

**AIM: CFX**

**25 July 2017**

**COLEFAX GROUP PLC**

("Colefax" or the "Group")

**Preliminary Results for the year ended 30 April 2017**

*Colefax is an international designer and distributor of furnishing fabrics & wallpapers and owns a leading interior decorating business. The Group trades under five brand names, serving different segments of the soft furnishings marketplace; these are Colefax and Fowler, Cowtan & Tout, Jane Churchill, Manuel Canovas and Larsen.*

**Key Points**

- Results in line with market expectations
  - underlying trading conditions in core US market were difficult but H2 improved over H1
- Sales of £80.48m (2016: £76.88m), up 4.7%
- Pre-tax profit of £2.94m (2016: £5.02m) impacted mainly by hedging loss of £2.0m following decline in Sterling
- Earnings per share of 18.6p (2016: 32.2p)
- Net cash at year end of £6.7m (2016: £10.1m)
- Proposed increased final dividend of 2.50p per share (2016: 2.40p), taking total for the year to 4.80p (2016: 4.60p)
- Fabric Division (87% of Group sales) – generated sales of £70.05m, up 5.5% but down by 6.0% on constant currency basis, reflecting adverse trading conditions in US
- New showrooms opened in Boston and Atlanta
- Decorating Division relocated showroom to Pimlico Road, Belgravia
- Board is cautiously optimistic about prospects for the year ahead

**David Green, Chief Executive, said:**

*“Underlying trading was difficult in our core US market but improved in the second half, with economic confidence strengthening after the US election result. While the weakness of Sterling is extremely*



shareholder approval, will be paid on 10 October 2017 to shareholders on the register at the close of business on 8 September 2017.

During the year the Group returned £2.58 million (2016 £324,000) to shareholders through the purchase of 537,000 shares at an average price of £4.79 and representing 5.0% of the issued share capital of the Company.

The decline in our profit was mainly due to difficult trading conditions in our core US market where sales were down by 7.7% on a constant currency basis. Our decision to hedge our US Dollar exposure at our budgeted rate meant that we incurred hedging losses of £2.0 million (2016: £144,000) reflecting the collapse in Sterling following the Brexit Referendum. Excluding hedging losses the Group profit before tax would have been £4.91 million or down 2% on last year.

A significant proportion of the Group's sales are in overseas markets with 68% of sales invoiced in currencies other than Sterling. In addition 47% of Group net assets are denominated in currencies other than Sterling. As a result exchange rate movements have exacerbated the changes in revenues, costs, assets and liabilities in our reported results.

Despite difficult trading conditions, the Group made significant progress during the year with a major programme of capital investment in new showrooms. In the UK our Decorating Division successfully moved from 39 Brook Street to new premises at 89-91 Pimlico Road in Belgravia and we are pleased with the positive customer response to the new showroom. In the US we opened two new showrooms in Boston and Atlanta which are both major sales territories. Inevitably these showroom openings involved some disruption to our existing business and we can now focus fully on building sales in these markets.

## **Product Division**

- ***Fabric Division - Portfolio of Five Brands:***

- Colefax and Fowler
- Cowtan and Tout
- Jane Churchill
- Manuel Canovas
- Larsen

Sales in the Fabric Division, which represent 87% of Group turnover were up by 5.5% to £70.05 million (2016: £66.40 million) but down by 6.0% on a constant currency basis. Operating profit reduced to £2.80 million (2016: £4.53 million) but excluding hedging losses of £2.0m was up by 6.0% highlighting the importance of the US Dollar exchange rate to Fabric Division performance.

The main reason for the decline in Fabric Division sales on a constant currency basis was adverse trading conditions in our core US market. Sales in the US, which represent 59% of the Fabric Division's turnover, decreased by 7.7%. The rate of decline slowed during the year with the first half down by 10% and the second half down by 6%. In the run up to the US election there was considerable political uncertainty which we believe impacted spending at the luxury end of the market and although the

election result was unexpected there has been greater certainty and economic confidence since the election. We opened a new showroom in Boston in October and a new showroom in Atlanta in February. Previously we sold through agent showrooms in these territories and we now have direct control over sales in these important markets.

Sales in the UK which represent 18% of the Fabric Division's turnover were down by 1% during the year reflecting fairly challenging conditions at the top end of the market. Trading conditions are closely linked to the health of the high end housing market and there has been a significant decline in high end housing transactions over the last year which we attribute to the very high rate of stamp duty on these properties. We would like to see stamp duty rates reduced but there seems to be little prospect of this in the current political climate. It is too early to say how our UK market will be affected by Brexit. Currently, the majority of our fabrics are sourced duty free from high quality manufacturers in Europe.

