RNS Number : 7143G
Portmeirion Group PLC
19 March 2020

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Portmeirion Group PLC
('the Group')

Preliminary results for the year ended 31 December 2019

Financial summary

	2019	2018
	£m	£m
Revenue	**92.8**	89.6
Headline profit before tax[1]	**7.4**	9.7
EBITDA	**11.4**	11.8
Headline basic earnings per share[1]	**56.32p**	72.12p
Dividends paid and proposed per share in respect of the year (refer to detailed explanation below)	**8.00p**	37.50p

Headlines:

Financial

- Full year results are in line with market expectations.
- Group revenue increased by 3.6% to £92.8 million (2018: £89.6 million).
- Like-for-like revenue declined by 5.1% to £85.0 million (2018: £89.6 million).
- Headline profit before tax[1] of £7.4 million (2018: £9.7 million).
- EBITDA of £11.4 million (2018: £11.8 million).
- Headline basic earnings per share[1] of 56.32p (2018: 72.12p).
- Our intention was to maintain our total dividends paid and proposed for 2019 at 37.50p per share (2018: 37.50p). However, due to the unprecedented uncertainty facing businesses around the world from Covid-19, we are not recommending a final dividend at this time. We will review in three months and consider declaring an additional interim dividend in line with the final dividend for 2018 (29.50p). This will preserve approximately £3.1 million in forecast cash as part of Covid-19 contingency measures.
- We have a strong balance sheet and extensive bank facilities and headroom in place. We have put contingency plans in place for Covid-19 across our business. These include looking after the health and safety of our staff as well as managing both potential supply chain risk and impacts on sales markets around the world. At the time of writing, we have seen only minor disruption to our supply chains and our factories are working against good sales order books. We continue to monitor our key sales markets around the world closely. Given that South Korea, our third largest market, has already seen a substantial outbreak of the virus and the fast changing situation in the UK and USA it is prudent to assume there will be further disruption to come. We will continue to adapt and flex our contingency plans over the coming weeks.

[1]Headline profit before tax and headline basic earnings per share exclude exceptional items - see note 4.

Operational

- Growth in key markets, including UK, USA and South Korea.

- Strong growth in online sales with core UK and USA markets growing by 17%, representing 30% of our total sales in these markets.

- Rest of the world sales down due to reducing sales of Portmeirion Botanic Garden to export markets to protect South Korean market from over-capacity and excessive parallel shipping.

- Good progress made to resolve short term issues in South Korea, with growth in sales to both existing distribution partner and new major retailer stocking other brands within our portfolio. Will remain key area of focus throughout 2020.

- Completed $12 million acquisition of Nambé LLC, a US premium branded homewares business, providing exciting opportunities of sales growth and synergies. Strong progress has been made on integration into our existing US business.

- Appointments of Mike Raybould as Chief Executive Officer and David Sproston as Group Finance Director.

- Excited about opportunities in 2020 including continued penetration in online channels and marking the 250th anniversary of our iconic Spode brand through marketing activities and new product launches.

Mike Raybould, Chief Executive commented:

"We are pleased that many parts of our business continued to perform strongly in 2019. The actions we took to protect our brands in the South Korean market resulted in a reduction in our like-for-like sales and profit in 2019. However, we have strengthened our teams and processes and start 2020 stronger as a result.

We have a strong balance sheet and good headroom in our bank facilities which will support our business as we navigate the fast evolving Covid-19 situation, and we have already made several steps to preserve our short term cash flow including deferring our final dividend decision until we have more certainty on the impact on the Group. We are confident in the long term that by investing in our unique portfolio of brands and new product pipeline that we will continue to grow our business around the world. We are excited by the opportunities that online, new sales markets and the recent acquisition of Nambé present."

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014 (MAR).

ENQUIRIES:

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Portmeirion Group PLC
Chairman and Chief Executive Statements

We are pleased to report a resilient 2019 for the Group, which saw the acquisition of the US brand Nambé in July 2019. Our like-for-like sales declined against the backdrop of 10 years of uninterrupted growth up to 2018. Although many parts of our business continued to grow in 2019, including the UK and USA, we saw a reduction in our rest of world export sales, primarily for our Portmeirion Botanic Garden range as we sought to protect our brand and sales in the South Korean market from the historical re-shipping of product from other markets.

We are confident in our Group strategy and expect our business, supported by our strong brands, to grow in 2020 and beyond.

Financial Headlines

Revenue was £92.8 million for the year, an increase of 3.6% over the previous year (2018: £89.6 million). Sales in 2019 benefited from the additional Nambé sales in the second half, and on a like-for-like basis sales were £85.0 million, a decline of 5.1%.

Headline profit before tax[1] was £7.4 million, a decline of £2.3 million or 24% over the previous year. Earnings before interest, tax, depreciation and amortisation (EBITDA) was £11.4 million compared to £11.8 million in the prior year.

Headline basic earnings per share[1] was 56.32p per share (2018: 72.12p), a decrease of 21.9%.

