Regulatory Story

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John Lewis Of Hungerford PLC - JLH Final Results
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JOHN LEWIS OF HUNGERFORD PLC

FINAL RESULTS

John Lewis of Hungerford plc ("John Lewis of Hungerford" or the "Company") the specialist kitchen manufacturer and retailer announces its final results for the 10 months ended 30 June 2018.

Chairman's Statement

The Financial Period to 30th June 2018 has seen an extremely challenging period within Retail but against this background we have still been able to grow our sales against the prior year, on a LFL basis (like-for-like) in the 10-month period by +10%. This has been achieved through the numerous marketing and sales development initiatives that Kiran Noonan, CEO, will discuss in her report.

However, it does need to be recognised that Retail is being challenged with consumer confidence running at levels as low as those seen in the recessionary years of 2008/9. Combined with the additional financial stresses such as price increase resistance, cost/wage pressures and business rates, requires us to be even more vigilant in managing our costs and continually driving productivity through our sales channels.

As we previously reported we have changed our Year End to 30th June, which means our first reporting period will be for a 10-month period. It needs to be noted that, as was the case in the 6 months reporting cycle, the 10 months will show a loss due to the seasonality of the business. To fully understand the like-for-like comparatives as far as is possible, we have included some additional information to allow shareholders to be able to review our trading performance accurately.

Over the last 2 years we have been implementing change and improvements in all aspects of the business. These range from basic internal reporting through to marketing strategy and positioning reviews. It is these initiatives which have enabled the business to grow in both sales and profit, in spite of the difficult environment noted above. Kiran addresses these initiatives in her report and we look forward to discussing these and particularly the results of our costing review at our next shareholder engagement.

However, the key contributor to the progress that the business has made has been its staff who have worked tirelessly to implement and manage the changes that have been needed. The effort that the staff have had to apply in dealing with a difficult trading environment combined with the numerous changes that the Board has demanded within the business cannot be underestimated. It is against this background I would like to extend my thanks to Kiran Noonan and her teams who deserve all credit for the results achieved.

Gary O'Brien
Non-Executive Chairman

Chief Executive's Business Review

Overview

As highlighted in the Chairman's report, the change of year-end requires us to report a 10-month period against a 12-month period in the previous year. We have provided as much like-for-like information as possible, in order to allow shareholders to get a true measure of the improvements year on year. Unless stated otherwise the comparative financial information in this review relates to the 10 months ended 30 June 2017.

It is clear that the retail sector has experienced well documented difficulties. Against the backdrop of falling consumer confidence, I am particularly pleased to report another consecutive year of sales growth, over the comparable period in the previous year. In the 10 months to 30 June 2018, we delivered sales of £6.7m (2017: £6.1m). In our interim statement we highlighted the shortened financial year excludes our traditionally strongest summer months and as a consequence the loss after tax of £0.19m (2017: £0.34m loss after tax) was in line with our expectations.

In the period to 30 June 2018 the business invested £218k (2017: £45k) on activities that will qualify for Research and Development tax claims. The resultant tax relief reduced the net loss for the period by £94k (2017: £17k).

Following on from a weaker second quarter as reported at the Interims, we were able to regain some momentum as we entered the final quarter. This has contributed significantly to the results we report today and I thank the frontline team for prioritising the new business at this time, which allowed the Company to recover from the winter period.

The market continues to be challenging and the business cannot be completely immune to the changes in the high street. In mitigation, our target customer conducts much of their initial research online and as such a high proportion of our business is by appointment. It has been pleasing to see the Company regain a position as a brand that our customers want to visit. We are working hard to ensure that we are present in all of the media that our customers access, in order that our advertising, social presence online and press activity can be as effective as possible.

While the high streets we trade from have experienced very mixed fortunes in the last year, the considered nature of the product purchase and our target customers' extended research activity has insulated the business from some of these immediate pressures. We continue to work harder and smarter to ensure we are utilising the most appropriate marketing media and channels, to drive awareness of our brand to ensure we are maximising the potential for lead generation.

