

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

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:

Re-measurement of the net defined benefit liability

Re-measurement 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.

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