Due to the fast evolving and unprecedented uncertainty facing businesses around the world from Covid-19, the Group is not recommending a final dividend at this time (2018: 29.50p per ordinary share). We will review this decision in three months and consider declaring an additional interim dividend in line with the final dividend for 2018.

[1]Headline profit before tax and headline basic earnings per share exclude exceptional items - see note 4.

Dividend

The Board is committed to a progressive dividend policy and aims to maintain a sustainable and appropriate level of dividend cover. We consider that a level of cover of earnings at or close to two times the dividends paid and proposed for the year is appropriate for the business over the long term.

Our intention was to maintain our total dividends paid and proposed for 2019 at 37.50p per share (2018: 37.50p). However, due to the unprecedented uncertainty facing businesses around the world from Covid-19, we are not recommending a final dividend at this time. We will review in three months and consider declaring an additional interim dividend in line with the final dividend for 2018 (29.50p).

The total dividends paid and proposed for 2019 are therefore 8.00p per share (2018: 37.50p per share). If we maintain our dividend at 37.50p per share, this level of dividend would be covered 1.46 times by earnings (2018: 1.93 times). This is below our internal target of 1.5 times, but we consider it appropriate given our strong balance sheet.

Governance

We are enthusiastic members of the Quoted Companies Alliance ("QCA") and have chosen to apply the QCA Corporate Governance Code, complying with its principles throughout 2019 and continuing to do so. Further details on the Company's governance programme can be found on our website and in our annual report and accounts. For a company of our size we consider our governance procedures to be excellent.

The Board

The Board keeps its composition and performance under review to ensure that we have the appropriate skills and experience in place to deliver our strategy.

In September 2019, Mike Raybould replaced Lawrence Bryan as Chief Executive Officer. Lawrence retired after 18 years of leading the Group through significant change and lasting shareholder value. Lawrence remains on the Board as a Non-executive Director enabling the Group to continue to benefit from his international expertise. Mike joined the Group as Group Finance Director in 2017 and his progression has been part of our succession planning. With the business continuing to develop in size, geographical scope and complexity against a backdrop of rapidly changing markets, the Group has every confidence that Mike will lead with success in these changing times.

David Sproston was appointed Group Finance Director in September 2019, prior to which he was Finance Director of Portmeirion Group UK Limited, our main UK operating company having been with the Group since 2008.

As previously reported, Angela Luger joined the Board as a Non-executive Director in March 2019 contributing her retail, digital and consumer experience. After 20 years on the Board, Janis Kong has decided to step down as a Non-executive Director and will not be seeking re-election at the Annual General Meeting in May 2020. Janis has provided independent, wise and robust advice to the Board during her tenure. We will be recruiting for an additional Non-executive Director to replace Janis.

Our people and culture
We are committed to the continuing promotion of our established vision and values which support the Group's culture of openness and integrity. We encourage attitudes and behaviours that will positively impact on our long-term success and sustainability through the achievement of our objectives and business strategy.

The Group recruits people who share our values, and this continues to be a key part of our recruitment strategy as it enables new and existing employees to work seamlessly towards realising our vision.

We aim to create an open, high performance culture through effective employee engagement, people development and diligent resource management. We are a caring employer with an excellent health and safety record, fair and balanced equality policies, a wide diversity in our workforce and a listening approach to our people. Further details on our corporate culture and its integration within the Group can be found in the Corporate Responsibility section and the Corporate Governance Statement in our annual report and accounts.

Our performance during the year
Revenue for the Group increased by 3.6% to £92.8 million (2018: £89.6 million).

Geographical performance
The UK became our largest geographical market following the Wax Lyrical acquisition in 2016, and in 2019 accounted for 35% of Group sales at £32.6 million, an increase of 3.5% over the prior year (2018: £31.5 million). Although the UK market remained challenging due to political uncertainty and Brexit, we were able to grow through further penetration of online channels and the breadth of our product offering and diversified routes to market.

The United States is our second largest market at just under 35% of Group sales. In translated figures, sales in the USA grew by 21.8% to £32.5 million (2018: £26.7 million) following the acquisition of Nambé LLC in July 2019. In local currency, sales increased by 16.6%.

Reported sales into South Korea increased by 38.7% to £11.4 million in the year (2018: £8.2 million) and accounted for 12% of Group sales. However, we became aware during the year that there were significant levels of Portmeirion Botanic Garden products, traditionally our best-selling pattern, being re-shipped from other markets into South Korea, leading to overstocking and that this would potentially damage our pricing and brand long term. We therefore undertook a considerable amount of work in 2019 to stabilise this market. This included cutting back on sales of Botanic Garden to other export markets and designing and manufacturing a large number of exclusive new product ranges for our long-term distributor. In addition, we have started diversifying our approach to this key sales market by taking on a new major retailer for our Royal Worcester brand. We will continue to act to regenerate this sales market through 2020 whilst protecting our brands for the long term.

As a result of these strategic actions, our sales to the rest of the world decreased by 29.6% to £16.3 million (2018: £23.2 million) largely due to lower sales of the Botanic Garden range. We strongly believe this reduction is a short term issue and expect to return to growth in our rest of world markets as we leverage our strong portfolio of brands, new product launches and the benefit of recent brand acquisitions including Wax Lyrical and Nambé.

