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Mears Group PLC
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Mears Group PLC
("Mears" or "the Group" or "the Company")

Interim Results for the 6 months ended 30 June 2021

Mears Group PLC, the leading provider of services to the Housing sector in the UK, announces its interim financial results for the 6 months ended 30 June 2021 ("H1 2021").

Return to normal trading, strong cash performance and re-instated dividend

- Restoration of dividend payments given the return to normal trading arrangements, continued strong cash performance and positive pipeline outlook
  - Board is recommending an interim dividend of 2.50p per share (FY 2020: nil)
- Strong revenue recovery as Covid-19 restrictions eased with Group revenues up 11.8% year-on-year to £443.7m (H1 2020: £396.7m)
  - Maintenance-led revenues of £286.5m (H1 2020: £266.9m) up 7.3%
  - Management-led revenues of £139.5m (H1 2020: £121.2m) up 15.1%
- Resilient trading performance and successful transition back to normal commercial mechanisms
- Profitability strengthened towards normal levels in the first half, delivering £11.1m adjusted profit before tax[1] (H1 2020: £8.1m loss).
- Excellent cash performance continued with net cash at 30 June 2021 of £47.6m (31 December 2020: £56.9m net cash) and average daily net debt of £8.2m (FY 2020: £97.3m net debt)[2]
- Good sell-through in Development portfolio with 41unit sales and working capital utilisation down by £10.4m to £15.9m as at 30 June 2021
- Solid pipeline conversion with over £150m of contract wins year-to date
  - 60% success rate (by value) in Maintenance-led contract bidding
  - Ministry of Justice transitional housing contract award providing further evidence that central Government view housing as a specialist service
- Group order book stands at £2.5bn (2020: £2.6bn), reflecting the timing of contract renewals

Financial summary

Continuing operations[4]	**H1 2021**	**H1 2020**
Revenue	**£443.7m**	£396.7m
Statutory profit / (loss) before tax	**£5.7m**	£(13.8)m
Adjusted profit / (loss) before tax[1]	**£11.1m**	£(8.1)m
Statutory diluted EPS	**4.13p**	(10.86)p
Adjusted diluted EPS[1]	**8.01p**	(5.83)p
Dividend per share	**2.50p**	-
Average daily net debt[2]	**£8.2m**	£121.2m

Current trading and outlook

- The Board is pleased with the resilient trading and liquidity performance of the Group during FY 2021 to date and as lockdown restrictions are finally lifted is confident that this will be reflected in the Group's financial performance in the second half of the year.
- Cash and working capital management remains very strong and accordingly the Group is updating its guidance for full year average daily net debt to £25m[3] down from £50m.
- While Management and Development revenues are expected to normalise in the second half from their current elevated levels, the Board updates its previous guidance for the full year FY 2021[3] to revenue of c. £840m and adjusted profit before tax in the range of £23.0-25.5m.

David Miles, Chief Executive Officer of the Group, commented:

"*The Group has performed well and traded resiliently through another lock-down impacted reporting period. With the cash performance continuing to exceed expectations as trading conditions normalise, we are delighted to be able to restore Mears' long history of sustainable, progressive dividend payments.*

"*The business is in good shape and with the long-term challenges of affordable housing, public health and climate change high on the political agenda at local and central Government, we look forward to future growth with confidence.*"

1. *Adjusted profit/(loss) before tax stated on continuing activities before non-underlying items (being £1.6m in H1 2021 relating to the repayment of furlough monies received) and before the amortisation of acquired intangibles. The adjusted diluted EPS measure is further adjusted to reflect a full tax charge.*
2. *Net cash / (debt) excludes IFRS 16 lease obligations.*
3. *Mears previously provided guidance on 12/05/21 for full year FY 2021 showied revenues ranging from £770m - £820m, adjusted profit before tax in the range of £21.3m - £25.5m and average adjusted daily net debt of c.£50m.*
4. *All comparatives are stated after adjusting for continuing operations.*

Certain information contained in this announcement would have constituted inside information (as defined by Article 7 of Regulation (EU) No 596/2014) ("MAR") prior to its release as part of this announcement and is disclosed in accordance with the Company's obligations under Article 17 of those Regulations.

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About Mears

Mears currently employs around 6,000 people and provides services in every region of the UK. In partnership with our Housing clients, we maintain, repair and upgrade the homes of hundreds of thousands of people in communities from remote rural villages to large inner-city estates. Mears has extended its activities to provide broader housing solutions to solve the challenge posed by the lack of affordable housing and to provide accommodation and support for the most vulnerable.

