FW Thorpe Plc

Interim Report **2020**
for the six months to 31 December 2019

Welcome to the 2020 Interim Report

Who We Are

We specialise in designing and manufacturing professional lighting systems.

We currently employ over 650 people and although each company works autonomously, our skills and markets are complementary.

Key points:

	Interim 2020 (unaudited)	Interim 2019 (unaudited)	Change
Revenue	**£57.4m**	£52.7m	+9.0%
Operating profit	**£7.5m**	£7.0m	+6.7%
Profit before tax*	**£7.4m**	£8.8m	-16.1%
Basic earnings per share	**5.04p**	6.14p	-17.9%

** Interim 2019 Profit before tax includes profit on disposal of property of £1.9m*

- Strong start to the year by Thorlux, supported by larger scale orders
- Other Group companies' results improved by positive TRT and Famostar performance, dampened by smaller companies
- Thorlux operating margin slightly impacted by larger scale orders and services
- Interim dividend 1.46p (Interim 2019: 1.43p) – 2.1% increase
- Strong balance sheet to support through Covid-19 disruption – £51.9m in cash/short term financial assets at period end

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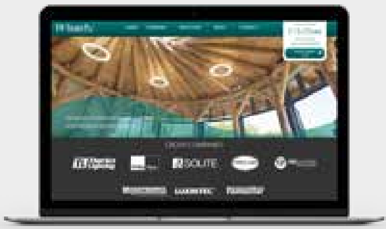

Chairman's Interim Statement

Against a backdrop of continuing uncertainty after the UK's exit from the EU and now the unfortunate ongoing coronavirus (Covid-19) pandemic, I am pleased to report an excellent ongoing order book at the Group's main division, Thorlux Lighting, and improved performance at both TRT and Famostar.

Orders at Thorlux remain hard-fought; however, underlying revenue is good, and some additional one-off project work has been completed which has provided a welcome boost. The larger size of projects has consequently led to tighter margins. In some cases, projects involve services including survey work and project management, leading to increased overheads.

Group operating profit (before profit on disposal) rose from £7.0m to £7.5m (+6.7%) and actions have been taken to improve margins in the second half of the financial year.

Revenue generated from outside the UK remains strong, at around 40% of Group revenue.

As a result of this solid performance, and many years of prudent financial management, we feel our robust balance sheet is structured more than adequately to deliver an increased interim dividend of 1.46p (Interim 2019: 1.43p) for the six months to 31 December 2019.

Investment within the Group continues, and I can report that previously initiated projects have completed successfully. The Portland factory in Walsall is now fully operational. It is an impressive but appropriately proportioned facility, which will serve the Group efficiently for decades. The European Application Centre at Lightronics in Waalwijk has opened and showcases both Lightronics and Group products to customers on a frequent basis. TRT's new extension now houses a fully functional semi-automatic powder coating line, releasing Thorlux capacity and providing a measure of disaster recovery. Thorlux's new state of the art sheet metal forming machinery is firing on all cylinders, which is certainly welcome, due to the size of the company's current order book. Finally, early in March, Thorlux opened its new Quality of Light Experience room at the Group's main facility in Redditch. Interactive demonstrations will show how the quality of the spectrum of light that a luminaire produces can alter a person's health and wellbeing and attention to detail – especially important in the workplace.

The current coronavirus situation provides us with further challenges that had not been anticipated at the time of previous announcements. The initial impact related to concerns from within the supply chain. Most Group companies are in a relatively good stock position, as they increased stocks significantly during the autumn to help mitigate any Brexit-related risk. Group companies also reacted early and took proactive measures to reduce infection risk within the workplace for the good of the employees and the business; these measures are under constant review.

At the time of writing, the situation is dynamic and uncertain, but we continue to support our customers where practical, whilst being mindful of employee wellbeing and government guidance. It is highly likely however that Group companies will see considerable disruption to delivery schedules due to customers' and government containment actions, for at least the next few months. The extent of this disruption and the period over which the impact is felt, cannot be estimated at this time. We are prioritising the safety of our employees, suppliers and customers and acting within government advice whilst reacting swiftly to minimise the impact where possible.

It is therefore difficult for us to determine the impact on second half performance and beyond. However, the Group has always maintained a strong balance sheet with sufficient cash and other liquid assets to protect business continuity from the impact of sudden economic impacts and unforeseen risks. Although the impact of the current crisis is uncertain, we cannot foresee a downside scenario where we are unable to manage business continuity for the foreseeable future by utilising our current resources.