Based on the 10-month period, the comparable number of kitchens sold were 252 (2017: 229); our average order value has been maintained year on year, with the London showrooms reflecting a marginally lower average due to the smaller properties they work with. The number of orders taking advantage of our Artisan Installations Service has increased by 2% to 94% (2017: 92%) of all kitchen orders.

Our product mix continues to move with market trends, with our Lay-On offering now at 52% (2017: 46%) and our handless Pure range is still around a third at 28% (2017: 30%). We have seen a resurgence in the demand for our framed product, which is still one of the most recognised and traditional designs on the market.

The accelerated investment in our stores continued, with a full refit in Beaconsfield and Cambridge in this period. Both stores have not been updated since their openings and now show-case designs more relevant to our customers in each area. We have seen improved interest in both showrooms as a consequence. Within the Cambridge store, we have also been able to accommodate a bedroom display for our Wardrobe Collection, which has been well received. It is vital to our success that our showrooms are welcoming spaces which allow our customers and designers to engage creatively, however, having now updated the majority of the estate, we can now exercise more prudence as we go forward and make only smaller, selected investments in this area.

Having identified the strategic opportunity to extend our presence in the fitted bedroom market and taken investment decisions to capitalise on this, we are delighted to report our strongest year yet for the bedrooms category. Contributing 6% of overall income in the 10 months of £386k from 100 bedrooms sold (2017: 10 months £163k from 35 bedrooms sold; 2017: 12 months £325k from 75 bedrooms sold), we are pleased with the continuing progress the category is making.

Our recently installed Winchester showroom has generated a great deal of interest and as such has raised the opportunity to cross-sell between the categories. The investments in marketing and in front line staff have extended our reach and capacity, and we are further exploring the use of our bedroom cabinetry across other rooms in our customers' homes, as we look to maximise the opportunity to build on the lifetime value of a customer. As we expand the uses for our bedroom cabinetry, we look forward to this becoming a more significant 'whole home' category for the Company.

	10 Mths to 30 Jun 2018	10 Mths to 30 Jun 2017
	£000	£000
Turnover	6,715	6,078
Cost of sales	(3,465)	(3,033)
Gross margin	3,250	3,045
GM%	48.4%	50.1%

A lower gross margin for the year at 48.4% (2017: 50.1%) was primarily due to material input cost inflation during the period. The Board took the decision to hold our retail pricing until the end of the financial period to ensure we did not jeopardise conversion of our pre-existing pipeline of prospective customers, and also to allow the team time to benchmark our pricing competitiveness. From the new financial period we have reflected cost price increases in our retail pricing and are confident that our pricing remains competitive.

Alongside the review of our retail pricing, we have been working to develop a deeper understanding of our cost of goods and other gross margin impacts, for example sales promotions, product mix etc. As this evolves, the Board's control over our gross margins has improved and we are actively making decisions to manage our top line profitability, for example a bedrooms price increase and improvements to our technical specifications.

Products	10 Mths to 30 Jun 2018	10 Mths to 30 Jun 2017
	£000	£000
Turnover	5,847	5,329
Cost of sales	(2,760)	(2,424)
Gross margin	3,087	2,905
GM%	52.8%	54.5%

Product Sales include £275k (2017: £126k) relating to our bedrooms business which continues to thrive. The installation of our Lay-On and Pure offering across the estate has ensured that the most popular ranges are on display in all of our showrooms; together these two ranges make up 80% of our product sales.

Installations	10 Mths to 30 Jun 2018	10 Mths to 30 Jun 2017

	£000	£000
Turnover	868	749
Cost of sales	(705)	(609)
Gross margin	163	140
GM%	18.8%	18.7%

Our installations service remains competitive. We continue to focus our efforts on quality delivery and a perfect installation. We have seen consistent improvements in all areas and are pleased to see our customers continue to work with us as their preferred installation partner.

Sales & Marketing

Reflecting the broader change in customers' media consumption and consequent marketing mix, we have been focused on developing our digital marketing activity to enhance our brand positioning online. In particular, our focus has been to assess how we can leverage the availability of more targeted social media, which gives us the ability to be immediately present in the right forums to engage with our customer base.

