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 2017.

Chairman's Statement

This report covers the first year since I took the role of Chairman. It has been a year of considerable change within the business and so it is particularly pleasing to be able to report a return to profitability. This reflects another strong sales performance against a backdrop of the previously reported cost reduction initiatives. Effecting operational change within a small business inevitably creates huge disruption and it is to the credit of the executive team that they have not allowed this to distract them from the running of the business.

During the year we instigated a detailed operational review including all administrative areas. Key changes include improvements in the management information produced within the business; changes in the production facility where weaknesses in our systems and processes have had a direct impact on our past profitability, together with a review of all the processes related to our customer engagements. This review helped us to identify the need to support the brand identity through improvements in our marketing collateral and also to consider the development of an internal CRM system which will assist us in our endeavours to ensure maximum customer satisfaction and recommendations.

All of this activity has been undertaken during a tough economic climate, when it has been critical to keep the business trading well, which in itself has been instrumental in keeping our employees engaged and motivated. The review has demanded a significant amount of management time, however we are already seeing the results of some of the developments across the Company, and we look forward to seeing the benefits continue to come through in the period ahead.

I would like to take the opportunity to thank all the staff for their efforts during the past year and to congratulate them on achieving the results we are reporting on today, with a particular mention to Kiran Noonan who took over the role of CEO during a transformational time for the Company. I am confident that although the uncertainty continues in the political and economic climate, we are building a strong platform for the business, which will allow us to continue to outperform the market.

Hill Wooldridge and Co. Limited, the Company's current auditor (having served for 17 years), have informed the Company of their intention to resign as auditors in 2018.They will remain in post until the filing of the Company's annual accounts for the financial year ended 31 August 2017. Upon such resignation, the Board intends to run a formal audit tender process during 2018 to appoint a new auditor. This process will be led by the Company's Audit committee

On behalf of the Board I would like to record its deep admiration and thanks for the long service and dedication of our founder, John Lewis, who stepped down as a Non-Executive director during the year. John's legacy will endure, as we continue to drive forward a business which creates beautiful and characterful solutions for our customers' homes. Jim Barnard joined the Board as a new, independent, Non-Executive director after the year end and I look forward to his contribution as we continue our drive to return the Company to sustained profitability.

Gary O'Brien
Non-Executive Chairman

Chief Executive's Business Review

Overview
I am pleased to be able to report our sixth consecutive year of sales growth, achieving £8.3m (2016: £8.2m), delivered in what was widely regarded as a challenging retail environment. Whilst sales growth is an important metric we are also very mindful of the need to address the decline in our profitability over recent years. It is therefore encouraging to report an operating profit of £0.1m (2016: operating loss of £0.4m).

Key to our cost reduction programme has been ensuring that it does not compromise the high standards of customer service and product quality that our customers have always enjoyed. Our satisfaction levels have been under continuous review and have remained consistently high. These results have been achieved through the determination and resolve of our employees to identify and drive efficiencies across the entire business. This is an on-going process but the deep commitment they have shown during the year is evidence of their desire to see the Company move forward after what has been a challenging few years.

We have previously highlighted the difference in performance between our mature and newer stores. Closing the gap within the like-for-like estate from the strong performance delivered in 2014 was a priority during the year. Sales in the mature estate exceeded 2014 levels by 4%, with a renewed energy, focus and enthusiasm for these territories, which has contributed greatly to the results we report today.

Eliminating the effect of the closure of the Harrogate and Tunbridge Wells Showrooms during 2016, the like-for-like sales growth was 5%. During the year we sold 309 kitchens (2016: 314; 309 adjusting for the closed Showrooms). We have also seen a steady increase in our average order value, as a result of a movement of 2% on the level of orders installed by our Artisan Installations Service, now at 92% (2016: 90%).

The product mix continues to reflect a growing trend towards classic styles and our more contemporary offering, with its warmer handle less options. Pure is now 30% of our sales mix with our Lay-On offering now contributing 46% of sales. This is a significant shift in our product offering and has been reflected in our photography and marketing material illustrating our stunning kitchens in real customer homes.

The store portfolio shows that our London stores contribute 46% of our overall sales, with the Home Counties adding an additional 26%. The Board have begun the process of identifying potential new locations, mindful of our urban and rural opportunities.