Group performance in the second half of 2019 was strong and will, due to the latest circumstances, prove challenging and unlikely to improve upon in 2020. However, having a strong order book provides an excellent reservoir to smooth current turbulence. Recent investments outlined above give a significant capacity boost ready for us to satisfy those customers who can accept deliveries and for us to fulfil any pent-up future demand. Our local manufacturing capabilities, stock situation and customer portfolio give us a solid platform to perform to the extent we are able during the current turbulence and then build swiftly on when a level of trading normality returns.

I would like to wish all of our staff, shareholders and other stakeholders good health, and I hope that the country can return to normality as quickly as possible.

Michael Allcock

Mike Allcock
Chairman and Joint Chief Executive
25 March 2020

Consolidated Income Statement

For the six months to 31 December 2019

	31.12.19 Six months to (unaudited) £'000	31.12.18 Six months to (unaudited) £'000	30.06.19 Twelve months to (audited) £'000
Revenue	**57,412**	52,669	110,643
Operating Profit (before profit on disposal)	**7,489**	7,019	17,649
Profit on disposal of property	**–**	1,917	1,917
Operating Profit	**7,489**	8,936	19,566
Finance income	**402**	416	1,049
Finance costs	**(527)**	(574)	(1,046)
Profit before tax expense	**7,364**	8,778	19,569
Tax expense	**(1,505)**	(1,652)	(3,429)
Profit for the period	**5,859**	7,126	16,140
Dividend rate per share			
Interim	**1.46p**	1.43p	1.43p
Final	**–**	–	4.10p
Earnings per share			
– basic	**5.04p**	6.14p	13.91p
– diluted	**5.02p**	6.10p	13.83p

Consolidated Statement of Comprehensive Income

For the six months to 31 December 2019

	31.12.19 Six months to (unaudited) £'000	31.12.18 Six months to (unaudited) £'000	30.06.19 Twelve months to (audited) £'000
Profit for the period	**5,859**	7,126	16,140
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange rate differences on translation of foreign operations	**(558)**	168	153
Taxation	**–**	–	–
	(558)	168	153
Items that will not be reclassified to profit or loss			
Revaluation of financial assets at fair value through other comprehensive income*	**168**	(529)	(142)
Actuarial loss on pension scheme	**–**	–	(374)
Movement on unrecognised pension surplus	**–**	–	191
Taxation	**(29)**	90	24
	139	(439)	(301)
Other comprehensive income for the period, net of tax	**(419)**	(271)	(148)
Total comprehensive income for the period	**5,440**	6,855	15,992

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

* *The gain on the revaluation of financial assets at fair value through other comprehensive income of £168,000 is due to the increase in market value of these investments.*

Consolidated Statement of Financial Position

As at 31 December 2019

Assets	As at 31.12.19 (unaudited) £'000	As at 31.12.18 (unaudited) £'000	As at 30.06.19 (audited) £'000
Non-current assets			
Property, plant and equipment	**30,317**	21,157	25,353
Intangible assets	**20,811**	21,738	21,687
Investment property	**1,997**	2,047	2,006
Loans and receivables	**2,919**	4,101	3,567
Equity accounted investments	**936**	936	936
Financial assets at fair value through other comprehensive income	**3,838**	3,220	3,683
Deferred tax assets	**2**	–	–
	60,820	53,199	57,232
Current assets			
Inventories	**25,121**	22,018	25,506
Trade and other receivables	**21,568**	22,117	21,502
Financial assets at fair value through profit or loss	**–**	389	387
Short-term financial assets	**24,542**	16,837	26,483
Cash and cash equivalents	**27,438**	36,111	30,807
Total current assets	**98,669**	97,472	104,685
Total assets	**159,489**	150,671	161,917
Liabilities			
Current liabilities			
Trade and other payables	**(19,102)**	(19,512)	(21,912)
Lease liabilities	**(82)**	–	–
Current tax liabilities	**(274)**	(2,499)	(1,935)
Total current liabilities	**(19,458)**	(22,011)	(23,847)
Net current assets	**79,211**	75,461	80,838
Non-current liabilities			
Other payables	**(13,442)**	(11,237)	(12,804)
Lease liabilities	**(565)**	–	–
Provisions for liabilities and charges	**(2,375)**	(2,195)	(2,404)
Deferred tax liabilities	**(786)**	(584)	(699)
Total non-current liabilities	**(17,168)**	(14,016)	(15,907)
Total liabilities	**(36,626)**	(36,027)	(39,754)
Net assets	**122,863**	114,644	122,163
Equity attributable to owners of the company			
Issued share capital	**1,189**	1,189	1,189
Share premium account	**1,526**	1,266	1,266
Capital redemption reserve	**137**	137	137
Foreign currency translation reserve	**1,977**	2,550	2,535
Retained earnings			
At 1 July	**117,036**	107,527	107,527
Profit for the year attributable to owners	**5,859**	7,126	16,140
Other changes in retained earnings	**(4,861)**	(5,151)	(6,631)
	118,034	109,502	117,036
Total equity	**122,863**	114,644	122,163