Sales in Continental Europe, which represent 20% of the Fabric Division's turnover, increased by 7% in reported terms but decreased by 6% on a constant currency basis. France, Germany and Italy account for 55% of sales in Europe and all of these markets were relatively difficult. On a constant currency basis France was down by 5%, Germany by 9% and Italy by 4%. Sales in most other European countries were slightly down compared to last year but there are tentative signs of a pick-up in the overall economy. Europe encompasses a wide range of design tastes and the Group's portfolio of brands means that we will look to exploit specific growth opportunities in specific markets.

Sales in the Rest of the World which represent just 3% of the Fabric Division's turnover, decreased by 2% during the year. The main markets are the Middle East, Australia, Russia and China and current market conditions mean that they are likely to remain a relatively small part of overall sales.

- ***Furniture – Kingcome Sofas***

Sales of Kingcome furniture, which represent 3% of Product Division sales decreased by 10% to £2.35 million (2016 £2.62 million). This business activity is highly operationally geared and, as a result of the sales decrease, operating profit reduced to £23,000 compared to a profit of £263,000 last year. Approximately 90% of sales are in the UK, predominantly London, and we believe the luxury furniture market has been adversely impacted by the slowdown in the high end housing market. Customer deposits ended the year up by 21% compared to the prior year but we expect trading conditions to remain challenging. Export sales represent an opportunity for growth especially given the decline in the value of Sterling since the Brexit referendum.

## **Interior Decorating Division**

Decorating sales, which account for 10% of Group turnover, increased by 3% to £8.06 million (2016: £7.86 million) but profits were £108,000 compared to a profit of £221,000 for the prior year. It has been a transitional year for the Decorating Division due to the move from 39 Brook Street in Mayfair where the company was based for over 80 years. The new showroom at 89-91 Pimlico Road in Belgravia opened in February 2017 and the initial market reaction has exceeded our expectations. The new location is better suited to the needs of the business and whilst we have significantly reduced our investment in antique stock, antique sales have been encouraging. Despite the distraction of the move, customer deposits are well ahead of last year. The decline in Sterling is a growth opportunity for the company and we have seen an increase in the proportion of overseas clients.

## **Prospects**

The last year has been challenging for the Group and underlying trading conditions were affected both by uncertainty before the US election and after the Brexit Referendum. We are pleased to have

successfully completed a significant capital investment programme with two major new US showrooms and a new Decorating Division showroom in the UK and we expect to see a good return on these investments in the current year.

In the US, our most important market, we have seen a steady improvement in confidence since the Presidential election and sales for the first two months of the new financial year are ahead of last year and budget. Sales in the UK and Europe are also ahead of last year although we remain cautious about growth prospects in these markets.

The weakness of Sterling against the US Dollar is extremely positive for our business due to the fact that approximately 60% of Fabric Division sales are in the US and invoiced in US Dollars. However, we will not benefit fully this year due to ongoing hedging, put in place prior to the Brexit Referendum, which is likely to give rise to a pre-tax charge of just over £1.2 million.

Overall we are cautiously optimistic about the Group's prospects for the year ahead and will continue to invest with confidence in our portfolio of brands.

David Green  
Chairman

25 July 2017

## **COLEFAX GROUP PLC**

### **GROUP INCOME STATEMENT**

For the year ended 30 April 2017

	<b>2017</b>	2016
	<b>£'000</b>	£'000
<b>Revenue</b>	<b>80,475</b>	76,879
Cost of sales	<b>36,119</b>	33,587
<b>Gross profit</b>	<b>44,356</b>	43,292
Operating expenses	<b>41,419</b>	38,279

<b>Profit from operations</b>	<b>2,937</b>		5,013
Finance income	1		3
Finance expense	(1)		-
			<hr/>
	-		3
<hr/>			
<b>Profit before taxation</b>	<b>2,937</b>		5,016
<hr/>			
Tax expense			
-UK	39		(502)
-Overseas	(1,081)		(1,053)
			<hr/>
	(1,042)		(1,555)
<hr/>			
<b>Profit for the year attributable to equity holders of the parent</b>	<b>1,895</b>		3,461
<hr/>			
Basic earnings per share	18.6	p	32.2 p
Diluted earnings per share	18.6	p	32.2 p
<hr/>			