We are delighted that our ongoing strategy of investing in online sales channels continues to show positive results, with total online sales growth in our core US and UK markets up 17% year on year. We now estimate that 30% of our total US and UK sales are made via online channels. Sales from our own e-commerce platforms grew 16% and are expected to continue to grow strongly in 2020.

Segmental performance
The Group continues to operate under three key segments - Portmeirion UK, Portmeirion USA and Global home fragrance. Sales of Nambé product will be reported within the relevant segment responsible for the sale.

Portmeirion UK
Portmeirion UK, the main trading entity of the Group, experienced a 5.2% reduction in sales during the year to £45.6 million (2018: £48.1 million). This reduction is largely due to the decline in export markets reported above, offset by growth in the UK and South Korea.

Our UK factory increased production in 2019, but this was done at a cost with significant new fast tracked product developments for our South Korean market impacting operating efficiency, as well as cost increases driven by labour and energy inflation. We have a number of innovation and automation projects underway, and we anticipate achieving benefits to operating margin from these and as our sales mix within South Korea stabilises.

Portmeirion USA
The USA remains our largest export market and is serviced by our trading subsidiary Portmeirion USA. The company has an office in New Jersey, showrooms in New York and a national warehousing and logistics centre in Connecticut.

In July 2019 the Group acquired Nambé LLC for a headline cash consideration of $12 million. Nambé is a premium, branded US homewares business. Nambé's sales are largely concentrated in the US through wholesale channels, online and through eight retail stores across New Mexico and Arizona.

We remain pleased with the acquisition and the scale it adds to our US division. There are considerable sales and cost synergies to be achieved which we expect to realise from 2020.

We have already made significant progress integrating the Nambé business with Portmeirion USA by combining offices, operating functions and sales teams.

Segmental sales were £32.4 million, an increase of 24.6% over the prior year (2018: £26.0 million). 2019 sales benefitted from additional sales from Nambé. Excluding these sales the market was slightly behind the prior year, however this was due to us carefully managing sales of our Portmeirion Botanic Garden range to protect our South Korean market.

Global home fragrance
The Group acquired the Wax Lyrical business in May 2016. Our home fragrance sales declined by 4.3% over the prior year to £14.8 million (2018: £15.5 million) chiefly due to general trading challenges faced by the UK grocery channel in the fourth quarter and reduced end of line clearance in the US market.

During 2019, we have invested in a new research and development centre and testing laboratories, redesigned key existing ranges and developed a pipeline of new product that will be launched in 2020. We believe this will allow the business to grow strongly in 2020 with particular focus on our international markets.

We are proud to manufacture our home fragrance products in our UK factory in the Lake District. We plan to continue to increase investment in the factory to grow capacity and output to support our UK and international growth plan and increase market share.

Products and brands
Our products and brands are the key economic drivers for the Group. We have six major brands - Portmeirion, Spode, Wax Lyrical, Nambé, Royal Worcester and Pimpernel. Supporting and investing in our brands is central to our business strategy and we continue to invest in both our heritage patterns and new ranges.

Portmeirion Botanic Garden, first launched in 1972, continues to be our largest selling pattern with ongoing sales of over £25 million annually. We estimate there are over 50 million pieces of Botanic Garden in use worldwide today. We continue to be vigilant of imitators to Botanic Garden and indeed our other patterns, and we are diligent in our legal protection of them.

Our Spode brand will celebrate its 250th anniversary in 2020 and we have a programme of marketing activity throughout the year to mark the occasion. Our Spode products are sold and loved around the world and we look forward in 2020 to launching a number of new and limited edition collections. New product development is a vital component of our brand value and includes both new ranges and line extensions within our existing patterns. Each year we continue to develop, extend and refine our product offering to retain and build customer appeal.

In 2019, we continued to refresh our key heritage patterns such as Portmeirion Botanic Garden and Spode Christmas Tree in order to expand their appeal, as well as launch key new manufactured product ranges such as Portmeirion Variations and Portmeirion Botanic Garden Embossed. This was in addition to the continuing growth of some of our licensed collections such as Sophie Conran for Portmeirion and Royal Worcester Wrendale Designs.

A list of our current ranges can be found at www.portmeirion.co.uk, www.spode.co.uk, www.wax-lyrical.com, www.royalworcester.co.uk, www.pimpernelinternational.co.uk. Customers in the United States should go to www.portmeirion.com and www.nambe.com.

Strategic areas of focus
The Group's strategy was developed and agreed by the Board in November 2019. Our long-term strategy is evolving to reflect the changing habits of consumers around the world but remains focused on five key areas: profitable sales growth, new product introduction, developing our brands, enhancing our operational efficiency and capability and supporting this with complementary strategic acquisitions.

Within these areas the Group has a number of specific strategic areas of focus.

Stabilise and diversify within our South Korea market
South Korea remains a key area of focus following the challenges experienced in this market in 2019.