Throughout the year, we have reflected on the marketing mix and generated a higher level of enquiries by utilising the various platforms such as Facebook, Instagram, Pinterest and Houzz to engage with our customers. We are able to promote our stunning kitchen and bedroom designs, together with real project case studies, which give us the ability to demonstrate our design credentials.

As we move forward into the winter period, we are delighted to have progressed the sourcing of a fully integrated CRM system. Reflecting on current market conditions, we have been prudent in our investment in our systems architecture and are prioritising the phased implementation of this system. Our initial focus for the CRM is to drive improvements in our lead nurturing capabilities, which form part of a wider programme of marketing investment in the early customer journey, when they first make contact with the brand. Additionally, we are working with the development team and will launch this simultaneously with our new website, in order to allow us to capture the anticipated levels of interest generated by the campaigns associated with the launch. The CRM system will be a significant step forward in our tactical marketing, allowing us to personalise the content for our customers to assist them in finding the most relevant information that encourages them to make contact. The new website is currently under development and will show-case the Company in an unprecedented way. We are looking forward to seeing the impact of both systems, once they go live within the next month.

We are rightly proud of our customer experience, and we believe that these investments will enhance the first contact with the brand. Other notable investments to capitalise on the opportunity for improved conversion we have at this early stage, are the new brochure, which we shared earlier in the year, together with an investment within Business Development.

Additionally, we have worked hard to identify and develop some interesting collaborations with leading influencers in the world of interior design. These individuals have significant followers on line and by working with them to develop a new range and new colour palette, we have extended the reach of the brand to new audiences. We are excited to see how these relationships build the profile of the brand with consumers and professionals in the sector, across both domestic and international markets.

We take pride in the way our designers operate with a relaxed and informal style, combined with a high level of professionalism throughout each project. We have worked resolutely to ensure that our team of designers have the systems, tools and support in order to be as effective and as productive as possible.

Coupled with the improvements to our technical support information, we have invested in Continuous Professional Development (CPD) for the team, which has led to excellent progress in our operating model. It is particularly encouraging to see our second tier of designers build in skill and confidence, as they start to make a definitive contribution to our results. Developing the team is a priority for the business, to ensure retention of our talented designers and to look at future progression within the Company as we scope out our strategic plans.

Our intensive focus on ensuring we can enable our sales team to be as great as they can be through the whole customer journey, from first contact, through design concept, to a successful installation, has already led to tangible improvements in our conversion levels at each stage of the process. Ensuring each of our customers is able to recommend the Company has been a focus and to this end, we continue to achieve above industry standards, at 96% total satisfaction levels and are working hard to raise this to maximum.

Manufacturing

The focus for our Manufacturing facility has been to ensure quality product, right first time. The team has worked hard to streamline processes and establish an improved flow. This has contributed directly to the ongoing improvements in our remedial activity and an enhanced customer experience. The impact on our margin of errors continues to fall, currently at a like-for-like value of 2.0% (2017: 2.3%).

The complexity of our offering continues to create challenges within our supply chain and we are working hard to simplify the ranges and the systems. The factory requires significant investment to be able to respond to the increasing demands on the volume and intricacy of our orders. Investment in a new Technical role has led to an improved checking process for the specifications going into production and, this has had a positive impact on the accuracy of our ordering procedures. The new paint oven is due to be installed during the winter break and will significantly improve the throughput and the consistency of our output. The robust paint finish and the durability of our cabinetry remain of utmost importance and, substantial testing has been conducted ahead of this new advancement in our paint application technology. We are now beginning the review of capacity to ensure we have the space to expand as the throughput increases in volume terms.

We continue to focus our energies on reducing our carbon footprint by looking at our packaging and waste, in order to improve our environmental impact. We are currently trialling new packaging which will be fully recyclable, together with trials using new and innovative technologies for the recycling of manufacturing waste. The business is keen to ensure its corporate sustainability and is committed to doing so.

Cash Flow

Cash at bank and in hand at 30 June 2018 was £686k (June 2017: £843k) this includes customer deposits and advance payments of £294k (June 2017: £1,195k). Our bank loans at the same date were £578k (June 2017: £665k) repayable over 10 years. Our overdraft facility of £250k remained unused at the end of the period.