Consolidated Statement of Changes in Equity

For the six months to 31 December 2019

	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 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**
Comprehensive income						
Profit for six months to 30 June 2019	–	–	–	–	9,014	9,014
Actuarial loss on pension scheme	–	–	–	–	(374)	(374)
Movement on unrecognised pension surplus	–	–	–	–	191	191
Revaluation of financial assets at fair value through other comprehensive income	–	–	–	–	387	387
Movement on associated deferred tax	–	–	–	–	(66)	(66)
Exchange rate differences on translation of foreign operations	–	–	–	(15)	–	(15)
Total comprehensive income	–	–	–	(15)	9,152	9,137
Transactions with owners						
Dividends paid to shareholders	–	–	–	–	(1,660)	(1,660)
Share-based payment charge	–	–	–	–	42	42
Total transactions with owners	–	–	–	–	(1,618)	(1,618)
Balance at 30 June 2019	1,189	1,266	137	2,535	117,036	122,163
Adjustments on first time adoption of IFRS 16 (net of tax)	–	–	–	–	(265)	(265)
Restated balance at 30 June 2019	1,189	1,266	137	2,535	116,771	121,898
Comprehensive income						
Profit for six months to 31 December 2019	–	–	–	–	5,859	5,859
Other comprehensive income	–	–	–	(558)	139	(419)
Total comprehensive income	–	–	–	(558)	5,998	5,440
Transactions with owners						
Shares issued from exercised options	–	260	–	–	–	260
Dividends paid to shareholders	–	–	–	–	(4,770)	(4,770)
Share-based payment charge	–	–	–	–	35	35
Total transactions with owners	–	260	–	–	(4,735)	(4,475)
Balance at 31 December 2019	**1,189**	**1,526**	**137**	**1,977**	**118,034**	**122,863**

Consolidated Statement of Cash Flows

For the six months to 31 December 2019

	31.12.19 Six months to (unaudited) £'000	31.12.18 Six months to (unaudited) £'000	30.06.19 Twelve months to (audited) £'000
Cash generated from operations			
Profit before income tax	**7,364**	8,778	19,569
Adjustments for			
– Depreciation charge	**1,491**	1,270	2,508
– Depreciation of investment property	**9**	29	58
– Amortisation of intangibles	**1,276**	1,203	2,456
– Profit on disposal of property, plant and equipment	**(41)**	(2,150)	(2,116)
– Net finance expense/(income)	**125**	157	(3)
– Retirement benefit contributions in excess of current and past service charge	**(124)**	(80)	(183)
– Share-based payment expense	**419**	362	855
– Research and development expenditure credit	**(149)**	(144)	(292)
– Effects of exchange rate movements	**537**	(76)	(48)
Changes in working capital			
– Inventories	**387**	(534)	(4,025)
– Trade and other receivables	**49**	1,860	2,428
– Trade and other payables	**(2,178)**	214	3,831
Cash generated from operations	**9,165**	10,889	25,038
Tax paid	**(2,958)**	(1,329)	(3,476)
Cash flow from investing activities			
Purchase of property, plant and equipment	**(5,521)**	(1,265)	(6,852)
Proceeds from sale of property, plant and equipment	**83**	3,796	3,796
Purchase of intangibles	**(1,099)**	(1,145)	(2,417)
Disposal of investment property	**–**	–	12
(Purchase)/sale of financial assets at fair value through other comprehensive income	**(61)**	71	70
Proceeds from sale of other financial assets at fair value through profit and loss	**387**	–	–
Property rental and similar income	**6**	10	205
Dividend income	**111**	106	225
Net withdrawal/(deposit) of short-term financial assets	**1,941**	(1,547)	(11,193)
Interest received	**164**	180	403
Net receipt of loan notes	**597**	2,072	2,575
Net cash generated (used in)/from investing activities	**(3,392)**	2,278	(13,176)
Cash flow from financing activities			
Net proceeds from the issuance of ordinary shares	**260**	249	249
Purchase of own shares	**–**	(117)	(117)
Proceeds from loans	**121**	–	–
Repayment of borrowings	**(1,124)**	–	(197)
Dividends paid to company shareholders	**(4,770)**	(4,639)	(6,299)
Net cash used in financing activities	**(5,513)**	(4,507)	(6,364)
Effects of exchange rate changes on cash	**(671)**	112	117
Net (decrease)/increase in cash and cash equivalents	**(3,369)**	7,443	2,139
Cash and cash equivalents at the beginning of the period	**30,807**	28,668	28,668
Cash and cash equivalents at the end of the period	**27,438**	36,111	30,807

