FW Thorpe Plc

Interim Report **2019**
for the six months to 31 December 2018

FW THORPE PLC

Welcome to the 2019 Interim Report

Who We Are

We specialise in designing and manufacturing professional lighting systems.

We currently employ over 600 people and although each company works autonomously, our skills and markets are complementary.

Key points:

	Interim 2019	Interim 2018	Change
Revenue	**£52.7m**	£53.2m	-1.0%
Operating profit *	**£7.0m**	£7.8m	-10.3%
Profit before tax	**£8.8m**	£7.9m	11.4%
Basic earnings per share	**6.14p**	5.43p	13.1%

- Group results were affected by a slow start to the year by Thorlux, with operating profit in line with management's guidance in the November AGM trading statement
- Thorlux's order income is now back to 2018 levels after record orders for the last few months
- The majority of other Group companies' results are similar to those at the Interim 2018 – with improved results at Lightronics and TRT, but disappointing results for some international sales offices
- Results include Famostar, acquired in December 2017, which was not included in the Interim 2018 figures
- Profit before tax includes profit on disposal of £1.9m following the sale of the Thorlux Portsmouth property
- Interim dividend increased to 1.43p (Interim 2018: 1.40p)

* before profit on disposal of property

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Chairman's Interim Statement

As indicated in the 2018 annual report statement and AGM update, the Group is finding it difficult to match the results of last year due to challenging trading conditions at the start of the year. Comparing interim 2019 and 2018 figures, Group revenue for the period is lower by 1.0% with operating profit lower by 10.3% before the profit on disposal. Revenue and operating profit are supplemented by the inclusion of Famostar, adding £3.6m in revenue and £0.4m in operating profit, which was not part of the interim 2018 Group results.

The Group's overall UK revenue is down by £4.0m at the half-year point, mainly due to the performance of Thorlux. Revenue from the Group's international sales offices is also down, by £1.5m. These reductions are mostly offset by revenue from overseas acquisitions, i.e. Lightronics and the inclusion of Famostar, albeit with a lower operating profit margin. There was also an improvement at TRT, the Group's street lighting business.

I am pleased to report that revenue generated from overseas operations now represents 41% of the total, providing risk mitigation in case of further turbulent economic and political times in the UK. The management team meet regularly to discuss and plan for the potential impacts arising from Brexit. We wait anxiously for matters to be resolved and business confidence to return to more normal levels.

As mentioned in the autumn AGM statement, despite a challenging start to the year, orders in October and November improved at the Group's main lighting division, Thorlux. Since then, orders have continued at record levels, which will give a much-needed boost through to the financial year-end. Overhead cost reductions made during the autumn are now expected to start flowing through to operating profit in the second half of the year.

The Thorlux Portsmouth and Sugg Lighting factories were sold in November for £4.8m, realising a £1.9m profit on disposal and supporting the increased reported profit before tax from £7.9m to £8.8m.

The Group continues to invest for the future. This includes the imminent delivery of new laser cutting metalworking machinery at Thorlux, a property extension underway at TRT to provide pre-treatment and powder coating facilities (and as a Group disaster recovery backup resource), a new factory has also been approved for Portland Lighting, and works, which are well advanced, on the Lightronics factory extension.

Thorlux Lighting has recently launched a new range of innovative lighting to reinvigorate the workplace; more detail on this will be included in the annual report later this year. Famostar is working hard to adopt SmartScan, our wireless lighting control system, into its product portfolio and TRT is set to launch two product innovations supported by Luxintec, the Group's lens specialist in Spain.

Despite the difficult trading conditions for the six months to 31 December 2018, I am pleased to announce an interim dividend of 1.43p (Interim 2018: 1.40p).

Looking forward, within the Group we remain concerned about the stability of the UK market; however, present trading conditions are more buoyant than we previously predicted, and stronger than the first half performance. Whilst our improved order book gives us confidence that we will have a strong finish to the year, underlying operating profit is still expected to be below the record operating figures of the last financial year.

