

# **John Lewis Of Hunger Final Results**

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John Lewis Of Hungerford PLC

18 December 2015

## **JOHN LEWIS OF HUNGERFORD PLC**

### **FINAL RESULTS - YEAR ENDED 31 AUGUST 2015**

John Lewis of Hungerford plc ("John Lewis of Hungerford" or the "Company") the specialist kitchen manufacturer and retailer announces its final results for the year ended 31 August 2015.

#### **Chairman's Statement**

After a couple of years of steady growth the year just ended served to remind us of the challenges we face as a small company. Following a strong first quarter we experienced a series of unplanned staffing changes in our showrooms including the resignations of two of our most experienced designers. Whilst disappointing these changes reflected a desire on the part of the individuals to pursue new careers away from kitchen design and consequently were outside of our control.

The quality of our designers is critical to our business making it crucial that they were replaced with individuals of comparable quality. Consequently senior management time was diverted to addressing this and, whilst it was unquestionably the correct decision, as a small business it came at the expense of initiatives contained in our strategic growth plan.

Inevitably it takes time to identify suitable replacements and a further lead time before they are able to generate sales. It is therefore pleasing to be able to note the year ended on a positive note with a strong trading performance in the final quarter as showroom staffing levels slowly returned to normality and long term customer projects came to fruition. However, this was insufficient to recover the losses incurred earlier in the year contributing to the overall loss for the full year we are reporting today.

#### **Operational and Financial Review**

The loss for the year before taxation and share based payments amounted to £197,000 (2014: £103,000 profit).

Overall, sales grew by 5% to £7,799,000 (2014: £7,416,000) with the total number of kitchens sold during the year being 298 (2014: 307). We provide a bespoke design service to customers and so the average sales value of a kitchen in any given year is principally driven by the sales mix and in particular the complexity of customers design requirements.

Like for like sales from a comparable showroom estate decreased by 14%, reflecting a reduced volume of kitchen sales in those showrooms. Our new showrooms continue to trade in line with expectations with the aforementioned staffing issues principally impacting on our mature estate. The new showrooms in Chiswick and Cobham contributed 20% of total sales value and the design of these stores reflects the particular markets they serve. In particular the Chiswick store was designed to highlight the contemporary aspects of our range and we are delighted with customer reaction. We believe this provides a template for future store openings that complements the more traditional feel of other stores in the estate.

Whilst the growth in sales is welcome it was less than budgeted and this coupled with the investments we were already committed to making in support of our longer term growth strategy contributed to the loss for the year. Some of the key investments made in the year include the purchase and installation of a new spray and finishing line and the refurbishment of the Bristol, Harrogate and Oxford showrooms and the installation of the Pure kitchen range in two further showrooms. The costs associated with the showroom refurbishment are treated as capital expenditure in line with the Company's accounting policies.

A slightly lower gross margin for the year at 52.0% (2014: 52.4%) was attributable to a slight reduction in product margins of 55.6% (2014:56.1%). The installations business grew its revenue by 7% to £1,030,000 (2014: £963,000) and achieved a higher gross profit margin of 28% (2014: 27.5%)

<i>Products</i>	2015	2014
	£000	£000
Turnover	6,769	6,453
Cost of sales	(3,003)	(2,832)
Gross margin	3,766	3,621

Product sales include £242,000 (2014: £236,000) relating to our new bedroom range. This range is now available in Fulham showroom as well as a dedicated showroom based at our head office in Wantage. We intend to install bedrooms into our Winchester showroom in the coming 12 months reflecting the relatively cautious approach we are taking in selectively rolling this out to showrooms in our estate. Our award winning Pure kitchen range has now been installed in 8 showrooms and we intend to continue this roll out in the current year. Pure sales contributed a very encouraging 18% of total sales for the year at £1,386,000.

<i>Installations</i>	2015	2014
	£000	£000
Turnover	1,030	963
Cost of sales	(741)	(698)
Gross margin	289	265

Installation sales include £91,000 (2014: £54,000) relating to our new bedroom range.

### **Cash flow**

We ended the year with cash at bank and in hand of £1,206,000 (2014: £1,490,000) reflecting the positive working capital generated through customer deposits and advance payments. The net cash inflow from operating activities was £120,000 (2014: £763,000).

Bank loans, which are secured by a charge over the company's freehold property stand at £780,000 (2014: £817,000). The Company also had un-drawn committed borrowing facilities at the year end of £250,000 (2014: £250,000).

Capital expenditure, including capitalised development costs, of £453,000 was in line with budgeted amounts and principally arose from expenditure on new spray and finishing lines together with the continued refurbishment of showrooms and the installation of the Pure kitchen range

### **Dividends**

The Board is not recommending payment of a dividend.