We have launched a number of exclusive new premium product ranges for our South Korean distributor, while opening new routes to market to sell other brands within our portfolio.

Going forward, we will maintain our disciplined approach to export markets in order to reduce the overstocking experienced in South Korea in 2019, and continue to diversify our product offering and route to market within South Korea.

Accelerate our online transformation
The Group has made strong progress to date in online channels. We believe there is a considerable further opportunity to leverage all of our powerful homeware brands and grow our sales across online channels.

We are expanding our teams and skillset to take advantage of this opportunity whilst increasing investment in our systems, websites and digital assets.

Investment in brands and new product development
Our six major brands have more than 700 years of history collectively, and we continue to invest and grow these brands via both line extensions to existing ranges and new collections.

The longevity of our Spode brand is testament to its strength. We are excited about the sales and marketing programme that we have in place for celebrating 250 years of Spode. New collections have already launched and are receiving positive feedback.

We have expanded our teams and capabilities during recent months to support our investment in our brands, particularly in online and to drive our product development roadmap. We have a strong new product pipeline that we believe will drive sales across our key brands over the next few years.

Rest of the world expansion
The Group sells into more than 70 countries around the world, although 82% of Group sales are made into our three key markets.

Our long-term aim is to expand our presence in other major export markets including China, the Middle East and the Far East.

Operating capabilities and efficiency
Our operating capabilities are constantly reviewed in order to position the Group to meet the requirements of our customers, including our ongoing strategy of growth in online and direct to consumer fulfilment.

We continue to invest in our operations and drive efficiency programmes through our manufacturing and distribution sites to combat inflationary cost pressures and remain competitive.

Strategic acquisitions
The Group remains committed to acquiring businesses where there is a strategic fit and the combination would be earnings enhancing.

We are pleased with the progress we have made integrating the Nambé business and look forward to reporting on further progress later in the year.

Portmeirion Canada
We operate a 50% owned associated company for our distribution operation in our Canadian sales market, Portmeirion Canada. Subsequent to the year end, the Group has been notified by the other 50% partner in Portmeirion Canada Inc. that they wish to terminate the current shareholder agreement. We are currently working with the associated company partner to review and agree the best future approach to serve the Canadian sales market including continuing to operate Portmeirion Canada as a 100% owned distribution company.

Our sales to the Canadian associate in 2019 were £1.1 million and we expect to finalise our future approach to this market in 2020.

Covid-19
We continue to monitor the impact of this virus on all parts of the business including the health and safety of our teams around the world, our supply chain and sales markets. At present, we have not experienced a material disruption to product supply, key sales markets or staffing levels. It is too early to assess the impact this outbreak will have on the 2020 trading performance, but we expect some level of disruption to the business and are taking appropriate steps to preserve our short term cash balance.

Outlook
We face political and economic uncertainties around the world, including the ongoing Brexit transition period and the outbreak of Covid-19 which at the time of writing is a fast-evolving threat which will inevitably create some disruption to our business.

Our strategy and core values remain unchanged. We are focused on profitable sales growth through new product introduction, developing our markets, investing in our brands and enhancing our operational capabilities and efficiency supported with complementary strategic acquisitions. In particular we will continue to stabilise and diversify within our key South Korean market whilst seeking further penetration in our export markets, accelerate our online transformation, invest in our brands and new product development, and leverage the benefit of both our home fragrance division and the newly acquired Nambé business.

As such, we remain confident in our ability to create shareholder value in the short, medium and long term.

Dick Steele — **Non-executive Chairman**

Mike Raybould — **Chief Executive**

Financial Review

2019 was a challenging year for the Group, with a like-for-like sales decline driven by a more disciplined approach in rest of the world markets to prevent parallel shipping into our South Korean market. Notwithstanding this, we saw underlying growth in our three core markets and strong online revenue increases in the UK and USA.

Revenue

Revenue totalled £92.8 million for the year ended 31 December 2019. This represented an increase of 3.6% over the previous year (2018: £89.6 million). On a like-for-like basis revenue was £85.0 million, a 5.1% reduction over 2018.

Sales in our US market were translated based on a weaker sterling value than in 2018. At constant currency the Group's sales were up 2.3% on the previous year.

The Group saw revenue growth in our three biggest geographical markets. The UK marketplace grew by 3.5% over the prior year, which was encouraging given Brexit and ongoing political uncertainty. In the US our sales benefitted from the Nambé acquisition in July 2019, and we expect further growth in this division in future years as we integrate the Nambé business into our existing US division. Reported sales into South Korea improved, with growth to our existing distributor due to significant new product development, as well as direct to a retailer which is selling other brands within our portfolio.

New product launches continued to be a key driver of sales growth. This included product extensions to licensed ranges, such as Royal Worcester Wrendale Designs and Sara Miller London Portmeirion, delivering sales expansion on prior year. We launched a number of key new UK manufactured patterns such as Portmeirion Variations and Portmeirion Botanic Garden Embossed which both performed well.