The refit of our existing estate has continued, with Hungerford now also showcasing the Pure range. Cobham and Fulham have been enhanced to show an improved Lay-On offering to reflect the changing market opportunities. All three refits have been designed with the customer journey in mind with the desire to create real life kitchens. The installation of our Wardrobe Collection into Winchester has been received warmly in a market lacking an offering in this area of home solutions.

Bedrooms contributed income of £325k (2016: £387k) comprising product sales and installations from the 75 Bedrooms sold (2016: 81). The Installation charges for the Bedrooms category have been reduced in line with the market. This includes contributions from the Fulham Bedrooms Showroom and also our newly launched Winchester Bedrooms Showroom. Having rebranded the range as The Wardrobe Collection by John Lewis of Hungerford, it has re-energised the category and lifted the level of enquiries by 100%. Additionally, by focusing on the Search Engine Optimisation (SEO) of the wardrobes product, we have gained improved traction online which has further enhanced the profile. Going into the new financial year, we are planning to roll out as many wardrobe displays as we can accommodate in our Showrooms, as the benefits of having good Bedroom displays in our Showrooms to aid customer interaction and engagement with the product category have been proven to improve conversion.

	2017	*Restated* 2016
	£000	£000
Turnover	8,315	8,180
Cost of sales	(4,110)	(4,130)
Gross margin	4,205	4,050
GM%	51%	50%

The overall gross margin has been improved. Although throughout the year this has fluctuated by ± 2% primarily driven by our need to remain competitive on our bought-in goods, in particular appliances. The Board continue to monitor this area closely and ensure that efficiencies in other areas of the business allow for this slight increase in the gross margin to be further improved to prevent any adverse impact on our profitability.

Ensuring our customers are able to procure their appliances through the business ensures we are able to fully project manage the Installation for our clients. It is key that we are able to offer realistic pricing in an area that has become increasingly competitive.

Managing our margins is critical and key to our profitability. Our purchasing and our improved remedial activity are key contributors to sustaining the gross margin at this level and improving specifically our product margin below. Raw materials remain under review, along with managing expected price increases due to Brexit.

		Restated
Products	2017	2016
	£000	£000
Turnover	7,260	7,094
Cost of sales	(3,337)	(3,328)
Gross margin	3,923	3,766
GM%	54%	53%

Product Sales include £241k (2016: £298k) relating to our Bedrooms businesses. The drop in product sales has been reflected in the mix this last year, with more small Bedrooms purchased, against larger walk-in wardrobes in the previous year, thus lowering our average order value. Numbers of Bedrooms sold have dropped marginally, although the average remains around 80 for the last 3 years. The launch of our Winchester Showroom has provided us with an additional route to market and an opportunity to re-position this product category with our online social presence. We plan to continue to invest in marketing to promote the Bedroom Category and with the roll out of more product into Showrooms that can accommodate displays, we look forward to the numbers improving as we go forward. The new financial year already shows excellent progress.

Installations	2017	2016
	£000	£000
Turnover	1,055	1,086
Cost of sales	(773)	(802)
Gross margin	282	284
GM%	27%	26%

The movement in the margin of our Installations turnover is related to our Bedrooms business, which has necessitated a need to review the charges applied to the installation in this area. The costs for wardrobe installations are lower than the more complex Installation of our kitchens business and as such our pricing now reflects this differential. The improvement in the margin of our Installation sales reflects the focus on ensuring a right first time Installation with minimal return visits.

Preparing for Growth in our Manufacturing Facility

The year ran almost in parallel with the previous year, with the improvement showing primarily in our third quarter. The consistency throughout the year has been strong, although the final quarter continues to create a seasonal bottle neck throughout the business. We are exploring ways to try and distribute the seasonal peak more evenly over the Summer and early Autumn. We also need to look at investments we can make to our Production Facility to boost capacity and prepare the business for growth. There are a number of areas we are looking to streamline within our production flow, together with reviewing the options available to enhance our operating model, by utilising advancements in paint technology. The finish and durability of our paint remains one of our key USP's and as such, is paramount in any decisions we will take to improve our production planning cycle.