We focus on long-term outcomes for people rather than short-term solutions and invest in innovations that have a positive impact on people's quality of life and on their communities' social, economic and environmental wellbeing. Our innovative approaches and market leading positions are intended to create value for our customers and the people they serve while also driving sustainable financial returns for our providers of capital, especially our shareholders.

CHIEF EXECUTIVE OFFICER'S REVIEW

INTRODUCTION

The Group maintained its high standards of operational delivery across its contract portfolio and traded resiliently through another period heavily impacted by Covid-19 restrictions. The Group's success was again built upon the 'extra-mile' commitment and engagement of its workforce and the strength of our trusted client relationships established over many years. As trading conditions return to normal, the Board is keen to put on record its appreciation for the on-going dedication and commitment shown by all staff and the co-operation and support received from our clients and customers.

Most branches have now transitioned back from the interim financial arrangements and we look forward to normal trading conditions and performance in the second half year. All employees are now returned from furlough and the Mears self-delivery model and strong relationships with our supply chain partners is helping mitigate the impact of labour and material shortages seen across the industry.

Longer term, the demand for the services the Group provides is undiminished by Covid-19 and a back-log of lower priority maintenance-led jobs now requires resolution. The health inequalities that the pandemic exposed, and urgent action required by climate change will only add further political pressure to increase and upgrade the affordable and social housing stock in the UK.

FINANCIAL PERFORMANCE

Group

The financial performance of the Group continued to strengthen in the period, particularly as lock-down restrictions eased through the second quarter.

Continuing activities	**H1 2021 £m**	**H2 2020 £m**	**H1 2020* £m**
Revenue			
Maintenance-led	**286.5**	270.0	266.9
Management-led	**139.5**	132.6	121.2
Development	**17.7**	6.5	8.6
Total	**443.7**	409.1	396.7
Operating profit measures:			
Statutory operating profit / (loss)	**9.7**	2.7	(9.0)
Adjusted operating profit / (loss) (pre-IFRS 16)[1]	**13.7**	6.2	(5.6)
Adjusted operating profit / (loss) (post-IFRS 16)[1]	**15.6**	9.6	(3.0)
Profit before tax measures:			
Statutory profit / (loss) before tax	**5.6**	(1.4)	(13.8)
Adjusted profit / (loss) before tax[1]	**11.1**	4.7	(8.1)

**restated as detailed in note 17 to the Interim Results*
1.Adjusted operating profit / (loss) and adjusted profit / (loss) before tax is on continuing activities before non-underlying items, the amortisation of acquired intangibles but inclusive of share of profit from associates. Operating profit measures are stated on both a pre and post-IFRS16 basis. See Finance Review for a reconciliation of alternative performance measure

The Group recorded H1 revenues of £443.7m, up 11.8% year-on-year, and normalised operating profits (pre-IFRS 16) of £13.7m (H1 2020: £5.6m loss). Adjusted profit before tax was £11.1m against a first half loss in FY 2020 of £8.1m.

OPERATING REVIEW

Maintenance-led contracts

The Group's Maintenance-led contracts saw an improving volume and revenue performance through the first half as restrictions eased and more normalised trading conditions returned to most branches. By the end of June 2021, almost all contracts were back to their original commercial mechanisms.

In some areas we are seeing a backlog of lower priority maintenance jobs, delayed by lockdowns, which we are working through with clients and customers. However, social tenants 'Right to Repair' is yet to be fully restored so a national trend remains hard to discern at this stage. Whilst there is focus on addressing the backlog in maintenance, it is apparent that planned maintenance works will be slower to return in some areas and we expect activity to build-up through the second half of 2021 and running into 2022.

In common with other construction sector companies, we have experienced some input price inflation in the period, impacting upon both materials and labour. However, the significant majority of the Group's customer contracts include price uplifts to negate much of this risk and which will protect operating margins over the medium term. The Mears model has always been to invest in and retain our own staff as much as possible, with lesser reliance than peers on sub-contracted and other short-term labour. Our employee turnover remains low relative to the industry and accordingly, we are better protected from the shortages and accompanying price inflation seen in the broader construction labour markets.

Energy efficiency

We continued to invest in growing our Sustainability team and developing our offering to help clients with the enormous task of de-carbonising the UK's social housing stock. While the funding challenges for the sector are evident, this remains a key focus and opportunity for the Group.