Our home fragrance division sales were slightly behind 2018, although a significant amount of work was performed on establishing key new export markets that should come to fruition in 2020.

Profit

Headline profit before taxation[1] was £7.4 million, a decrease of £2.3 million over 2018. This reduction was a combination of the underlying like-for-like sales reduction, and additional factory costs experienced through both lower efficiency for new product throughput and inflationary labour and energy costs.

As a result of these challenges, our operating profit margin reduced to 8.4% (2018: 11.1%). Following the challenges experienced in 2019, this is an area of focus and we are working hard to rebuild this rate going forward.

Headline basic earnings per share[1] decreased from 72.12p to 56.32p per share.

[1] Headline profit before tax and headline basic earnings per share exclude exceptional items - see note 4.

Interest and financing costs

Finance costs increased by £0.3 million over the prior year due to a combination of increased borrowing costs for the Nambé acquisition funding and the lease liability interest portion on the new IFRS 16 standard.

Taxation

The charge for taxation was £1.3 million (2018: £2.0 million), an effective rate of taxation of 18.1% (2018: 20.8%). The decrease in the effective tax rate relates to the gain on disposal of the Furlong Mills shares generating profit which is not taxable.

Dividends

Due to the unprecedented uncertainty facing businesses around the world from Covid-19, the Board is not recommending a final dividend at this time (2018: 29.50p per share), giving total dividends paid and proposed for the year of 8.00p (2018:

37.50p). We will review in three months and consider declaring an additional interim dividend in line with the final dividend for 2018 (29.50p).

The Group remains committed to a progressive dividend policy.

Cash generation and net debt
At 31 December 2019, our net debt level was £12.3 million (versus net cash of £2.3 million at 31 December 2018). This movement was driven by the Nambé acquisition for a net cash sum of £9.4 million.

This acquisition was in addition to £2.0 million of new capital investment, pension deficit contributions of £1.2 million, dividend payments of £4.0 million and tax of £1.5 million.

We continue to expect that the Group will remain a business that is cash generative, and we are committed to reducing our debt levels upon the expiry of existing loan facilities.

Whilst our bank facilities listed below remain prudent, due to the evolving threat of the Covid-19 outbreak we have taken a number of short term measures to preserve our cash balances, including deferring the final dividend decision for 2019 which will save £3.1 million of forecast cash and headroom.

Bank facilities
The Group has agreed debt facilities with Lloyds Bank, totalling £28 million at the balance sheet date. This consists of a £10 million revolving credit facility repayable in full in May 2022, a £5 million overdraft facility on an annual renewal cycle, a £10 million term loan repayable equally over 5 years from May 2016, of which £3 million was outstanding at the year end, and a £10 million term loan repayable over 4.5 years from January 2020.

Our business remains seasonal due to the timing of our sales. We therefore experience a large working capital swing during the year. Our committed funding addresses this and we believe it is prudent.

Assets and liabilities
Controlling our working capital remains an area of focus for us. Inventory increased in the year from £19.2 million to £26.6 million, although £3.6 million of this increase was driven by the Nambé acquisition and exchange movements. We continue to focus on this area and anticipate inventory levels reducing in 2020.

During 2019, we paid £1.2 million into our defined benefit pension scheme, which was closed in 1999. Many companies carry defined benefit pension scheme deficits and our deficit is relatively modest. The accounting deficit increased slightly from £nil in 2018 to £0.4 million at the end of 2019 despite these contributions. This was mainly due to a fall in the discount rate used on scheme liabilities which is based upon corporate bond yields. We continue to keep this under review.

At the end of the year, we held treasury shares with a book value of £0.4 million, in order to satisfy employee share schemes. These shares were originally bought at an average price of £1.87 each equating to 230,382 shares, having used 4,225 during the year. In addition, we also hold 234,523 shares in The Portmeirion Employees' Share Trust ('ESOP shares') to satisfy employees' share options. These ESOP shares have a book value of £2.7 million, having been bought at an average cost of £11.58 each. We used 11,000 of our ESOP shares during the year in order to satisfy share option exercises.

Goodwill and intangibles on our balance sheet represent the value of acquired brands, including Spode and Royal Worcester, Wax Lyrical and Nambé. The value of goodwill increased by £1.7 million during the year due to goodwill recognised on the Nambé acquisition. The net book value of intangibles increased by £2.0 million in the year, largely as a result of £2.3 million of intellectual property recognised within the Nambé acquisition.

The Group applied the new requirements of IFRS 16 Leases in 2019 for the first time. The standard requires a right-of-use asset to be recognised for all operating leases, with a corresponding liability for future lease payments.

Treasury and risk management
The impact of transactional currency flows on the Group's profit is limited due to natural matching across different regions. Where there is an anticipated material exposure to the Group, then our policy is to use appropriate hedging instruments to mitigate that risk. We have a robust approach to managing risk to deliver our strategy as explained in our annual report and accounts.

