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 year ended 31 August 2016.

Chairman's Statement

This is my first Annual Report as Chairman and as the results being reported upon cover the period prior to my appointment I will restrict my comments accordingly.

The last year has seen a number of changes to the composition of the Board and, on behalf of the Board, I would firstly like to record our appreciation to its former members for their service to John Lewis of Hungerford.

Having spent my early weeks within the business speaking to our key stakeholders, including our highly motivated workforce, I have been enormously impressed by the commitment and drive shown by our people. The dedication and professionalism of the team is paramount and it will only be through these attributes and by working together to deliver a quality product and service, at the right price, for our customers that the Company will be successful.

My board colleagues and I will be undertaking a strategic review of the business over the coming few months. This will be an all-encompassing piece of work which will allow the team to debate the key issues within the business, including improving sales productivity, utilisation of our manufacturing facility, improved financial and management information and a fresh look at our marketing proposition. We will report on our conclusions in due course.

Our new Chief Executive, Kiran Noonan, has moved from being Sales and Marketing Director, to lead the business forward. As we work towards further improving our operational efficiencies and work to deliver shareholder value her undoubted passion and energy to steer the business through the transformational work required this coming year will be critical. In this role I will personally support Kiran in the period ahead.

I am looking forward to working with the Board and will be steadfast in my approach to deliver shareholder value.

Gary O'Brien
Non-Executive Chairman

Chief Executive's Business Review

Overview
We announce today the fifth consecutive year of sales growth, which exceeded £8 million for the first time to £8,180,135. Despite this it was a year of transition as we took difficult decisions in recognition that we would fall short in our target of growing sales to £10 million by FY16. In particular the cost infrastructure put in place to support this objective was increasingly disproportionate to actual sales performance necessitating action to realign this.

The loss for the year before taxation and restructuring costs amounted to £215,512. Restructuring costs of £200,889 have been made taking the loss for the year before taxation to £416,401.

In taking the actions we have over this financial year, the objective of the Board was to position the business to work towards a return to sustainable profitability without compromising the high standards of customer service and product quality that our customers have always enjoyed. I comment more on the cost reduction programme below but it is my belief that the business has emerged from this process in a stronger position and I look forward to leading the business in the next phase of development.

Sales performance

Last year we reported on the challenges in our mature estate which had experienced a 14% reduction year on year. It is therefore pleasing that the turnover growth in FY16 includes an improvement in sales within the majority of these stores, showing a like-for-like sales growth of c.5% reflecting improved stability in our design team. Continuing to close the gap between the current trading and levels achieved in FY14 remains a priority. Harrogate and Tunbridge Wells were the only two showrooms which did not see improvements throughout the year, and as announced in August 2016, the Board took the decision to close these two showrooms. The final handover of both retail units is now complete with the closure costs included within the results reported today.

The newer estate, comprising Chiswick, Cobham and Bedrooms continued to deliver sales growth with like-for-like sales growth of approximately 2%. The number of kitchens sold in FY16 increased by 5% to 314 (2015: 298), of which 90% were installed by our Artisan Installation Service.

The Bedrooms business has maintained its sales level, with numbers of sales averaging 85 for the last 2 years. The Board believes there is considerable opportunity to scale this product area for the Company. Discussions within the strategic review will include ways in which we can leverage on the success enjoyed from this new product line to date. The Winchester showroom will be fitted with Bedrooms in the first half year of the FY17.

The sales performance across the year shows that the first quarter was marginally behind the previous year, followed by growth in each of the next three quarters. We made steps in the second half year towards our objective of achieving greater consistency of sales across each quarter, which is key to maximising production and operational efficiencies. An element of seasonality is inevitable but seeking to smooth production cycles is a focus of the management team. The demand on the internal service departments created by this continuous flow of work was met with a drive to double the efforts of our head office staff to continue to support the front line team. We have seen significant improvements in the way our operational functions are led, and the installation service has continued to deliver efficiencies and profit, in line with the increase in sales. Customer satisfaction levels, as graded at the point of sign off have improved to 96% of customers saying they are happy or very happy with the installation.