Mears is already helping design and implement a number of carbon reduction schemes, such as in Aberdeenshire where 75% of the Council's 30-year Housing Improvement Plan is currently being spent on energy saving measures such as Photovoltaic systems, wall insulation, energy efficient electric heating systems and replacement windows and doors. Future plans include moving away from Gas Heating installations in favour of lower carbon alternatives. Mears integrate such programmes within on-going maintenance programmes. Mears also provides advice to customers on maximising the energy efficiency benefit of these carbon reduction schemes and advise clients on accessing appropriate funding, where available.

Discussions continue with many Maintenance-led clients as to how these critical retrofit and energy efficiency programmes can be integrated into existing work schedules.

Management-led contracts

Our contracts in the Management-led category continued to perform strongly in the first half, with revenues up 15% year-on-year and 5% from H2 2020. This was largely driven by the Asylum Accommodation and Support Contract ('AASC') which continued to experience elevated volumes across the entire process, with new service users entering the system and few exiting. The process of supporting these vulnerable people into dispersed accommodation has commenced where it is safe to do so. Accordingly, revenues are expected to reduce towards normal levels during the second half. Mears' priority throughout and going forward, will be the safety of staff and the service users.

Mears is pleased to have been awarded a contract with the Ministry of Justice (MoJ) to provide transitional housing services, where we will be supporting low and medium risk prisoners upon their release, from initial accommodation into a settled home. A key aim of this contract is to ensure that no one leaves prison without the offer of a good quality place to live from their first night in the community, and then a clear pathway to a settled long-term home. This is a new customer for Mears who will provide an integrated service including the provision of the property, maintenance, management, and welfare support. The initial interim contract value with the MoJ is circa £10m, but there is a significant opportunity to extend the longevity and scale of this relationship. The contract covers the North East and North West regions. This is a further example of central Government recognising the importance of Housing as a particular specialism and trusting Mears to deliver services to a vulnerable service user group.

Development

Our few remaining development sites achieved a strong sell-through in the first half benefitting from the positive housing market and stamp-duty exemptions. Of the 49 completed units as at 31 December 2020, 41 were sold in the first half (FY 2020: 29). A further 8 units were completed in the period, meaning that as at 30 June 2021 the Group held 16 completed units and a further 35 units are in the course of construction. Cashflow was also positive in the period, with the spot working capital utilisation as at 30 June 2021 reducing to £15.9m (31 December 2020: £26.3m). Realised pricing has been in-line with carrying values. The Group expects continued de-leveraging and unit sales in the second half, albeit at a slightly slower rate reflecting lower completed units and as the stamp duty relief tapers.

ESG

Environment

We continued to invest in our Sustainability Team with a number of new hires during the period. This dedicated team of experienced sustainability professionals are refining and enhancing our full-service client offering to help them de-carbonise the social housing sector. The Social Housing White Paper put the challenge at £105bn of retrofit activity required over the next 30 years to meet the Government's own energy efficiency targets. Most Local Authorities and Housing Associations recognise the importance of this long-term challenge.

Our growing Sustainability Team will also bring forward the detailed plans required to de-carbonise our own housing portfolio and our own operations to meet the Board's stated ambition to be carbon net zero by 2030.

Social

Our Social Value and Diversity Impact Report (now in its sixth year) was published in May 2021 detailing the Group's huge commitment to social value and diversity within the communities we serve. A copy of which can be found on the Group's website.

Independent industry accreditations received during the first half demonstrate how strongly positioned Mears is to benefit from the many opportunities (and challenges) across the UK Affordable Housing sector in the UK. For the 19th consecutive year, the *Royal Society for the Prevention of Accidents (RoSPA),* has awarded Mears Group the *RoSPA Order of Distinction, Gold Award*, for its commitment to continuous improvement to health and safety performance. We are accredited as an *Investor in People,* awarded the *Diversity Network Accreditation* and are again listed in the *Top 75 Social Mobility Index.*

The Group is also exceptionally proud that our traditionally high levels of employee engagement, diversity, support and satisfaction have been reflected in no less than six independent 'Best Company to work for' awards, including national (*The Sunday Times*), regional and industry-specific.

Governance

The first annual report of the Mears Scrutiny Board, our customer engagement forum (independently supported and verified by the Centre for Governance and Scrutiny) was published in May 2021 and is available on the Company website. This initial assessment recognised: (i) the desire and commitment throughout the organisation to listen, understand and improve the customer experience; (ii) a wealth of positive examples and stories of Mears staff building excellent relationships with tenants and tenant groups; and (iii) that Mears' response to Covid-19 reflected the organisation's flexibility and commitment to protecting vital services and maintaining customer service standards.