Notes to the Interim Financial Statements

1. Basis of preparation

The consolidated interim financial statements for the six months to 31 December 2019 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 2019 and the comparative period to 31 December 2018 have not been audited or reviewed and are therefore disclosed as unaudited. The figures for 30 June 2019 have been extracted from the financial statements for the year to 30 June 2019, 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 2019 have been applied consistently throughout the Group during the period, except for the adoption of the new pronouncement IFRS 16 "Leases".

The Group has adopted IFRS 16 "Leases", from 1 July 2019 applying the simplified transition approach, but it has not restated comparatives for the reporting period ended 30 June 2019, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019. Note 4 explains the impact on the Group's financial statements. The adoption of this standard has not resulted in any material impact on reported profits.

Notes to the Interim Financial Statements continued

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. The CODM reviews the performance of the business by considering the key profit measure of operating profit, including the impact of associated contingent consideration arrangements, and considers that none of the other operating segments are of sufficient size and distinction to be reviewed separately when making Group-wide strategic decisions. 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.

2. Segmental analysis continued

	Thorlux £'000	Lightronics £'000	Other Companies £'000	Inter-Segment Adjustments £'000	Total Continuing Operations £'000
6 months to 31 December 2019					
Revenue to external customers	**32,363**	**11,147**	**13,902**	**–**	**57,412**
Revenue to other Group companies	**1,740**	**86**	**1,931**	**(3,757)**	**–**
Total revenue	**34,103**	**11,233**	**15,833**	**(3,757)**	**57,412**
Operating profit	**4,839**	**1,074**	**1,347**	**229**	**7,489**
Finance income					**402**
Finance expense					**(527)**
Profit before tax expense					**7,364**
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
Year to 30 June 2019					
Revenue to external customers	62,304	23,154	25,185	–	110,643
Revenue to other Group companies	3,551	366	3,573	(7,490)	–
Total revenue	65,855	23,520	28,758	(7,490)	110,643
Operating profit (before profit on disposal)	11,578	2,357	3,661	53	17,649
Profit on disposal of property					1,917
Operating profit					19,566
Net finance income					3
Profit before income tax					19,569

Notes to the Interim Financial Statements continued

3. Property, plant and equipment

The Group has invested £5.4m in property, plant and equipment during the period. The largest investments were:

- £2.4m in plant and machinery;
- A further £1.1m in the purpose built property for Portland Lighting; and
- £2.3m for the property occupied by Famostar, of which £0.9m was recognised as a right of use asset on adoption of IFRS 16 on 1 July 2019. Resulting in a £1.4m net addition to property, plant and equipment, for which the lease agreement was subsequently settled.

4. Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases that had previously been classified as 'operating leases' under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the borrowing rate implied in the leases of 5.5%.

Right-of-use assets have been measured on transition as if the new rules had always been applied with the difference to the lease liability value recognised as an adjustment to opening retained earnings at 1 July 2019.

Right of use assets recognised	31 December 2019 £'000	1 July 2019 £'000
Properties	–	929
Equipment	76	31
Motor vehicles	333	397
Total right of use assets	**409**	1,357

Lease liabilities recognised on adoption	£'000
Operating lease commitments disclosed as at 30 June 2019	2,245
Discounted using the borrowing rate	(483)
Less: short-term and low value leases recognised on a straight-line basis as expense	(52)
Lease liability recognised at 1 July 2019	**1,710**
Of which are:	
Current lease liabilities	373
Non-current lease liabilities	1,337
	1,710

5. 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 116,215,549 (Interim 2019: 116,001,173) 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 116,779,815 (Interim 2019: 116,764,548) during the period.

6. Dividend

The interim dividend is at the rate of 1.46p per share (Interim 2019: 1.43p), and based on 116,330,497 shares in issue at the announcement date the dividend will amount to £1,698,000 (Interim 2019: £1,661,000). The interim dividend will be paid on 21 April 2020 to shareholders on the register at the close of business on 3 April 2020, and the shares become ex-dividend on 2 April 2020.

A final dividend for the year ended 30 June 2019 of 4.10p (2018: final of 4.00p) per share, amounting to £4,770,000 (2018: £4,639,000) was paid on 29 November 2019.

7. 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 3 April 2020.

Shareholder Notes

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