final dividend for the year ended 30 June 2021, paid on 17 December 2021
2.25p interim dividend for the year ended 30 June 2022, paid on 10 June 2022
5.50p final dividend for the year ended 30 June 2022, paid on 16 December 2022

2.25p interim dividend for the year ended 30 June 2023, payable on 9 June 2023, to those shareholders on the register at the close of business at 12 May 2023.

6. Copies of the interim results

Copies of the interim results have been sent to shareholders who requested them. Further copies can be obtained from the Company's registered office, Beechfield, Hollinhurst Road, Radcliffe, Manchester, M26 1JN and on the Company's website at www.jameshalstead.com.