Enhancing our Customer Experience

A key area of focus for the year has been to improve our engagement with our customers throughout the lifetime of their journey with the business. From first contact, through sale and Installation, it has become clear that there is an opportunity to build upon the good level of recommendations into the business, by remaining close to our customers as they emerge from the most stressful part of the process - the Installation. We have taken the time to produce case studies and have appeared more often in lifestyle publications, illustrating the care and attention that we provide during a difficult, yet highly emotive purchase. Our ability to project manage the complete process for our customers is something that allows the Company to remain a brand of choice for many customers. Along with my Board colleagues, we have worked hard to understand the end to end journey, and to identify areas where we can provide more reassurance and assistance in this regard. This has resulted in more targeted e-marketing, which has allowed our customers to understand how we can help turn their vision into a reality. We have produced a wealth of on-line content, including Blogs and imagery, together with Press insertions. This has helped our customers to discern our capability as a business and, improved therefore the quality of prospects we are now working with. Providing more information at the initial stages of their engagement with the brand, has helped the brand to cut through in this competitive marketplace.

To aid the sales team to deliver on our promise of a high quality engagement and final product, we have produced a new brochure. We discussed previously our need to showcase the impact that our beautiful products make on the everyday lives of our customers. The case studies demonstrate this well, and provide prospective buyers with literature that enhances the perception of the brand, by highlighting the key steps on the journey which have created a new life for our customers. It has given the sales team a tool which inspires confidence in the brand and its ability to deliver on the promise to create beautifully crafted home solutions.

Improving our Infrastructure

Our customer service levels, as measured at the point of satisfactory Installation, remain at 96% saying the service was good or very good. We are working hard to maintain and grow on this measure to ensure our customers are central to everything that we do. The delivery of a quality product has been improved, as measured by the reduction in our margin impact of errors, which is now closer to c. 2% (2016: c.3%) Having instilled a culture of continuous improvement, all areas of the Company are working collaboratively to make this a reality. By improving the dialogue between different areas, we have been reviewing any system or process which has a direct impact on our profitability. This has created a culture in which we are now talking about the right things, to grow the business in a profitable way, through enhancements to our operating model.

We have worked hard to ensure our sales people have the tools that they need by improving the IT infrastructure around the business. With a focus on the basics, we have made strides in delivering on our ambition to have excellence throughout our front line operating model.

With the Brexit negotiations continuing, we are ever mindful of the impact on our material costs. Although we only source from UK suppliers, their sourcing remains global. We are aware of the price increases already due in 2018 and are monitoring the situation closely. We have discussed previously our desire to ensure we remain competitive and as such, our comprehensive costing review has now begun in earnest. The initial data has provided the Board with meaningful information on which to base our pricing structure. There is more work to be done, however, we are moving forward with our stated objective of managing our business with increased understanding of the range profitability. As we make progress in this area, we will be able to ensure that our capacity planning is optimised and consistently profitable.

The significant improvements seen in our management reporting cycle have ensured that the Board now have meaningful accounting information, which has improved our ability to make informed decisions impacting the business performance. Working with our new senior finance team has allowed the Board to review and analyse key business drivers which affect all areas of the company.

Looking after Our People

It has been incredibly rewarding to see our team develop, think freely and grow over this last year. We have been delighted with their contributions and suggestions across a range of internal forums and discussions, all of which have made a difference to the way in which we are operating today.

We have utilised our biggest resource by giving the staff a voice in the development of technical resources, product options and, by working collaboratively to build on new marketing collateral which we have recently launched. The team have a wealth of ideas and experience to share and we continue to draw the best of these through improvements in the way in which we engage with our workforce. We value their input and thank them for their single-mindedness in helping the business return to profit.

There is more to do, and as a small company, we must retain our talented team across all areas of the business. We continue to prioritise their emotional wellbeing, their mental health, their personal ambitions and their overall morale. It is of vital importance to the whole Board that our people feel looked after.

Current Trading and Outlook

For the new financial year, despatched sales and forward orders (which we consider to be the best measure of current trading) for Q1 stood at £2.3m (2016: £1.8m). This strong performance reflects a higher level of building projects completing in early Autumn months than we would normally expect. For this reason, we caution that it is unlikely to be an appropriate basis from which to extrapolate a full year forecast.

After the first 18 weeks of the FY18, our current sales and order book stood at £3.7m (2017: £3.3m) with a marginally improved forward order book of £1.3m (2017: £1.2m).

We remain cautious in this increasingly difficult economic climate and mindful of our need to ensure the business remains profitable. Nonetheless, we are pleased with this performance towards our half year objective. We will continue to provide regular trading updates to shareholders.