STRATEGY

The Board completed its strategic review during the period and has a clear programme for growth across both its Maintenance-led and Management-led Housing activities. We are a leader in the affordable housing market, for which the future demand profile remains positive.

External drivers for change

- Increased government investment in the Affordable Housing sector given expanding social housing waiting lists and renewed political focus on housing post-Covid-19
- Social Housing White Paper and Government policy towards higher standards for safety and customer engagement
- The commitment to raise the carbon efficiency of all social housing stock by one EPC band by 2030, presents significant investment requirements
- Increasing Local Authority spend on long-term, cost-effective homelessness solutions
- On-going demographic pressure on the UK housing shortage particularly in affordable rental and specialist retirement living

Key Enablers for Mears

- Leverage our market leading position in housing maintenance to maximise share of wallet through more effective client planning

- Continue to evolve our affordable rental, temporary accommodation, and integrated housing offer to meet increasing market demands
- Participate in larger, integrated housing contracts, across local and central Government
- Assist new and existing clients to meet their targets for the de-carbonisation of housing stock
- Continued digital innovation to increase agility of frontline operations whilst continuing to drive operational efficiencies and improvements to the customers experience
- Operational consistency across the Group

Mears 2025 Operating Ambitions

- To have strengthened our leadership positions in our core housing maintenance and management sectors
- To be delivering growth across these core markets
- To be the trusted partner to local and central Government in affordable housing solutions
- To be supporting our clients carbon reduction programmes
- To be the most socially responsible business operating in the affordable and social housing sector in the UK

Even with the potential post-Covid economic challenges, Government priorities show Housing is a sector that will be invested in to support economic recovery and indeed to meet longer term challenges, such as those posed by climate change. There is clear opportunity to grow both our maintenance-led and management-led work and indeed we see an increasing number of opportunities that will integrate all of our services.

ORDER BOOK AND PIPELINE

The order book stands at £2.5bn (31 December 2020: £2.6bn), reflecting the timing of contract renewals over the last twelve months. The Group secured maintenance-led contracts in 2021 valued at over £150m with a win rate (by value) of 60%. The key orders secured are detailed below:

Contracts awarded in 2021 to date	Type	Base term (years)	Extension option (years)	Annual value £m	Base contract value £m	New / Retention
London Borough of Redbridge	Maintenance	7	7	5	36	Retention
Angus Council	Maintenance	3	2	2	7	New
Leeds City Council	Maintenance	5	-	13	64	Retention
Ministry of Justice	Management	1	2	10	10	New
Lambeth	Maintenance	6	4 + 4	5	29	Retention

In addition, Mears was pleased to secure a five-year extension with Orbit Housing which will see Mears continue to provide services, with an annual value of circa £20m, until at least March 2027.

As detailed above, the Group is delighted to secure work with a new central Government client, the Ministry of Justice (MoJ). The contract has an initial value of circa £10m in the first year and the Group is currently bidding further works with this client. This is further evidence of central Government recognising the importance of Housing as a particular specialism and trusting Mears to deliver services to a vulnerable service user group.

The Group awaits the outcome of its rebid with the Defence Infrastructure Organisation, providing housing management and relocation services (RLAP). This existing key worker contract is very significant to the Group, with an annual revenue of circa £60m. Mears has been short-listed in the final two candidates and expects to be notified of the outcome imminently.

As previously reported, there were structural impediments to Mears securing the same value of work in both Lambeth and Leeds rebid tenders. Mears is pleased with contracts secured to date with these two important clients.

The Group submitted an initial bid for the North Lanarkshire integrated maintenance services contract. This new integrated contract represented over £200m of revenues per annum, of which c. £120-150m is in respect of Housing services. Mears is the incumbent responsive repairs and maintenance provider to c. 39,000 social homes in North Lanarkshire. That current contract is worth around £55m per annum with the new Housing Services contract providing an opportunity to substantially increase that. The new contract is expected to be awarded in early 2022 and commence from January 2023. The Group believes it has a very strong offering and service history in North Lanarkshire and has progressed well through the initial round of the tender process.

CURRENT TRADING, OUTLOOK AND GUIDANCE

The Board is pleased with the resilient trading and liquidity performance of the Group during the first half of FY 2021. Cash and working capital management has remained strong to date, and accordingly the Group is updating its guidance for full year underlying average daily net debt to £25m down from £50m.