David Sproston
Group Finance Director

CONSOLIDATED INCOME STATEMENT

	Notes	2019 £'000	2018 £'000
Revenue	3	**92,816**	89,594
Operating costs		**(84,988)**	(79,688)
Headline operating profit[1]		**7,828**	9,906
Exceptional items	4		
- restructuring costs		**(688)**	-
- acquisition costs		**(574)**	-
- gain on disposal of associate		**947**	-
Operating profit		**7,513**	9,906
Interest income		**44**	
			14
Finance costs	5	**(632)**	(301)
Share of results of associated undertakings		**175**	95
Headline profit before tax[1]		**7,415**	9,714
Exceptional items	4		
- restructuring costs		**(688)**	-
- acquisition costs		**(574)**	-
- gain on disposal of associate		**947**	-
Profit before tax		**7,100**	9,714
Tax[2]		**(1,286)**	(2,023)
Profit for the year attributable to equity holders		**5,814**	7,691

Earnings per share	2		
Basic		**54.66p**	72.12p
Diluted		**54.58p**	71.90p
Headline earnings per share[1]	2		
Basic		**56.32p**	72.12p
Diluted		**56.24p**	71.90p
Dividends proposed and paid per share	6	**8.00p**	37.50p

All the above figures relate to continuing operations.

[1] Headline operating profit is statutory operating profit of £7,513,000 (2018: £9,906,000) add exceptional items of £315,000 (2018: £nil). Headline profit before tax is statutory profit before tax of £7,100,000 (2018: £9,714,000) add exceptional items of £315,000 (2018: £nil).

[2] Tax on exceptional items in the current period has reduced the charge by £138,000 (2018: £nil).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019	2018
	£'000	£'000
Profit for the year	**5,814**	7,691
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of net defined benefit pension scheme liability	**(1,624)**	495
Deferred tax relating to items that will not be reclassified subsequently to profit or loss	**276**	(84)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(1,141)**	680
Deferred tax relating to items that may be reclassified subsequently to profit or loss	**46**	(33)
Other comprehensive income for the year	**(2,443)**	1,058
Total comprehensive income for the year attributable to equity holders	**3,371**	8,749

CONSOLIDATED BALANCE SHEET

31 December 2019

	2019	2018
	£'000	£'000
Non-current assets		
Goodwill	**8,978**	7,229
Intangible assets	**7,647**	5,680
Property, plant and equipment	**11,261**	9,666
Right-of-use assets	**6,146**	-
Interests in associates	**713**	2,567
Deferred tax asset	**306**	-
Total non-current assets	**35,051**	25,142
Current assets		
Inventories	**26,619**	19,179
Trade and other receivables	**19,274**	15,638
Current income tax asset	**247**	-
Cash and cash equivalents	**1,151**	7,214
Total current assets	**47,291**	42,031
Total assets	**82,342**	67,173
Current liabilities		
Trade and other payables	**(12,915)**	(12,025)
Current income tax liabilities	**-**	(546)
Lease liabilities	**(1,273)**	-
Borrowings	**(4,543)**	(1,981)
Total current liabilities	**(18,731)**	(14,552)
Non-current liabilities		
Pension scheme deficit	**(414)**	(6)
Deferred tax liability	**(1,086)**	(991)
Lease liabilities	**(5,083)**	-
Borrowings	**(8,930)**	(2,974)
Total non-current liabilities	**(15,513)**	(3,971)

Total liabilities	**(34,244)**	(18,523)
Net assets	**48,098**	48,650
Equity		
Called up share capital	**555**	555
Share premium account	**7,310**	7,310
Investment in own shares	**(3,146)**	(3,257)
Share-based payment reserve	**87**	282
Translation reserve	**1,628**	2,723
Retained earnings	**41,664**	41,037
Total equity	**48,098**	48,650