Change in financial year end

The Board is today announcing a change in the Company's financial year-end from August to June in order to address unintended, and unnecessary, challenges presented by the current reporting cycle. These include the adverse impact on employee morale from the need to restrict factory staff leave during August to oversee year-end cut-off procedures. A consequence of the change is that we will be reporting earlier to shareholders next year than would otherwise have been the case with the modified reporting cycle being as follows:

Interim results	6 months to 28 February 2018
Final results	10 months to 30 June 2018
Interim results	6 months to 31 December 2018
Final results	12 months to 30 June 2019

The Board will endeavour to provide additional financial information during this transition so as to ensure shareholders are able to monitor trading performance on a like-for-like basis.

In closing, I would like to thank each and every one of our employees for their support during my first year at the helm – I have valued their input and thank them all for their resolute determination in securing a return to profitability.

We could not have achieved this without our supplier partners, our customers and the support of our shareholders. I would like to thank them all for their continued support during this transformational year

Kiran Noonan
Chief Executive Officer

Enquiries:

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Income Statement for the year ended 31 August 2017

	2017	2016
		Restated
	£	£
Revenue	8,314,976	8,180,135

Cost of sales	(4,109,576)	(4,129,599)
Gross profit	4,205,400	4,050,536
Selling and distribution costs	(474,801)	(477,955)
Administrative expenses	(3,581,904)	(3,765,618)
Other non recurring items: - restructuring costs	-	(184,889)
Total	(3,581,904)	(3,950,507)
Profit/(loss) from operations	148,695	(377,926)
Finance income	-	361
Finance expenses	(41,490)	(33,693)
Profit/(loss) before tax	107,205	(411,258)
Tax (charge)/credit	(926)	15,997
Profit/(loss) for the year	106,279	(395,261)
Earnings per share		
Basic	0.06p	(0.21)p
Fully diluted	0.06p	(0.21)p

Balance Sheet as at 31 August 2017

	2017	2016 *Restated*
	£	£
Non-current assets		
Intangible assets	58,513	75,300
Property, plant and equipment	2,376,294	2,608,491
Trade and other receivables	57,075	57,075
	2,491,882	2,740,866
Current assets		
Inventories	177,837	212,414
Trade and other receivables	396,884	361,766
Cash and cash equivalents	1,502,802	1,107,407
	2,077,523	1,681,587
Total assets	4,569,405	4,422,453
Current liabilities		
Trade and other payables	(2,193,301)	(1,967,737)

Provisions	-	(122,977)
Borrowings	(104,136)	(91,654)
	(2,297,437)	(2,182,368)
Non-current liabilities		
Borrowings	(600,268)	(693,012)
Deferred tax liabilities	(18,348)	-
Provisions	(101,053)	(101,053)
	(719,669)	(794,065)
Total liabilities	(3,017,106)	(2,976,433)
Net assets	**1,552,299**	**1,446,020**
Equity		
Share Capital	186,745	186,745
Share Premium	1,188,021	1,188,021
Other Reserves	1,421	1,421
Retained Earnings	176,112	69,833
Total equity	**1,552,299**	**1,446,020**

Statement of Changes in Equity for the year ended 31 August 2017

	Share Capital	**Share Premium**	**Other Reserves**	**Retained Earnings**	**Total**
	£	**£**	**£**	**£**	**£**
At 01 September 2015	186,745	1,188,021	1,421	552,115	1,928,302
Warranty provision - restatement	-	-	-	(41,575)	(41,575)
Dilapidations provision - restatement	-	-	-	(45,446)	(45,446)
At 01 September 2015 - Restated	186,745	1,188,021	1,421	465,094	1,841,281
Loss for the year	-	-	-	(395,261)	(395,261)
At 31 August 2016 - Restated	186,745	1,188,021	1,421	69,833	1,446,020
Profit for the year	-	-	-	106,279	106,279
At 31 August 2017	**186,745**	**1,188,021**	**1,421**	**176,112**	**1,552,299**

The total comprehensive income for the year is £106,279 (2016: £395,261 restated loss).