### **Progress against 3 year strategic plan**

The financial performance of the newer stores validates the growth strategy adopted by the Board in recent years. We continue to believe selective opportunities exist to add new stores although this was put on hold during the year as we sought to stabilise the business. The Board have subsequently determined not to pursue further openings until such time as we have secured an improved financial performance from our mature showrooms. This will include installing our current ranges of products throughout the estate and making further investments in our design capability.

Once these changes have been implemented the Board remain confident that the business will return to profitable growth. However, the Board no longer consider our previously announced aspirational target of growing turnover to £10 million with a 5% operating profit by the end of FY 2016 to be a realistic target.

## **Current Trading and outlook**

On 6 November 2015 we reported that despatched sales and forward orders for Q1 stood at £1.9 million (2014: £2.0 million). As we reported at the same time, a change in our operating policy for orders linked to associated building work has had the impact of deferring the point at which some sales are now reported. This was borne out by the significant increase in the forward order book, at the same date, for deliveries in Q2 and beyond which stood at £1.3m (2014: £0.7m). Going forward we believe it is necessary to consider both measures in assessing the current trend within the business and we intend to provide both measures.

After the first 15 weeks of the current financial year our current sales and order book stood at £3.1 million (2014 £3.1m). Our forward order book at the same date, for which deposits have already been taken stood at £1.4m (£2014 £0.7m). We are pleased with this performance which represents a significant achievement in light of the staffing challenges we have faced in the past 12 months.

I would like to record my appreciation for the effort and dedication of all of our employees who have helped steer us through a tough and challenging year.

**Malcolm R. Hepworth**

**Non Executive Chairman**

Enquiries:

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Non Executive Chairman

Karen Stanley

Finance Director

Martyn Fraser                      Smith & Williamson Corporate Finance Limited                      0117 376 2213

**Income Statement for the year ended 31 August 2015**

	<b>2015</b>	2014
	<b>£</b>	£
<b>Revenue</b>	7,798,821	7,416,441
Cost of sales	(3,744,065)	(3,530,279)
<b>Gross profit</b>	<u>4,054,756</u>	<u>3,886,162</u>
Selling and distribution costs	(482,273)	(498,668)
<b>Administrative expenses</b>		
Share based payments	43,139	(43,139)
Other	(3,717,690)	(3,250,184)
<b>Total</b>	<u>(3,674,551)</u>	<u>(3,293,323)</u>
(Loss)/Profit from operations before share		
based payments	(145,207)	137,310
<b>(Loss)/Profit from operations</b>	(102,068)	94,171
Finance income	2,199	2,464
Finance expenses	(53,958)	(36,895)
<b>(Loss)/Profit before tax</b>	<u>(153,827)</u>	<u>59,740</u>
Tax credit / (expense)	15,276	(15,377)
<b>(Loss)/Profit for the year</b>	<u><u>(138,551)</u></u>	<u><u>44,363</u></u>
<b>Earnings per share</b>		

Basic	(0.07)p	0.02p
Fully diluted	(0.07)p	0.02p

### Balance Sheet as at 31 August 2015

	2015	2014
	£	£
<b>Non-current assets</b>		
Intangible assets	92,087	108,874
Property, plant and equipment	2,784,262	2,689,988
Trade and other receivables	57,075	57,075
	<u>2,933,424</u>	<u>2,855,937</u>
<b>Current assets</b>		
Inventories	190,209	183,111
Trade and other receivables	306,824	294,152
Cash and cash equivalents	1,206,171	1,489,714
	<u>1,703,204</u>	<u>1,966,977</u>
<b>Total assets</b>	<u>4,636,628</u>	<u>4,822,914</u>
<b>Current liabilities</b>		
Current tax payable	-	-
Trade and other payables	(1,823,312)	(1,864,637)
Borrowings	(83,252)	(39,948)
	<u>(1,906,564)</u>	<u>(1,904,585)</u>
<b>Non-current liabilities</b>		
Borrowings	(785,765)	(777,064)

Deferred tax liabilities	(15,997)	(31,273)
	<u>(801,762)</u>	<u>(808,337)</u>
<b>Total liabilities</b>	<b>(2,708,326)</b>	<b>(2,712,922)</b>
	<u><b>1,928,302</b></u>	<u><b>2,109,992</b></u>
<b>Net assets</b>		
<b>Equity</b>		
Share Capital	186,745	186,745
Share Premium	1,188,021	1,188,021
Other Reserves	1,421	1,421
Retained Earnings	552,115	733,805
<b>Total equity</b>	<u><b>1,928,302</b></u>	<u><b>2,109,992</b></u>

#### Statement of Changes in Equity for the year ended 31 August 2015

	Share Capital £	Share Premium £	Other Reserves £	Retained Earnings £	Total £
At 01 September 2013	186,745	1,188,021	1,421	646,303	2,022,490
Profit for the year	-	-	-	44,363	44,363
Share based payments	-	-	-	43,139	43,139
At 31 August 2014	186,745	1,188,021	1,421	733,805	2,109,992
Loss for the year	-	-	-	(138,551)	(138,551)
Share based payments	-	-	-	(43,139)	(43,139)
<b>At 31 August 2015</b>	<b>186,745</b>	<b>1,188,021</b>	<b>1,421</b>	<b>552,115</b>	<b>1,928,302</b>

The total comprehensive income for the year is (£138,551) (2014: £44,363).