## GROUP STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 April 2017

<b>2017</b>	2016
<b>£'000</b>	£'000

---

<b>Profit for the year</b>	<b>1,895</b>	3,461
----------------------------	--------------	-------

---

**Other comprehensive income / (expense):**

**Items that will not be reclassified to profit and loss:**

Exchange differences on translation of foreign operations	<b>1,628</b>	642
Remeasurement of defined benefit pension scheme	<b>101</b>	(100)
Tax relating to items that will not be reclassified to profit and loss	<b>(449)</b>	(106)
	<b>1,280</b>	436

**Items that will or may be reclassified to profit and loss:**

Cash flow hedges:		
Losses recognised directly in equity	<b>(2,611)</b>	(805)
Transferred to profit and loss for the year	<b>2,006</b>	144
Tax relating to items that will or may be reclassified to profit and loss	<b>109</b>	132
	<b>(496)</b>	(529)

---

<b>Total other comprehensive income / (expense)</b>	<b>784</b>	(93)
---	------------	------

---

<b>Total comprehensive income for the year attributable to equity holders of the parent</b>	<b>2,679</b>	3,368
---	--------------	-------

---

**COLEFAX GROUP PLC**

**GROUP STATEMENT OF FINANCIAL POSITION**

At 30 April 2017

**2017**                      2016

	£'000	£'000
<hr/>		
<b>Non-current assets:</b>		
Property, plant and equipment	9,669	7,551
Deferred tax asset	386	35
	<hr/>	<hr/>
	10,055	7,586
<b>Current assets:</b>		
Inventories and work in progress	13,938	12,518
Trade and other receivables	11,805	9,179
Current corporation tax	170	-
Cash and cash equivalents	6,710	10,085
	<hr/>	<hr/>
	32,623	31,782
<hr/>		
<b>Current liabilities:</b>		
Trade and other payables	13,961	11,258
Current corporation tax	-	163
	<hr/>	<hr/>
	13,961	11,421
<b>Net current assets</b>	<hr/>	<hr/>
	18,662	20,361
<b>Total assets less current liabilities</b>	<hr/>	<hr/>
	28,717	27,947
<hr/>		
<b>Non-current liabilities:</b>		
Deferred rent	1,992	1,459
Deferred tax	734	-
Pension liability	55	170
	<hr/>	<hr/>
<b>Net assets</b>	25,936	26,318
<hr/>		

**Capital and reserves attributable to equity holders of the Company:**



Called up share capital	1,022	1,076
Share premium account	11,148	11,148
Capital redemption reserve	1,852	1,798
ESOP share reserve	(113)	(113)
Foreign exchange reserve	2,779	1,559
Cash flow hedge reserve	(979)	(483)
Retained earnings	10,227	11,333
<b>Total equity</b>	<b>25,936</b>	<b>26,318</b>

## COLEFAX GROUP PLC

### GROUP STATEMENT OF CASH FLOWS

For the year ended 30 April 2017

	2017	2016
	£'000	£'000
<b>Operating activities</b>		
Profit before taxation	2,937	5,016
Finance income	(1)	(3)
Finance expense	1	-
Depreciation	2,720	2,187
<b>Cash flows from operations before changes in working capital</b>	<b>5,657</b>	<b>7,200</b>
(Increase) / decrease in inventories and work in progress	(1,140)	(127)
(Increase) / decrease in trade and other receivables	(2,172)	704
Increase / (decrease) in trade and other payables	1,835	(582)
<b>Cash generated from operations</b>	<b>4,180</b>	<b>7,195</b>

<b>Taxation paid</b>		
UK corporation tax paid	(224)	(556)
Overseas tax paid	(1,141)	(781)
	<b>(1,365)</b>	<b>(1,337)</b>
<b>Net cash inflow from operating activities</b>		
	<b>2,815</b>	<b>5,858</b>
<b>Investing activities</b>		
Payments to acquire property, plant and equipment	(4,126)	(2,278)
Receipts from sales of property, plant and equipment	40	24
Interest received	1	2
<b>Net cash outflow from investing</b>	<b>(4,085)</b>	<b>(2,252)</b>
<b>Financing activities</b>		
Purchase of own shares	(2,583)	(324)
Interest paid	(1)	(1)
Equity dividends paid	(478)	(483)
<b>Net cash outflow from financing</b>	<b>(3,062)</b>	<b>(808)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(4,332)</b>	<b>2,798</b>
Cash and cash equivalents at beginning of year	<b>10,085</b>	6,861
Exchange gains on cash and cash equivalents	<b>957</b>	426
<b>Cash and cash equivalents at end of year</b>	<b>6,710</b>	<b>10,085</b>