Michael Allcock

Mike Allcock
Chairman

21 March 2019
FW Thorpe Plc

Consolidated Income Statement

For the six months to 31 December 2018

	31.12.18 Six months to (unaudited) £'000	31.12.17 Six months to (unaudited) £'000	30.06.18 Twelve months to (audited) £'000
Revenue	**52,669**	53,170	109,614
Operating Profit (before profit on disposal)	**7,019**	7,829	19,466
Profit on disposal of property	**1,917**	–	–
Operating Profit	**8,936**	7,829	19,466
Finance income	**416**	338	819
Finance costs	**(574)**	(285)	(718)
Profit before tax expense	**8,778**	7,882	19,567
Tax expense	**(1,652)**	(1,598)	(3,457)
Profit for the period	**7,126**	6,284	16,110

Dividend rate per share:			
Interim	**1.43p**	1.40p	1.40p
Final	**–**	–	4.00p

Earnings per share			
– basic	**6.14p**	5.43p	13.91p
– diluted	**6.10p**	5.39p	13.81p

Consolidated Statement of Comprehensive Income

For the six months to 31 December 2018

	31.12.18 Six months to (unaudited) £'000	31.12.17 Six months to (unaudited) £'000	30.06.18 Twelve months to (audited) £'000
Profit for the period	**7,126**	6,284	16,110
Other comprehensive income			
Items that may be reclassified to profit or loss			
Revaluation of available-for-sale financial assets	–	263	189
Exchange rate differences on translation of foreign operations	**168**	159	119
Taxation	–	(45)	(32)
	168	377	276
Items that will not be reclassified to profit or loss			
Revaluation of financial assets at fair value through other comprehensive income *	**(529)**	–	–
Actuarial loss on pension scheme	–	–	1,459
Movement on unrecognised pension surplus	–	–	(1,615)
Taxation	**90**	–	–
	(439)	–	(156)
Other comprehensive income for the period, net of tax	**(271)**	377	120
Total comprehensive income for the period	**6,855**	6,661	16,230

All comprehensive income is attributable to the owners of the company.

* The loss on the revaluation of financial assets at fair value through other comprehensive income of £529,000 is due to the decrease in market value of these investments.

Consolidated Statement of Financial Position

As at 31 December 2018

Assets	As at 31.12.18 (unaudited) £'000	As at 31.12.17 (unaudited) £'000	As at 30.06.18 (audited) £'000
Non-current assets			
Property, plant and equipment	**21,157**	19,666	22,679
Intangible assets	**21,738**	22,873	21,596
Investment property	**2,047**	2,133	2,076
Loans and receivables	**4,101**	6,306	6,139
Equity accounted investments	**936**	936	936
Financial assets at fair value through other comprehensive income	**3,220**	–	–
Available-for-sale financial assets	**–**	3,893	3,820
Deferred tax assets	**–**	9	8
	53,199	55,816	57,254
Current assets			
Inventories	**22,018**	20,913	21,489
Trade and other receivables	**22,117**	22,607	23,416
Other financial assets at fair value through profit or loss	**389**	389	389
Short-term financial assets	**16,837**	9,856	15,290
Cash and cash equivalents	**36,111**	28,417	28,668
Total current assets	**97,472**	82,182	89,252
Total assets	**150,671**	137,998	146,506
Liabilities			
Current liabilities			
Trade and other payables	**(19,512)**	(18,056)	(19,253)
Current tax liabilities	**(2,499)**	(2,015)	(1,853)
Total current liabilities	**(22,011)**	(20,071)	(21,106)
Net current assets	**75,461**	62,111	68,146
Non-current liabilities			
Other payables	**(11,237)**	(11,463)	(10,329)
Provisions for liabilities and charges	**(2,195)**	(1,619)	(2,164)
Deferred tax liabilities	**(584)**	(706)	(655)
Total non-current liabilities	**(14,016)**	(13,788)	(13,148)
Total liabilities	**(36,027)**	(33,859)	(34,254)
Net assets	**114,644**	104,139	112,252
Equity attributable to owners of the company			
Issued share capital	**1,189**	1,189	1,189
Share premium account	**1,266**	902	1,017
Capital redemption reserve	**137**	137	137
Foreign currency translation reserve	**2,550**	2,422	2,382
Retained earnings			
At 1 July	**107,527**	97,047	97,047
Profit for the year attributable to owners	**7,126**	6,284	16,110
Other changes in retained earnings	**(5,151)**	(3,842)	(5,630)
	109,502	99,489	107,527
Total equity	**114,644**	104,139	112,252