	2016	2015
	£000	£000
Turnover	8,180	7,799
Cost of sales	(4,114)	(3,744)
Gross margin	4,066	4,055
GM%	50%	52%

A lower gross margin for the year at 50.0% (2015: 52.0%) was attributable to a series of decisions taken to support the business during this transitional year. In the final quarter, the margin returned to 54% following decisions taken by the Board from 1st May 2016. Managing our margins is critical and key to our profitability. Within our purchasing, early planning has resulted in prices being held for the first half of the new financial year; the effects of currency fluctuations post Brexit are being monitored with suppliers of our raw materials. There will be some impact on the business later in the year and prices may have to be further increased to offset any impact from Brexit. We continue to monitor the situation on an ongoing basis.

Products	2016	2015
	£000	£000
Turnover	7,094	6,769

Cost of sales	(3,312)	(3,003)
Gross margin	3,782	3,766
GM%	53%	56%

Product Sales include £298,000 (2015: £242,000) relating to our bedrooms businesses. As a result of the recent changes in personnel, the installation of bedrooms into our Winchester showroom has been delayed into the first half of the new financial year. Our award winning Pure range continues to grow and the last two showrooms are having Pure installed in this new financial year. The range now contributes 20% of total sales.

Installations	2016	2015
	£000	£000
Turnover	1,086	1,030
Cost of sales	(802)	(741)
Gross margin	284	289
GM%	26%	28%

Installations sales improved by 5% on the previous year, in line with the increase in turnover; the bedrooms business is an installed only product category.

The reduced margin reflects an increase in trade installations which attract a lower margin. As the trade offering is an area that the business hopes to continue to build, it will be an area for discussion in the strategic review.

Cost Reduction Programme
At the time of our interim results we announced our intention to implement changes to achieve an annualised saving of approximately £300k from the beginning of this financial year. These saving have been delivered largely through reductions in staffing with a number of roles reorganised or eliminated.

We remain committed to ensuring our organisational structure is appropriate for the level of activity undertaken. This contributed to the decision to close the aforementioned showrooms. We also believe the decision to amalgamate the roles of Managing Director and Sales Director, and the transition of the role of Finance Director to a part time position mean we move into the new financial year with a leaner operational model more appropriate for a business of our size and complexity. We expect to appoint a new Finance Director during the current year and until then the role of head of finance is being undertaken by an experienced external consultant. We are entirely committed to ensuring that the new organisational structure does not have any adverse impact on our ability to supply a quality product at a competitive price.

In a year where we have seen many changes, we are focused on creating the right promotional tools to level out some of our seasonal peaks and allow us to fully maximise the utilisation of our manufacturing facility. This will further improve upon our operational efficiencies and reduce additional costs incurred during peak times. With customer satisfaction level high, we are confident in our ability to increase the throughput without compromising on product quality or the final installation standard. The customer satisfaction baseline must be sustained and improved upon. We are working hard to capitalise on the recommendations arising from good customer service.

Store portfolio
The sales performance of our recent store opening supports our belief that we have a proven new store opening model. We are confident that given the right location, we have an excellent track record in creating fresh interest in the JLH brand, in new geographical territories. However, it would not be appropriate to commit to further store openings ahead of the outcome of the strategic review.

The refit of our showroom estate continued with the Pure range rolled out further this last year in Winchester, Cambridge, Muswell Hill and Blackheath. Each showroom has seen immediate growth in sales in this new contemporary category, reflecting the increasing demand for a more modern alternative from customers who are aligned to the values of the brand.

The product mix over the last twelve months has continued to see Pure develop as a substantial part of the range – with the contribution now at 20%. We continue to see a return to simpler designs with our Lay-On offering maintaining its average contribution at c.40% for the last two years.

Customer experience

The decision to close Tunbridge Wells and Harrogate served as a timely reminder that the location of showrooms is a critical component in new showroom openings. Without regular footfall, the showroom relies entirely on the brand marketing and online presence. As part of the strategic review, the Board will be looking closely at our brand perception in the marketplace.