**COLEFAX GROUP PLC**

**GROUP STATEMENT OF CHANGES IN EQUITY**

For the year ended 30 April 2017

	Share capital	Share premium account	Capital redemption reserve	ESOP share reserve	Foreign exchange reserve	Cash flow hedge reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 May 2016	1,076	11,148	1,798	(113)	1,559	(483)	11,333	26,318
Profit for the year	-	-	-	-	-	-	1,895	1,895
Foreign exchange	-	-	-	-	1,628	-	-	1,628
Remeasurement of defined benefit pension scheme	-	-	-	-	-	-	101	101
Cash flow hedges:								
Losses	-	-	-	-	-	(2,611)	-	(2,611)
Transfers	-	-	-	-	-	2,006	-	2,006
Tax on other comprehensive income	-	-	-	-	(408)	109	(41)	(340)
<b>Total comprehensive income for the year</b>	-	-	-	-	<b>1,220</b>	<b>(496)</b>	<b>1,955</b>	<b>2,679</b>
Share buybacks	(54)	-	54	-	-	-	(2,583)	(2,583)
Dividends paid	-	-	-	-	-	-	(478)	(478)
<b>At 30 April 2017</b>	<b>1,022</b>	<b>11,148</b>	<b>1,852</b>	<b>(113)</b>	<b>2,779</b>	<b>(979)</b>	<b>10,227</b>	<b>25,936</b>
At 1 May 2015	1,083	11,148	1,791	(113)	1,062	46	8,740	23,757
Profit for the year	-	-	-	-	-	-	3,461	3,461
Foreign exchange	-	-	-	-	642	-	-	642
Remeasurement of defined benefit pension scheme	-	-	-	-	-	-	(100)	(100)

Cash flow hedges:								
Losses	-	-	-	-	-	(805)	-	(805)
Transfers	-	-	-	-	-	144	-	144
Tax on other comprehensive income								
	-	-	-	-	(145)	132	39	26
<hr/>								
<b>Total comprehensive income for the year</b>	-	-	-	-	<b>497</b>	<b>(529)</b>	<b>3,400</b>	<b>3,368</b>
Share buybacks	(7)	-	7	-	-	-	(324)	(324)
Dividends paid	-	-	-	-	-	-	(483)	(483)
<hr/>								
<b>At 30 April 2016</b>	<b>1,076</b>	<b>11,148</b>	<b>1,798</b>	<b>(113)</b>	<b>1,559</b>	<b>(483)</b>	<b>11,333</b>	<b>26,318</b>
<hr/>								

## COLEFAX GROUP PLC

### NOTES TO THE FINANCIAL INFORMATION

At 30 April 2017

#### 1. Earnings per share

Basic earnings per share have been calculated on the basis of profit on ordinary activities after tax of £1,895,000 (2016: £3,461,000) and on 10,185,206 (2016: 10,750,549) ordinary shares, being the weighted average number of ordinary shares in issue during the year. Shares owned by the Colefax Group Plc Employees' Share Ownership Plan (ESOP) Trust are excluded from the basic earnings per share calculation.

Diluted earnings per share have been calculated on the basis of profit on ordinary activities after tax of £1,895,000 (2016: £3,461,000) and on 10,185,206 (2016: 10,750,549) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

#### 2. Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following:

	<b>2017</b>	2016
	<b>£'000</b>	£'000
Cash at bank and in hand	<b>6,710</b>	10,085
Bank overdrafts	-	-
	<hr/> <b>6,710</b> <hr/>	<hr/> 10,085 <hr/>

The fair value of cash and cash equivalents are considered to be their book value.

3. The above financial information, which has been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union, does not constitute statutory accounts as defined in Section 435 of the Companies Act 2006.

The financial information for the year ended 30 April 2017 has been extracted from the statutory accounts which will be delivered to the Registrar of Companies following the company's annual general meeting. The comparative financial information is based on the statutory accounts for the financial year ended 30 April 2016 which have been delivered to the Registrar of Companies. The Independent Auditors' Report on both of those financial statements was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under Section 498(2) and Section 498(3) of the Companies Act 2006.

#### 4. Annual general meeting

The Annual General Meeting of Colefax Group plc will be held at 19-23 Grosvenor Hill, London W1K 3QD on 14 September 2017 at 11.00 a.m.