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Share capital £'000	Share premium account £'000	Investment in own shares £'000	Share-based payment reserve £'000	Translation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2018	554	7,193	(1,876)	550	2,076	36,275	44,772
Profit for the year	-	-	-	-	-	7,691	7,691
Other comprehensive income for the year	-	-	-	-	647	411	1,058
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**647**	**8,102**	**8,749**
Dividends paid	-	-	-	-	-	(3,766)	(3,766)
Increase in share-based payment reserve	-	-	-	143	-	-	143
Transfer on exercise or lapse of options	-	-	-	(411)	-	411	-
Shares issued under employee share schemes	1	117	1,138	-	-	(6)	1,250
Purchase of own shares	-	-	(2,519)	-	-	(2)	(2,521)
Deferred tax on share-based payment	-	-	-	-	-	23	23
At 1 January 2019	**555**	**7,310**	**(3,257)**	**282**	**2,723**	**41,037**	**48,650**
Profit for the year	-	-	-	-	-	5,814	5,814
Other comprehensive income for the year	-	-	-	-	(1,095)	(1,348)	(2,443)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(1,095)**	**4,466**	**3,371**
Dividends paid	-	-	-	-	-	(3,990)	(3,990)
Decrease in share-based payment reserve	-	-	-	(39)	-	-	(39)
Transfer on exercise or lapse of options	-	-	-	(156)	-	156	-
Shares issued under employee share schemes	-	-	111	-	-	(8)	103
Deferred tax on share-based payment	-	-	-	-	-	3	3
At 31 December 2019	**555**	**7,310**	**(3,146)**	**87**	**1,628**	**41,664**	**48,098**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019	2018
	£'000	£'000
Operating profit	**7,513**	9,906
Adjustments for:		
Depreciation of property, plant and equipment	**1,479**	1,326
Depreciation of right-of-use assets	**1,770**	-
Amortisation of intangible assets	**677**	591
(Credit)/charge for share-based payments	**(39)**	143
Exchange (loss)/gain	**(14)**	31
Profit on sale of associated undertaking	**(947)**	-
Loss/(profit) on sale of tangible fixed assets	**4**	(16)
Operating cash flows before movements in working capital	**10,443**	11,981
Increase in inventories	**(3,882)**	(657)
Increase in receivables	**(2,390)**	(3,005)
(Decrease)/increase in payables	**(1,518)**	1,355
Cash generated from operations	**2,653**	9,674
Contributions to defined benefit pension scheme	**(1,200)**	(1,200)
Interest paid	**(566)**	(248)
Income taxes paid	**(1,478)**	(1,591)
Net cash (outflow)/inflow from operating activities	**(591)**	6,635
Investing activities		
Interest received	**11**	14
Dividend received from associate	**120**	115
Proceeds on disposal of property, plant and equipment	**-**	76
Proceeds on disposal of investments	**3,263**	-
Purchase of investments	**(363)**	-
Purchase of property, plant and equipment	**(1,548)**	(879)
Purchase of intangible assets	**(450)**	(213)
Acquisition of subsidiary	**(9,434)**	-
Net cash outflow from investing activities	**(8,401)**	(887)
Financing activities		
Equity dividends paid	**(3,990)**	(3,766)
Shares issued under employee share schemes	**103**	1,250
Purchase of own shares	**-**	(2,521)
New bank loans raised	**17,491**	3,000
Principal elements of lease payments	**(1,635)**	-
Repayments of borrowings	**(9,000)**	(5,000)
Net cash inflow/(outflow) from financing activities	**2,969**	(7,037)
Net decrease in cash and cash equivalents	**(6,023)**	(1,289)
Cash and cash equivalents at beginning of year	**7,214**	8,487
Effect of foreign exchange rate changes	**(40)**	16
Cash and cash equivalents at end of year	**1,151**	7,214

NOTES TO THE PRELIMINARY RESULTS

1. This announcement was approved by the Board of Directors on 18 March 2020.

1.1 The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2019 or 2018, but is derived from those accounts. Statutory accounts for 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts: their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under Sections 498(2) or (3) of the Companies Act 2006.

1.2 For the year ended 31 December 2019 the Group has prepared its annual report and accounts in accordance with accounting standards adopted for use in the European Union (International Financial Reporting Standards).

This financial information has been prepared in accordance with the accounting policies stated in the Group's financial statements for the year ended 31 December 2019.

The financial statements have been prepared on the historical cost basis, with the exception of derivative financial instruments which are stated at their fair value.

1.3 At 31 December 2019 the Group had net debt of £12.3 million and unutilised bank facilities of £14.4 million. It manufactures approximately 46% of its products and sources the remainder from third party suppliers. The Group sells into a number of different markets worldwide and has a spread of customers within its major UK and US markets.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

NOTES TO THE PRELIMINARY RESULTS
Continued

2. Earnings per share

The calculation of basic and diluted earnings per share is based on the following data:

	2019 Earnings £'000	**Weighted average number of shares**	**Earnings per share (pence)**	2018 Earnings £'000	Weighted average number of shares	Earnings per share (pence)
Basic earnings per share	**5,814**	**10,637,059**	**54.66**	7,691	10,664,531	72.12
Effect of dilutive securities:	**-**	**15,935**	**-**	-	32,746	-
employee share options						
Diluted earnings per share	**5,814**	**10,652,994**	**54.58**	7,691	10,697,277	71.90

The calculation of headline basic and diluted earnings per share adjusted for exceptional items and associated tax benefits is based on the following data:

	2019 Earnings £'000	**Weighted average number of shares**	**Earnings per share (pence)**	2018 Earnings £'000	Weighted average number of shares	Earnings per share (pence)
Headline basic earnings per share	**5,991**	**10,637,059**	**56.32**	7,691	10,664,531	72.12
Effect of dilutive securities:	**-**	**15,935**	**-**	-	32,746	-

employee share options						
Headline diluted earnings per share	**5,991**	**10,652,994**	**56.24**	7,691	10,697,277	71.90

NOTES TO THE PRELIMINARY RESULTS
Continued

3. Segmental analysis

The following tables provide an analysis of the Group's revenue by operating segment and geographical market, irrespective of the origin of the products:

Operating segment	2019 £'000	2018 £'000
Portmeirion UK	**45,634**	48,141
Portmeirion USA	**32,377**	25,988
Global home fragrance	**14,805**	15,465
	92,816	89,594