The Group is also confident in updating its previously provided guidance for FY21:

	Key measures	Updated Guidance FY 2021
Revenue growth	Annual revenue growth	· FY 21 Revenues: circa £840m (previous guidance: £770m-£820m)
Adjusted profit before tax	Profit before tax and before non-underlying items and amortisation of acquired intangibles	· FY 21 Adjusted profit before tax: £23.0m - £25.5m (previous guidance: £21.3m-£25.5m)
Cash conversion	Operating cash inflow as a % of EBITDA	· 100% (previous guidance: 100%) conversion on the combined 2020/2021 results; taking the two-year measure removes the short-term Covid-19 related impacts such as the VAT deferral and client payments received on account · £25m of Development working capital unwind over 2 years, of which £10m has been realised in H1 2021
Net debt	Average daily net debt	· FY 21 Average net debt of £25m (previous guidance £50m)
Capex		· c. 1.25% of revenue
Capital allocation	Investment	· Not material in FY21 (or FY22)
	Capital structure	· Continued average net debt reduction, targeting

		average daily net cash during 2023
Shareholder distributions	·	Return to dividend for the 6-month period ended 30 June 2021. Dividend cover in the range 2.0-2.5x Further shareholder distributions to be kept under review over next reporting period

DIVIDEND AND CAPITAL ALLOCATION

Given the return of normal trading arrangements across much of the business, the strong cash performance and the positive pipeline outlook, the Board has declared an interim dividend of 2.50p per share reflecting its confidence in the prospects of the Company. The Board has resumed its progressive dividend policy, with the view to maintaining dividend cover between 2.0x and 2.5x earnings over the business cycle. In this first full year of returning to dividend distributions, the Group expects to be at the upper end of this range. The Board will continue to review its other capital allocation and distribution options.

FINANCIAL REVIEW

Alternative performance measures ('APM')

The interim results include both statutory and adjusted performance measures, the latter of which is considered to be useful to stakeholders in projecting a basis for measuring the underlying performance of the business and excludes items which could distort the understanding of performance in the year and between periods, and when comparing the financial outputs to those of our peers. The APMs have been set considering the requirements and views of the Group's investors and debt funders amongst other stakeholders. The APMs and KPIs are aligned to the Group's strategy and form the basis of the performance measures for remuneration.

These APMs should not be considered to be a substitute for or superior to IFRS measures, and the Board has endeavoured to report both statutory and alternative measures with equal prominence.

The APMs used by the Group are detailed below along with an explanation as to why management considers the APM to be useful in helping to understand the Group's underlying performance. A reconciliation is also provided to map each non-IFRS measure to its IFRS equivalent.

The Group defines normalised results as excluding the amortisation of acquisition intangibles and before other normalisation adjustments which management believe are infrequent in nature and are considered not to be part of underlying trading. The normalised results are further adjusted to reflect a 19% corporation tax charge. The Directors believe this aids consistency when comparing to historical results and provides less incentive for the Group to participate in schemes where the primary intention is to reduce the tax charge.

A reconciliation between the statutory profit measures and the adjusted result on both a pre and post-IFRS 16 basis for the half-year results for 2021 and 2020 and the full year results for 2020 is detailed below.

Continuing activities	**H1 2021**	**H1 2020***	**FY 2020**
	£'000	**£'000**	**£'000**
Profit / (loss) before tax	5,645	(13,842)	(15,218)
Amortisation of acquired intangibles	3,827	5,714	9,526
Non-underlying items	1,627	-	2,279
Profit / loss before non-underlying items, amortisation of acquired intangible and tax	**11,099**	**(8,128)**	**(3,413)**
Removal of IFRS 16 profit impact	1,359	820	1,118
Finance costs (non-IFRS 16)	1,260	1,713	2,875
Operating profit pre-IFRS-16 before non-underlying items and amortisation of acquired intangibles	**13,718**	**(5,595)**	**580**
Amortisation of software intangibles	1,090	1,109	2,211
Depreciation and loss on disposal (non IFRS 16)	2,604	2,727	5,677
EBITDA pre-IFRS 16 and before non-underlying items	**17,412**	**(1,759)**	**8,468**
IFRS 16 profit impact	(1,359)	(820)	(1,118)
Finance costs (IFRS 16)	3,249	3,444	7,123
Depreciation and loss on disposal (IFRS 16)	20,896	21,081	42,242
EBITDA post-IFRS-16 before non-underlying items and amortisation of acquired intangibles	**40,198**	**21,946**	**56,715**
Amortisation of software intangibles	(1,090)	(1,109)	(2,211)
Depreciation and loss on disposal (IFRS 16)	(20,896)	(21,081)	(42,242)
Depreciation and loss on disposal (non-IFRS 16)	(2,604)	(2,727)	(5,677)
Operating profit post IFRS 16 and before non-underlying items	**15,608**	**(2,971)**	**6,585**