Several showrooms continue to see a decline in footfall with High Street retailers generally seeing a switch to more online retailing. The investment in a new website in the second half of the year has delivered an increase in quality business prospects, which have already delivered additional income. The website is delivering an increase in appointments, returning the business to become a Destination Brand once again. The Board are keen to build on this resurgence and capitalise on this development. In the first 6 months of being live, the new website which was designed and live from 1 June 2016, has delivered 10% more quality leads. The increase in social media has seen the business develop its presence online, including key lifestyle sites and e-marketing. The data generated from these campaigns will ultimately lead to the personalisation of our marketing messages, to further improve the customer experience online.

The improved performance of the mature estate has been primarily achieved by the improved conversion of prospective customers, with the sales team focused on ensuring the customer journey is paramount in their engagement with new business relationships. The tracking of leads from first enquiry to conversion is now embedded within the business and is demonstrating opportunities won or lost, with information that will help inform our strategy going forward and areas for staff training and development.

Instore experiences have been enhanced by a return in the new financial year to more ambient environments focused on brand values which assist in this highly emotive purchasing environment. Examples of the new seasonal campaigns have re-invigorated the showrooms and created the opportunity to invite customers to engage in a warm and relaxed environment.

Our People

We are a small company and therefore unanticipated changes within our client facing team can have disproportionate impact on our performance. In previous years, we have seen the impact on the business, when key members have left and so we are taking steps to ensure all areas of the business feel supported and valued by the company.

One new initiative that has ensured that all areas of the business have a voice is a new regular operational team meeting. A mix of sales, factory, installation and finance representation has already contributed to some immediate quick wins such as improvements in technological support to try and eliminate errors from the design and manufacturing process, which historically have had a c.3% impact on gross margin. The flat structure has created an opportunity for more direct dialogue within the business and we intend to build on the momentum that has begun following the changes to create a cohesive and productive work environment.

Current Trading and outlook

On 8 November 2016, we reported the current financial year despatched sales and forward orders (which we consider to be the best measure of current trading) for Q1 stood at £1.8million (2015: £1.9million). The forward order book remains comparable with last year at £1.3 million (2015: £1.3 million).

After the first 12 weeks of the FY17, our current sales and order book stood at £2.4million (2015: £2.4million) in line with the previous year. The forward order book remains comparable at £1.4 million (2015: 1.4 million). With two less showrooms operating, we are pleased with this performance as we head into our winter preview.

As a specialist retailer, we rely on the skill, commitment, drive and enthusiasm of our people, and I would like to thank them all for their professionalism and dedication during this transitional year.

Kiran Noonan
Chief Executive Officer

Enquiries:

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Income Statement for the year ended 31 August 2016

	2016	2015
	£	£
Revenue	8,180,135	7,798,821
Cost of sales	(4,113,599)	(3,744,065)
Gross profit	4,066,536	4,054,756
Selling and distribution costs	(477,955)	(482,273)
Administrative expenses		
Share based payments	-	43,139
Other	(3,770,761)	(3,717,690)
Other non recurring items:		
- restructuring costs	(200,889)	-
Total	(3,971,650)	(3,674,551)
Loss from operations	(383,069)	(102,068)

Finance income	361	2,199
Finance expenses	(33,693)	(53,958)
Loss before tax	(416,401)	(153,827)
Tax credit	15,997	15,276
Loss for the year	(400,404)	(138,551)
Earnings per share		
Basic	(0.21)p	(0.07)p
Fully diluted	(0.21)p	(0.07)p

Balance Sheet as at 31 August 2016

	2016	2015
	£	£
Non-current assets		
Intangible assets	75,300	92,087
Property, plant and equipment	2,589,316	2,784,262
Trade and other receivables	57,075	57,075
	2,721,691	2,933,424
Current assets		
Inventories	212,414	190,209
Trade and other receivables	361,766	306,824
Cash and cash equivalents	1,107,407	1,206,171
	1,681,587	1,703,204
Total assets	4,403,278	4,636,628
Current liabilities		
Trade and other payables	(1,967,737)	(1,823,312)
Provisions	(122,977)	-
Borrowings	(91,654)	(83,252)
	(2,182,368)	(1,906,564)
Non-current liabilities		
Borrowings	(693,012)	(785,765)
Deferred tax liabilities	-	(15,997)
	(693,012)	(801,762)
Total liabilities	(2,875,380)	(2,708,326)
Net assets	**1,527,898**	**1,928,302**

