

John Lewis of Hungerford plc

Pre close trading update

The Board of John Lewis of Hungerford plc (AIM:JLH) provides a trading update ahead of reporting its results for the year ended 31st August 2015, which it expects to announce in late December 2015.

H2 trading

Based on unaudited management information, the Board expect to report sales for the year to 31st August 2015 of £7.8 million. The 5% increase over the £7.4 million reported in 2014 was achieved from a strong trading performance in the final quarter. As previously reported all three preceding quarters had been flat on the comparable periods in the previous year. These sales figures are based on the revenue recognition policy, which is to recognise revenue at the point orders are despatched.

As previously announced, the Board expects the business to achieve a nominal operating profit in the second half and therefore to report an overall loss for the full year. Whilst disappointing this is a consequence of investments made in line with the strategic growth plan coinciding with an unexpected decline in sales resulting from senior staffing changes within key showrooms caused by factors outside of the Company's control.

Current Trading

In the current financial year despatched sales and forward orders for Q1 stand at £1.9m million (2014: £2.0 million). However, the year-on-year comparison is distorted by changes to operating policy which has had the effect of delaying the point at which some sales are reported. The background to this is provided below and it has contributed to a significant increase in the forward order book for deliveries in Q2 and beyond. This currently stands at £1.3m (2014: £0.7m).

In recent years there has been a marked increase in the proportion of business that is dependent on associated building works being undertaken around the same time as the kitchen installation. This now accounts for the majority of sales and the Board identified this was exposing the business to additional cost from changes on site between the order being taken and the site being ready. To address this an additional procedure has been introduced requiring customers to accept responsibility for any changes if orders are finalised and put into production before the site is complete and surveyed. Previously such orders would have been despatched to site or into storage at the customer's request often resulting in additional costs if subsequent alternations became necessary.

The impact of this change in policy is that orders are now largely put into production only when sites are complete and fully surveyed. Whilst this reduces the risk of additional costs and improves the customer experience it also has the effect of deferring the point at which some sales are recognised. This is compensated through an increase in the forward order book for future periods and for which customer deposits have already been taken. Given the strong conversion of the forward order book into reported sales the Board consider both measures should be taken into account in assessing year-on-year sales trends.

A further update on current trading will be included in the final results.



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