Geographical market	2019 £'000	2018 £'000
United Kingdom	**32,579**	31,487
United States	**32,477**	26,669
South Korea	**11,412**	8,229
Rest of the World	**16,348**	23,209
	92,816	89,594

4. Exceptional items

Exceptional items by type are as follows:

	2019 £'000	2018 £'000
Restructuring costs	**688**	-
Acquisition costs	**574**	-
Gain on disposal of associate	**(947)**	-
	315	-

5. **Finance costs**

	2019	2018
	£'000	£'000
Interest paid	**487**	260
Interest on lease liabilities	**138**	-
Realised losses on financial derivatives	**7**	12
Net interest expense on pension scheme deficit	**-**	29
	632	301

NOTES TO THE PRELIMINARY RESULTS
Continued

6. **Dividends**

Due to the unprecedented uncertainty facing businesses around the world from Covid-19, the Board is not recommending a final dividend at this time (2018: 29.50p per share), giving total dividends paid and proposed for the year of 8.00p (2018: 37.50p).

7. **Reconciliation of earnings before interest, tax, depreciation and amortisation (EBITDA)**

	2019	2018
	£'000	£'000
Operating profit	**7,513**	9,906
Add back:		
Depreciation	**3,249**	1,326
Amortisation	**677**	591
Earnings before interest, tax, depreciation and amortisation	**11,439**	11,823

8. **Acquisition of subsidiary**

On 16 July 2019, the Group acquired 100% of the membership interests of Nambé LLC for a net cash consideration of $11.9 million (including cash acquired of $0.1 million) before acquisition costs. Nambé designs, sources, markets, and retails Nambé branded products in homewares.

The acquisition provided the Group with additional scale in its key US market and strategically complements its existing US subsidiary while continuing to diversify the Group into new homeware product categories.

The acquisition terms do not include any contingent consideration or deferred consideration arrangements. Details of the total consideration and the provisional fair values of the assets and liabilities acquired are as follows:

	Net assets acquired	Fair value adjustment	Initial fair value acquired	Initial fair value acquired
	$'000	$'000	$'000	£'000
Cash and cash equivalents	86	-	86	68
Trade and other receivables	1,856	-	1,856	1,484
Inventory	6,565	(1,253)	5,312	4,245
Property, plant and equipment	2,324	(280)	2,044	1,633
Trade and other payables	(3,233)	-	(3,233)	(2,583)
Right of use asset	2,852	-	2,852	2,279
Lease liabilities	(2,852)	-	(2,852)	(2,279)
	-	2,902	2,902	2,319

Identifiable intangible assets				
Deferred tax asset	-	607	607	485
Total identifiable assets	7,598	1,976	9,574	7,651
Goodwill	-	2,316	2,316	1,851
Total consideration	**7,598**	**4,292**	**11,890**	**9,502**

NOTES TO THE PRELIMINARY RESULTS
Continued

8. Acquisition of subsidiary (continued)

	$'000	£'000
Satisfied by:		
Borrowings	11,890	9,502
Total consideration transferred	**11,890**	**9,502**

The USD/GBP exchange rate at acquisition was 1.2513.

	£'000
Net cash outflow arising on acquisition:	
Cash consideration	9,502
Less: cash and cash equivalents	(68)
	9,434

The goodwill of £1.9 million arising from the acquisition consists of the anticipated synergies of combining the existing Group operations with those of Nambé LLC. This will include shared product development, distribution channels, access to new customers in the US, UK and export markets and other operational synergies. None of the goodwill is expected to be deductible for income tax purposes. The intangible assets value of £2.3 million represents intellectual property recognised at fair value, which is being amortised over their estimated useful lives of 15 years. $0.3 million has been placed in ESCROW by the previous owners of Nambé LLC, to cover any potential indemnification claims. An indemnification asset of $0.3 million has not been recognised on the basis this is only payable to the Group on the identification and recognition of an associated liability.

Acquisition related costs (included in exceptional items) amount to £574,000.

Nambé LLC contributed £7,769,000 of revenue and £31,000 of profit after tax for the period between the date of acquisition and the balance sheet date. The net assets of the company at 31 December 2019 were £9,500,000.

9. Post balance sheet events

We operate a 50% owned associated company for our distribution operation in our Canadian sales market, Portmeirion Canada. Subsequent to the year end, the Group has been notified by the other 50% partner in Portmeirion Canada Inc. that they wish to terminate the current shareholder agreement. We are currently working with the associated company partner to review and agree the best future approach to serve the Canadian sales market including continuing to operate Portmeirion Canada as a 100% owned distribution company.

Our sales to the Canadian associate in 2019 were £1.1 million and we expect to finalise our future approach to this market in 2020.

10. Availability of annual report and accounts

The accounts for the year ended 31 December 2019 will be posted to shareholders on or before 9 April 2020 and laid before the Company at the Annual General Meeting on 19 May 2020. Copies will be available from the Company Secretary at Portmeirion Group PLC, London Road, Stoke-on-Trent, Staffordshire, ST4 7QQ, or from the website www.portmeiriongroup.com.

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