## Statement of Cash Flows for the year ended 31 August 2015

	<b>2015</b>	2014
	£	£
<b>Cash flows from operating activities</b>		
(Loss) / profit from operations	(102,068)	94,171
Amortisation of intangible assets	16,787	17,754
Depreciation of property, plant and equipment	280,315	269,856
Share based payments	(43,139)	43,139
Loss on disposal of property, plant and equipment	29,528	4,035
(Increase)/decrease in Inventories	(7,098)	9,210
Increase in receivables	(12,672)	(57,469)
Increase in payables	(41,325)	382,272
<b>Cash generated from operations</b>	120,328	762,968
Net taxation paid	-	-
<b>Net cash from operating activities</b>	<b>120,328</b>	<b>762,968</b>
<b>Cash flows from investing activities</b>		
Purchase of intangible assets	-	-
Purchase of property, plant and equipment	(357,161)	(676,069)
Net proceeds from sale of property, plant and equipment	49,044	53,674
Interest received	2,199	2,464
<b>Net cash used in investing activities</b>	<b>(305,918)</b>	<b>(619,931)</b>
<b>Cash flows from financing activities</b>		



Interest paid	(53,958)	(36,895)
Increase in borrowings	-	300,000
Repayment of borrowings	(43,995)	(38,680)
<b>Net cash used in financing activities</b>	<b>(97,953)</b>	<b>224,425</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(283,543)</b>	<b>367,462</b>
Net cash and cash equivalents at the start of the year	1,489,714	1,122,252
<b>Net cash and cash equivalents at the end of the year</b>	<b>1,206,171</b>	<b>1,489,714</b>
<b>Net cash and cash equivalents comprise:</b>		
Cash at bank and in hand	1,206,171	1,489,714
Bank overdrafts	-	-
	<b>1,206,171</b>	<b>1,489,714</b>

## 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 year ended 31 August 2015 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 2014 have been delivered to the Registrar of Companies with an unqualified audit report.

### 2. Basis of preparation

The Company's statutory accounts have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and 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 preparing its statutory accounts, sufficient financing available for the estimated requirements for the foreseeable future. Accordingly, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing the financial information.

### 4. Earnings/(loss) per share

#### Basic

The calculation of basic Earnings/(loss) per share is based on a loss of £138,551 (2014: £44,363 profit) and a weighted average number of ordinary shares in issue of 186,745,519 (2014: 186,745,519).

#### Diluted

The calculation of fully diluted Earnings/(loss) per share is based on a loss of £138,551 (2014 £44,363 profit) and a weighted average number of ordinary shares in issue and under option of 186,745,519 (2014: 203,008,741).

### 5. Share based payments

	<b>2015</b>	2014
	<b>£</b>	£
Share based payments (income)/expense	(43,139)	43,139

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During the year ended 31 August 2015 the Company provided three types of share-based incentive arrangements:

<i>Type of arrangement</i>	<i>Vesting period</i>	<i>Vesting conditions</i>
Individual share option agreements	3 years	Three years service

Employee Share Incentive Plan	2 years	Two years service
Long Term Incentive Plan	2.64 years	Performance targets relating to revenues and pre-tax profit for the year to 31 August 2016

The Company established the Employee Share Incentive Plan on 25 June 2010 and the Long Term Incentive Plan on 29 April 2014. The Company has calculated charges for the share option awards using a Black-Scholes model. Volatility and risk free rates have been calculated for each share option award based on expected volatility over the vesting period and current risk free rates at the time of each award. Volatility assumptions are based on historic volatility for the Company's share price in the three years prior to the award.

The share based payments charge for the year by scheme was as follows:

	<b>2015</b>	2014
	<b>£</b>	£
Individual option agreements	-	-
Employee Share Incentive Plan	-	-
Long Term Incentive Plan	(43,139)	43,139
<b>Total</b>	<b>(43,139)</b>	<b>43,139</b>

The (credit) / charge relates entirely to equity-settled share based payment transactions.

## 6. Dividends

The Directors do not recommend payment of a dividend.

## 7. Posting of Accounts

Copies of the statutory accounts for the financial year ended 31 August 2015 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](http://www.john-lewis.co.uk).

## 8. Annual General Meeting

The next Annual General Meeting of the Company will be held at John Lewis of Hungerford, 156-158 Wandsworth Bridge Road, Fulham, London SW6 2UH at 2.30 p.m. on 27 January 2016.

This information is provided by RNS

The company news service from the London Stock Exchange

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