Closing Comments

It has undoubtedly been a period of great change within both the economic conditions in which we find ourselves and the home improvement market itself, which has seen both new entrants to the sector and many existing operators experiencing reduced volumes. We remain confident that our proposition is unique and beautiful, which captures the hearts and minds of our discerning customers. We help our customers to improve their living spaces through creative, innovative and stunning design solutions.

We could not operate within this mid-luxury market without our highly skilled and committed workforce, across the business. I thank each one of them for their steadfast support as we work hard to improve our operating model. This has its challenges and change is not easy; company-wide however, there is a profound understanding that the business needed to improve across all areas. The efforts of the senior team to manage the business through this change is valued by the Board and together, we thank them for their dedication and resolve to return the business to sustained profitability.

Current Trading and Outlook

For the new financial year, despatched sales and forward orders (which we normally consider to be the best measure of current trading) at the end of our first 18 weeks of trading stood at £3.7m (2017: £4.8m). However, the year-on-year comparison is distorted by the exceptionally strong trading over the summer of 2017. Future orders against which a first stage deposit has been taken stood at £1.7m (2017: £1.0m).

The extended poor winter earlier in the year caused significant delays to the building projects, which often are a key driver of our sales. This resulted in capacity constraints within the building sector, as the contractors worked hard to catch up on projects booked from earlier in the year. This has contributed to a similar value of projects being sold in the first four months of the new financial year, although not all of the projects were able to commence on time and this back-log of delays has disrupted the remaining 2 months of the half year.

Although the despatched sales, which is our statutory revenue recognition policy, are expected to be lower than the comparable period in the previous year, the combined value of orders despatched and the forward order book give us the reassurance that the leads into the business are running broadly in line with our expectations, as is our sales conversion.

We are cautiously optimistic as we head into our winter preview that the interest we have generated in the press coverage will allow us to ensure a strong start to the second half year and look forward to providing further updates to our shareholders in due course.

I would like to thank you all for your support as we continue our journey to transform John Lewis of Hungerford into the market leading force that it deserves to be.

Kiran Noonan
Chief Executive Officer

Enquiries:

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Kiran Noonan
Chief Executive Officer

Katy Birkin	Smith & Williamson Corporate Finance Limited	0207 131 4000
Martyn Fraser		

Certain information contained in this announcement would have been deemed inside information for the purposes of Article 7 of Regulation (EU) No 596/2014 until the release of this announcement.

Income Statement for the 10 months ended 30 June 2018

	10 months to 30 June **2018**	*Year to 31 August* 2017
	£	£
Revenue	6,714,917	8,314,976
Cost of sales	(3,465,252)	(4,109,576)
Gross profit	3,249,665	4,205,400
Selling and distribution costs	(442,951)	(474,801)
Administrative expenses	(3,155,462)	(3,581,904)
(Loss)/profit from operations	(348,748)	148,695
Finance income	258	-
Finance expenses	(25,348)	(41,490)
(Loss)/profit before tax	(373,838)	107,205
Tax credit/(charge)	181,137	(926)

(Loss)/profit for the period	(192,701)	106,279
(Loss)/Earnings per share		
Basic	(0.10)p	0.06p
Fully diluted	(0.10)p	0.06p

Statement of Financial Position as at 30 June 2018

	30 June **2018**	31 August 2017
	£	£
Non-current assets		
Intangible assets	56,445	58,513
Property, plant and equipment	2,356,967	2,376,294
Deferred tax asset	68,531	-
Trade and other receivables	42,750	57,075
	2,524,693	2,491,882
Current assets		
Inventories	169,536	177,837
Trade and other receivables	530,201	396,884
Cash and cash equivalents	685,722	1,502,802
	1,385,459	2,077,523
Total assets	3,910,152	4,569,405
Current liabilities		
Trade and other payables	(1,834,997)	(2,193,301)
Borrowings	(106,946)	(104,136)
	(1,941,943)	(2,297,437)
Non-current liabilities		
Borrowings	(507,558)	(600,268)
Deferred tax liabilities	-	(18,348)
Provisions	(101,053)	(101,053)