Consolidated Statement of Changes in Equity

For the six months to 31 December 2018

	Share Capital £'000	Share Premium £'000	Capital Redemption Reserve £'000	Foreign Currency Translation Reserve £'000	Retained Earnings £'000	Total Equity £'000
Balance at 30 June 2017	1,189	656	137	2,263	97,047	**101,292**
Comprehensive income						
Profit for six months to 31 December 2017	–	–	–	–	6,284	**6,284**
Other comprehensive income	–	–	–	159	218	**377**
Total comprehensive income	–	–	–	159	6,502	**6,661**
Transactions with owners						
Shares issued from exercised options	2	246	–	–	–	**248**
Shares transferred from treasury	(2)	–	–	–	–	**(2)**
Dividends paid to shareholders	–	–	–	–	(4,114)	**(4,114)**
Share-based payment charge	–	–	–	–	54	**54**
Total transactions with owners	–	246	–	–	(4,060)	**(3,814)**
Balance at 31 December 2017	**1,189**	**902**	**137**	**2,422**	**99,489**	**104,139**
Comprehensive income						
Profit for six months to 30 June 2018	–	–	–	–	9,826	**9,826**
Actuarial loss on pension scheme	–	–	–	–	1,459	**1,459**
Movement on unrecognised pension surplus	–	–	–	–	(1,615)	**(1,615)**
Revaluation of available-for-sale financial assets	–	–	–	–	(74)	**(74)**
Movement on associated deferred tax	–	–	–	–	13	**13**
Exchange rate differences on translation of foreign operations	–	–	–	(40)	–	**(40)**
Total comprehensive income	–	–	–	(40)	9,609	**9,569**
Transactions with owners						
Shares issued from exercised options	–	115	–	–	–	**115**
Dividends paid to shareholders	–	–	–	–	(1,623)	**(1,623)**
Share-based payment charge	–	–	–	–	52	**52**
Total transactions with owners	–	115	–	–	(1,571)	**(1,456)**
Balance at 30 June 2018	**1,189**	**1,017**	**137**	**2,382**	**107,527**	**112,252**
Comprehensive income						
Profit for six months to 31 December 2018	–	–	–	–	7,126	**7,126**
Other comprehensive income	–	–	–	168	(439)	**(271)**
Total comprehensive income	–	–	–	168	6,687	**6,855**
Transactions with owners						
Shares issued from exercised options	–	249	–	–	–	**249**
Purchase of own shares	–	–	–	–	(117)	**(117)**
Dividends paid to shareholders	–	–	–	–	(4,639)	**(4,639)**
Share-based payment charge	–	–	–	–	44	**44**
Total transactions with owners	–	249	–	–	(4,712)	**(4,463)**
Balance at 31 December 2018	**1,189**	**1,266**	**137**	**2,550**	**109,502**	**114,644**