Statement of Cash Flows for the year ended 31 August 2017

	2017	2016 *Restated*
	£	£

Cash flows from operating activities		
Profit/(loss) from operations	148,695	(377,926)
Amortisation of intangible assets	16,787	16,787
Depreciation and impairment of property, plant and equipment	243,939	319,523
Share based payments	-	-
Loss on disposal of property, plant and equipment	120,530	2,134
Decrease/(increase) in inventories	34,577	(22,205)
Increase in receivables	(17,696)	(54,942)
Increase in payables	229,434	144,424
(Decrease)/increase in provisions	(122,977)	122,977
Cash generated from operations	653,289	150,772
Net taxation paid	-	-
Net cash from operating activities	**653,289**	**150,772**
Cash flows from investing activities		
Purchase of intangible assets	-	-
Purchase of property, plant and equipment	(139,814)	(212,122)
Net proceeds from sale of property, plant and equipment	3,672	80,268
Interest received	-	361
Net cash used in investing activities	**(136,142)**	**(131,493)**
Cash flows from financing activities		
Interest paid	(41,490)	(33,693)
Increase in borrowings	-	-
Repayment of borrowings	(80,262)	(84,350)
Net cash used in financing activities	**(121,752)**	**(118,043)**
Net increase/(decrease) in cash and cash equivalents	**395,395**	**(98,764)**
Net cash and cash equivalents at the start of the year	1,107,407	1,206,171
Net cash and cash equivalents at the end of the year	**1,502,802**	**1,107,407**
Net cash and cash equivalents comprise:		
Cash at bank and in hand	1,502,802	1,107,407
Bank overdrafts	-	-
	1,502,802	**1,107,407**

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 2017 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 2016 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. Prior period adjustment

Reclassification of Redundancy costs
During 2017 the Company discovered that £16,000 of redundancy costs were reported as Administration expenses, when in fact these should have been part of Cost of sales. These have been reclassified within the 2016 income statement.

Warranty provision
Historically the Company has provided a ten year warranty in respect of all kitchens it manufactures and installs. When the kitchen is sold, this creates a contractual liability for the expected future costs of this warranty on every kitchen which the current JLH management has discovered has not been accounted for.

Dilapidations provision
The Company operated out of 15 Showrooms across the country (13 since closing Harrogate and Tunbridge Wells), 11 of which are held under operating leases. When the lease is entered into, this creates a contractual liability for the dilapidations costs at the end of the lease which the current Management discovered was not provided for. The Board have reviewed its plans for the Showrooms and, based on the adjustments made following the exit from Harrogate and Tunbridge Wells, made appropriate provisions in relation to the remaining estate.

Details of the movements on provisions are set out in note 19 of the financial statements. The effects of these adjustments on the balance sheets as at 01 September 2015 and 31 August 2016 and the income statement for the year ended 31 August 2016 are shown below

Balance sheets as at:

	01 September 2015	31 August 2016
	£	£
Increase in property, plant and equipment	24,046	19,175
(Increase) in provisions	(111,067)	(101,053)
Decrease in equity - retained earnings	87,021	81,878
	-	-

Income statement for the year ended 31 August 2016

	31 August 2016
	£
(Increase) in Cost of sales	(16,000)
Decrease in restructuring costs	16,000
Decrease in Administration expenses	5,143
	5,143

5. Earnings/(loss) per share

	2017	2016 *Restated*
Earnings/(loss) per ordinary share is calculated as follows:		
Basic		
Profit/(loss) attributable to ordinary shareholders (£)	106,279	(395,261)
Weighted average number of ordinary shares in issue	186,745,519	186,745,519
Earnings/(loss) per ordinary share	0.06 p	(0.21)p
Fully diluted		
Profit/(loss) attributable to ordinary shareholders (£)	106,279	(395,261)
Weighted average number of ordinary shares in issue and under option	186,745,519	186,745,519
Earnings/(loss) per ordinary share	0.06 p	(0.21)p

6. Provisions

	Warranty provision	Dilapidations provision	Restructuring provision	Total
		£	£	£
At 01 September 2015 - restated	41,575	69,492	-	111,067
Arising during the year	-	-	122,977	122,977
Utilised during the year		(10,014)	-	(10,014)
At 31 August 2016 - restated	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

	2017	2016 *Restated*
	£	£
Current	-	122,977
Non-Current	59,478	59,478
	59,478	182,455

Restructuring provision
Details of restructuring provisions are given in note 4 of the financial statements.

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 12 month period.

Dilapidation 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.

7. Dividends

The Directors do not recommend payment of a dividend.

8. Posting of Accounts

Copies of the statutory accounts for the financial year ended 31 August 2017 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.

9. Annual General Meeting

The next Annual General Meeting of the Company will take place at the Crowne Plaza London Kensington, 100 Cromwell Road, London, SW7 4ER.at 2.00 p.m. on 6 February 2018.