	(608,611)	(719,669)
Total liabilities	(2,550,554)	(3,017,106)
Net assets	**1,359,598**	**1,552,299**
Equity		
Share Capital	186,745	186,745
Share Premium	1,188,021	1,188,021
Other Reserves	1,421	1,421
Retained Earnings	(16,589)	176,112
Total equity	**1,359,598**	**1,552,299**

Statement of Cash Flows for the 10 months ended 30 June 2018

	10 months to 30 June **2018**	*Year to 31 August* 2017
	£	£
Cash flows from operating activities		
(Loss)/profit from operations	(348,748)	148,695
Amortisation of intangible assets	11,728	16,787
Depreciation and impairment of property, plant and equipment	210,928	243,939
Loss on disposal of property, plant and equipment	30,723	120,530
Decrease in inventories	8,301	34,577
(Increase) in receivables	(31,445)	(17,696)
(Decrease)/increase in payables	(351,593)	229,434
(Decrease) in provisions	-	(122,977)
Cash generated from operations	(470,106)	653,289
Net taxation paid	-	-
Net cash from operating activities	**(470,106)**	**653,289**

Cash flows from investing activities		
Purchase of intangible assets	(9,660)	-
Purchase of property, plant and equipment	(279,229)	(139,814)
Net proceeds from sale of property, plant and equipment	56,905	3,672
Interest received	258	-
Net cash used in investing activities	**(231,726)**	**(136,142)**
Cash flows from financing activities		
Interest paid	(25,348)	(41,490)
Repayment of borrowings - finance leases	(16,295)	(18,580)
Repayment of borrowings - bank loans	(73,605)	(61,682)
Net cash used in financing activities	**(115,248)**	**(121,752)**
Net increase/(decrease) in cash and cash equivalents	**(817,080)**	**395,395**
Net cash and cash equivalents at the start of the period	1,502,802	1,107,407
Net cash and cash equivalents at the end of the period	**685,722**	**1,502,802**
Net cash and cash equivalents comprise:		
Cash at bank and in hand	685,722	1,502,802
Bank overdrafts	-	-
	685,722	**1,502,802**

Notes

1. Statutory Accounts

The financial information does not constitute statutory accounts as defined in section 435 of the Companies Act 2006, but has been extracted from the statutory accounts for the period ended 30 June 2018 on which an unqualified audit report has been issued and which will be delivered to the

Registrar following their adoption at the Annual General Meeting.

The statutory accounts for the financial year ended 31 August 2017 have been delivered to the Registrar of Companies with an unqualified audit report.

2. Basis of preparation

The Company's financial statements are prepared under the historical cost convention and in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

3. Going concern

The Directors, after reviewing the Company's operating budgets, investments plans and financing arrangements, consider that the Company has, at the date of this report, sufficient financing available for at least twelve months from date of signing of the financial statements. Accordingly, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the Annual Report and financial statements.

4. (Loss)/profit from operations

	10 months to 30 June **2018**	*Year to 31 August* 2017
	£	£
(Loss)/profit from operations is stated after charging:		
Auditors remuneration - Company audit	25,000	15,000
Amortisation of intangible fixed assets	11,728	16,787
Depreciation of owned property plant and equipment	202,928	234,939
Depreciation of plant and equipment held on finance leases	8,000	9,000
Loss on disposal of property, plant and equipment	30,723	120,530
Operating lease rentals		
- Plant and machinery	15,968	18,541
- Other assets	387,991	456,053
Cost of inventories recognised as an expense	2,806,020	3,374,286

5. Tax on (loss)/profit on operations

	2018	2017
	£	£
Current period taxation		
UK Corporation tax charge for the period	-	-
Research and Development Tax Credit	94,258	17,422
Total current tax	94,258	17,422
Origination and reversal of temporary timing differences	86,879	(18,348)
	181,137	(926)

The tax assessed for the period differs from the standard rate of corporation tax in the UK. The differences are explained below:

	2018	2017
	£	£
(Loss)/profit on ordinary activities before tax	(373,838)	107,205
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19%	(71,029)	20,369
Effect of:		
Expenses not deductible for tax purposes	2,378	5,476
Depreciation on assets not qualifying for tax allowances	10,563	-
Other permanent differences	(3,428)	(7,497)
Adjustment in respect of prior years	(10,296)	-
Research and development tax credit	(94,258)	(17,422)
Deferred tax adjustments in respect of prior years	(23,130)	-
Effect of change in local corporation tax rate	8,063	-