Consolidated Statement of Cash Flows

For the six months to 31 December 2018

	31.12.18 Six months to (unaudited) £'000	31.12.17 Six months to (unaudited) £'000	30.06.18 Twelve months to (audited) £'000
Cash generated from operations			
Profit before income tax	**8,778**	7,882	19,567
Adjustments for			
– Depreciation charge	**1,299**	997	2,195
– Amortisation of intangibles and investment property	**1,203**	1,313	2,400
– Profit on disposal of property, plant and equipment	**(2,150)**	(45)	(125)
– Finance expense/(income)	**157**	(53)	(101)
– Retirement benefit contributions in excess of current and past service charge	**(80)**	(53)	(156)
– Share-based payment expense	**362**	166	533
– Research and development expenditure credit	**(144)**	(123)	(237)
– Effects of exchange rate movements	**(76)**	120	163
Changes in working capital			
– Inventories	**(534)**	2,623	1,954
– Trade and other receivables	**1,860**	(2,469)	(3,610)
– Trade and other payables	**214**	(94)	1,415
Cash generated from operations	**10,889**	10,264	23,998
Tax paid	**(1,329)**	(1,351)	(3,291)
Cash flow from investing activities			
Purchase of property, plant and equipment	**(1,265)**	(1,848)	(6,049)
Proceeds from sale of property, plant and equipment	**3,796**	79	197
Purchase of intangibles	**(1,145)**	(939)	(1,967)
Purchase of subsidiary (net of cash acquired)	**–**	(5,922)	(6,313)
Disposal of investment property	**–**	–	67
Net sale of financial assets at fair value through other comprehensive income	**71**	–	–
Property rental and similar income	**10**	27	190
Dividend income	**106**	94	190
Net (purchase)/sale of short-term financial assets	**(1,547)**	7,125	1,691
Interest received	**180**	202	388
Net receipt/(issue) of loan notes	**2,072**	(118)	(2,022)
Net cash generated from/(used in) investing activities	**2,278**	(1,300)	(13,628)
Cash flow from financing activities			
Net proceeds from the issuance of ordinary shares	**249**	248	361
Purchase of own shares	**(117)**	–	–
Proceeds from loans	**–**	–	2,337
Dividends paid to company shareholders	**(4,639)**	(4,114)	(5,737)
Net cash used in financing activities	**(4,507)**	(3,866)	(3,039)
Effects of exchange rate changes on cash	**112**	(8)	(50)
Net increase in cash and cash equivalents	**7,443**	3,739	3,990
Cash and cash equivalents at the beginning of the period	**28,668**	24,678	24,678
Cash and cash equivalents at the end of the period	**36,111**	28,417	28,668

Notes to the Interim Financial Statements

1. Basis of preparation

The consolidated interim financial statements for the six months to 31 December 2018 have been prepared in accordance with the recognition and measurement principles of applicable International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC interpretations and the AIM Rules for Companies.

The figures for the period to 31 December 2018 and the comparative period to 31 December 2017 have not been audited or reviewed and are therefore disclosed as unaudited. The figures for 30 June 2018 have been extracted from the financial statements for the year to 30 June 2018, which have been delivered to the Registrar of Companies. The interim financial statements do not constitute statutory accounts within the meaning of the Companies Act 2006.

The financial statements are presented in Pounds Sterling, rounded to the nearest thousand.

The interim financial statements are prepared under the historical cost convention, modified by the revaluation of certain current and non-current investments at fair value through profit or loss.

The accounting policies set out in the financial statements for the year ended 30 June 2018 have been applied consistently throughout the Group during the period, except for the adoption of the new pronouncements IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from contracts with customers".

IFRS 9 "Financial Instruments" is effective for accounting periods beginning on or after 1 January 2018, and was adopted by the Group for the accounting period beginning 1 July 2018. The new standard replaces IAS 39 "Financial Instruments: Recognition & Measurement" and the changes introduced by the new standard can be grouped into the following three categories – Classification & Measurement, Impairment and Hedging. The impact of the new standard in the Group was the following:

- Classification and measurement: IFRS 9 contains three principal classification categories for financial assets which are amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale financial assets. The Group included the new classification categories for financial assets in the Statement of Financial Position and there were no changes to net assets from changes in the measurement basis of financial assets.

- Impairment: IFRS 9 introduces an expected credit loss model which requires expected credit losses and changes to expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. Financial assets measured at amortised cost or FVOCI are subject to the impairment provisions of IFRS 9. The adoption of this standard has not resulted in any material changes in the level of provision for financial assets.

- Hedging: IFRS 9 introduces new hedge accounting requirements. IFRS 9 aligns hedge accounting relationships with the Group's risk management objectives and strategy. The Group does not apply hedge accounting, therefore there were no changes arising from the new standard.

IFRS15 is effective for accounting periods beginning on or after 1 January 2018, and was adopted by the Group for the accounting period beginning 1 July 2018. The standard requires entities to apportion revenue earned from contracts to individual performance obligations based on a five-step model. The adoption of this standard has not resulted in any material impact on reported profits.

Notes to the Interim Financial Statements continued

1. Basis of preparation continued

The Group is currently evaluating the effect of the new leasing standard IFRS16 that will be adopted for the financial year commencing 1 July 2019. The Group does not have many leasing agreements, with the majority being for vehicles and a building in the Netherlands, subsequently the adoption of this standard is not expected to have a material impact on reported profits.