Equity		
Share Capital	186,745	186,745
Share Premium	1,188,021	1,188,021
Other Reserves	1,421	1,421
Retained Earnings	151,711	552,115
Total equity	**1,527,898**	**1,928,302**

Statement of Changes in Equity for the year ended 31 August 2016

	Share Capital	**Share Premium**	**Other Reserves**	**Retained Earnings**	**Total**
	£	**£**	**£**	**£**	**£**
At 01 September 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)
At 31 August 2015	186,745	1,188,021	1,421	552,115	1,928,302
Loss for the year	-	-	-	(400,404)	(400,404)
Share based payments	-	-	-	-	-
At 31 August 2016	**186,745**	**1,188,021**	**1,421**	**151,711**	**1,527,898**

The total comprehensive income for the year is (£400,404) (2015: (£138,551)).

Statement of Cash Flows for the year ended 31 August 2016

	2016	2015
	£	£
Cash flows from operating activities		
(Loss) / profit from operations	(383,069)	(102,068)
Amortisation of intangible assets	16,787	16,787
Depreciation and impairment of property, plant and equipment	324,666	280,315
Share based payments	-	(43,139)
Loss on disposal of property, plant and equipment	2,134	29,528
(Increase)/decrease in Inventories	(22,205)	(7,098)
Increase in receivables	(54,942)	(12,672)

(Decrease)/Increase in payables	144,424	(41,325)
Increase in provisions	122,977	-
Cash generated from operations	150,772	120,328
Net taxation paid	-	-
Net cash from operating activities	**150,772**	**120,328**
Cash flows from investing activities		
Purchase of intangible assets	-	-
Purchase of property, plant and equipment	(212,122)	(357,161)
Net proceeds from sale of property, plant and equipment	80,268	49,044
Interest received	361	2,199
Net cash used in investing activities	**(131,493)**	**(305,918)**
Cash flows from financing activities		
Interest paid	(33,693)	(53,958)
Increase in borrowings	-	-
Repayment of borrowings	(84,350)	(43,995)
Net cash used in financing activities	**(118,043)**	**(97,953)**
Net increase/(decrease) in cash and cash equivalents	**(98,764)**	**(283,543)**
Net cash and cash equivalents at the start of the year	1,206,171	1,489,714
Net cash and cash equivalents at the end of the year	**1,107,407**	**1,206,171**
Net cash and cash equivalents comprise:		
Cash at bank and in hand	1,107,407	1,206,171
Bank overdrafts	-	-
	1,107,407	**1,206,171**

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 2016 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 2015 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 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. Non-recurring items – restructuring costs

During the year, following a review of the Company's trading estate, the decision was taken to close two poorly performing stores. Additionally, the Board undertook a comprehensive review of the organisational structure of the Company's operations with a view to substantially reducing costs and improving future productivity. This review resulted in a number of positions being made redundant or roles being combined.

The costs of the store closures, plus the costs of the other restructuring measures have been charged to the Income Statement in the current year and comprise the following items.

	2016	2015
	£	£
Staff restructuring costs	140,238	-
Store clearance expenses	60,651	-
	200,889	-

Of the above expenses, the following have been included as a year-end provision:

	2016	2015
	£	£
Staff restructuring costs	100,200	-
Store clearance expenses	22,777	-
	122,977	-

5. Earnings/(loss) per share

	2016	2015
Earnings/(loss) per ordinary share is calculated as follows:		
Basic		
Profit/(loss) attributable to ordinary shareholders (£)	(400,404)	(138,551)
Weighted average number of ordinary shares in issue	186,745,519	186,745,519
Earnings/(loss) per ordinary share	(0.21)p	(0.07)p
Fully diluted		
Profit/(loss) attributable to ordinary shareholders	(400,404)	(138,551)

(£)		
Weighted average number of ordinary shares in issue and under option	186,745,519	186,745,519
Earnings/(loss) per ordinary share	(0.21)p	(0.07)p

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 2016 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.

8. Annual General Meeting

The next Annual General Meeting of the Company will take place at John Lewis of Hungerford, Grove Technology Park, Downsview Road, Wantage, Oxon OX12 9FA on 31 January 2017 at 2.00 pm.