Total tax (credit)/charge in income statement	(181,137)	926

6. Earnings/(loss) per share

	10 months to 30 June **2018**	*Year to 31 August* 2017
(Loss)/earnings per ordinary share is calculated as follows:		
Basic		
(Loss)/profit attributable to ordinary shareholders (£)	(192,701)	106,279
Weighted average number of ordinary shares in issue	186,745,519	186,745,519
(Loss)/earnings per ordinary share	(0.10)p	0.06 p
Fully diluted		
(Loss)/profit attributable to ordinary shareholders (£)	(192,701)	106,279
Weighted average number of ordinary shares in issue and under option	186,745,519	186,745,519
(Loss)/earnings per ordinary share	(0.10)p	0.06 p

Basic earnings per share amounts are calculated by dividing profit for the year attributable to ordinary equity holders of the Company by the weighted average number of Ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the Company by the weighted average number of Ordinary shares outstanding during the year plus the weighted average number of Ordinary shares that would have been issued on the conversion of all dilutive potential Ordinary shares into Ordinary shares.

7. Borrowings

	2018	2017
	£	£

Bank loans	577,883	651,488
Finance lease liabilities	36,621	52,916
	614,504	704,404
Presented in the balance sheet as:		
Borrowings - current	106,946	104,136
Borrowings - non-current	507,558	600,268
	614,504	704,404
(a) Bank borrowings		
Analysis of bank loan repayments:		
In one year or less	85,046	82,236
In more than one year but not more than two years	81,156	82,816
In more than two years but not more than five years	263,017	270,725
In more than five years	148,664	215,711
	577,883	651,488

The Bank loans are secured by a legal charge over the Company's freehold properties at Park Street, Hungerford, Berkshire and Grove Technology Park, Downsview Road, Wantage, Oxfordshire.

	2018	2017
	£	£
(b) Finance lease liabilities		
Gross finance lease liabilities- minimum lease payments:		
In one year or less	21,900	21,900
Between one and five years	16,425	34,675
More than five years	-	-
	38,325	56,575
Future finance charges on finance lease liabilities	(1,704)	(3,659)
Present value of finance lease liabilities	36,621	52,916

Future finance charges on finance lease liabilities are analysed as follows:

	2018	2017
	£	£
In one year or less	(1,372)	(2,257)
Between one and five years	(332)	(1,402)
More than five years	-	-
	(1,704)	(3,659)

Finance lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

8. Provisions

	Warranty provision	Dilapidations provision	Restructuring provision	Total
		£	£	£
At 01 September 2016	41,575	59,478	122,977	224,030
Arising during the year	-	-	-	-
Utilised during the year	-	-	(122,977)	(122,977)
At 31 August 2017	41,575	59,478	-	101,053
Arising during the period	37,958	-	-	37,958
Utilised during the period	(37,958)	-	-	(37,958)
At 30 June 2018	41,575	59,478	-	101,053

	2018	2017
	£	£
Current	-	-
Non-Current	101,053	101,053
	101,053	101,053

Warranty provision

The Company makes provision for potential future warranty claims on kitchens sold. This provision is reviewed and adjusted annually based on the levels of turnover achieved and the claims record in the same period.

Dilapidations provision
The Company makes such provision for dilapidations relating to its leasehold showroom estate as it considers necessary based on the length of the remaining term for each showroom, the future plans for each showroom and based on this, review independent professional advice as to the costs of exiting a site.

9. Dividends

The Directors do not recommend payment of a dividend.

10: Share based payments

Share and share option awards outstanding
As at 30 June 2018 all share and share option awards had vested or lapsed. No options were awarded or exercised during the period (2017: nil). There was no share based payments charge for the period (2017: nil).

11. Posting of Accounts

Copies of the statutory accounts for the financial period ended 30 June 2018 will be posted shortly to shareholders with the notice of the Annual General Meeting. An electronic copy will be available on the Company's web-site www.john-lewis.co.uk.

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Final Results - RNS