2. Segmental analysis

The segmental analysis is presented on the same basis as that used for internal reporting purposes. For internal reporting FW Thorpe is organised into ten operating segments, based on the products and customer base in the lighting market – the largest business is Thorlux, which manufactures professional lighting systems for the industrial, commercial and controls markets. The Lightronics business is a material subsidiary and therefore disclosed separately.

The eight remaining continuing operating segments have been aggregated into the 'other companies' segment based on their size, comprising the entities Philip Payne Limited, Solite Europe Limited, Portland Lighting Limited, TRT Lighting Limited, Thorlux LLC, Thorlux Australasia PTY Limited, Thorlux Lighting GmbH and Famostar B.V.

FW Thorpe's chief operating decision-maker (CODM) is the Group Board. The Group Board reviews the Group's internal reporting in order to monitor and assess the performance of the operating segments for the purpose of making decisions about resources to be allocated. Performance is evaluated based on a combination of revenue and operating profit. Assets and liabilities have not been segmented which is consistent with the Group's internal reporting.

Inter-segment adjustments to operating profit consist of property rentals on premises owned by FW Thorpe Plc and adjustments to profit related to stocks held within the Group that were supplied by another segment.

The profit on disposal relates to the profit generated by the sale of the property the company owned in Portsmouth, formerly occupied by Compact Lighting Limited.

2. Segmental analysis continued

	Thorlux £'000	Lightronics £'000	Other Companies £'000	Inter-Segment Adjustments £'000	Total Continuing Operations £'000
6 months to 31 December 2018					
Revenue to external customers	**28,442**	**11,869**	**12,358**	**–**	**52,669**
Revenue to other Group companies	**1,161**	**–**	**1,206**	**(2,367)**	**–**
Total revenue	**29,603**	**11,869**	**13,564**	**(2,367)**	**52,669**
Operating profit (before profit on disposal)	**4,659**	**1,066**	**1,220**	**74**	**7,019**
Profit on disposal of property					**1,917**
Operating profit					**8,936**
Finance income					**416**
Finance expense					**(574)**
Profit before tax expense					**8,778**
6 months to 31 December 2017					
Revenue to external customers	32,298	10,210	10,662	–	53,170
Revenue to other Group companies	2,307	57	1,114	(3,478)	–
Total revenue	34,605	10,267	11,776	(3,478)	53,170
Operating profit/(loss)	5,948	1,102	782	(3)	7,829
Finance income					338
Finance expense					(285)
Profit before tax expense					7,882
Year to 30 June 2018					
Revenue to external customers	64,645	20,860	24,109	–	109,614
Revenue to other Group companies	3,930	196	2,956	(7,082)	–
Total revenue	68,575	21,056	27,065	(7,082)	109,614
Operating profit	13,611	2,050	3,407	398	19,466
Net finance income					101
Profit before income tax					19,567

Notes to the Interim Financial Statements continued

3. Earnings per share

The basic earnings per share is calculated on profit after taxation and the weighted average number of ordinary shares in issue of 116,001,173 (Interim 2018: 115,750,590) during the period.

The diluted earnings per share is calculated on profit after taxation and the weighted average number of potentially dilutive ordinary shares in issue of 116,764,548 (Interim 2018: 116,502,118) during the period.

4. Dividend

The interim dividend is at the rate of 1.43p per share (Interim 2018: 1.40p), and based on 116,120,658 shares in issue at the announcement date the dividend will amount to £1,661,000 (Interim 2018: £1,623,000). The interim dividend will be paid on 18 April 2019 to shareholders on the register at the close of business on 29 March 2019, and the shares become ex-dividend on 28 March 2019.

A final dividend for the year ended 30 June 2018 of 4.00p (2017: final of 3.55p) per share, amounting to £4,639,000 (2017: £4,114,000) was paid on 29 November 2018.

5. Availability of interim statement

Copies of this report are being sent to shareholders and will also be available from the company's registered office or on the company's website (www.fwthorpe.co.uk) from 29 March 2019.

Shareholder Notes

Shareholder Notes

Designed and published by Jones and Palmer

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