**restated as detailed in note 17 to the Interim Results*
** *Operating profit / (loss) and EBITDA measures include share of profits of associates*

The profit impact in respect of IFRS 16 is detailed below:

	H1 2021	**H1 2020***	**FY 2020**
	£'000	**£'000**	**£'000**
Charge to income statement on a post-IFRS 16 basis	**(24,145)**	(24,525)	(49,365)
Charge to Income Statement on a pre-IFRS 16 basis	**(22,786)**	(23,705)	(48,247)
Profit impact from the adoption of IFRS 16	**(1,359)**	(820)	(1,118)

**restated as detailed in note 17 to the Interim Results*

NON-UNDERLYING ITEMS

Non-underlying items are items which are considered outside normal operations. They are material to the results of the Group either through their size or nature. These items have been disclosed separately in the adjusted result above to provide a better understanding as to the underlying performance of the Group.

	H1 2021 £'000	H1 2020* £'000	FY 2020 £'000
Repayment of furlough payments received	**1,627**	-	-
Impairment of assets in the course of construction	**-**	-	1,500
Restructure costs	**-**	-	779
	1,627	-	2,279

**restated as detailed in note 17 to the Interim Results*

During the first half of 2021, the Directors elected to voluntarily repay to HMRC amounts received or accruing under the Coronavirus Job Retention Scheme ('furlough'), amounting to £1.6m. During the first lockdown, the furlough scheme was essential in safeguarding the financial stability of the Group and protecting employment. However, the Directors believe that the strong performance of the business in the first half, augmented by the disposal of Terraquest, means that to continue to claim furlough is no longer necessary and is not within the spirit of the legislation.

The Directors believe that the repayment of furlough should be disclosed within non-underlying items; this voluntary repayment is not a trading item and by its nature is unique and non-recurring. The size of this item is considered material and the Directors believe would distort the readers understanding of the financial results of the Group.

All furlough received during FY 2020 was recognised within the Income Statement in normal trading, matched against the associated cost, and no repayment is intended in respect of that earlier period.

EARNINGS PER SHARE

The calculation of EPS is based on a weighted average of ordinary shares in issue during the period. The diluted EPS is based on a weighted average of ordinary shares calculated which assumes that all dilutive options will be exercised.

An adjusted diluted earnings per share is disclosed in order to show performance undistorted by the amortisation of acquisition intangibles and non-underlying items. The Group defines this normalised earnings as excluding the amortisation of acquisition intangibles and exceptional costs and adjusted to reflect a full tax charge. The adjusted measure uses the same weighted average number of shares as the diluted EPS.

The profit attributable to shareholders before and after adjustment is detailed below together with a reconciliation between the statutory and normalised diluted EPS measure:

	Diluted (continuing)		Diluted (discontinued)		Diluted (continuing and discontinued)	
	Six months ended 30 June 2021 p	Six months ended 30 June 2020 p	Six months ended 30 June 2021 p	Six months ended 30 June 2020 p	Six months ended 30 June 2021 p	Six months ended 30 June 2020 p
Earnings per share	**4.13**	(10.86)	**0.78**	2.13	**4.91**	(8.73)
Effect of amortisation of acquisition intangibles	**3.38**	5.17	**-**	-	**3.38**	5.17
Effect of full tax charge adjustment	**(0.68)**	(0.14)	**(0.15)**	(0.38)	**(0.83)**	(0.52)
Effect of non-underlying items	**1.18**	-	**(0.62)**	-	**0.56**	-
Normalised earnings per share	**8.01**	(5.83)	**0.01**	1.75	**8.02**	(4.08)

	Normalised (continuing)		Normalised (discontinued)		Normalised (continuing and discontinued)	
	Six months ended 30 June 2021 p	Six months ended 30 June 2020 p	Six months ended 30 June 2021 p	Six months ended 30 June 2020 p	Six months ended 30 June 2021 p	Six months ended 30 June 2020 p
(Loss)/profit attributable to shareholders:	**4,672**	(12,003)	**885**	2,352	**5,557**	(9,650)
Effect of amortisation of acquisition intangibles	**3,827**	5,714	**-**	-	**3,827**	5,714
Effect of full tax charge adjustment	**(769)**	(159)	**(168)**	(410)	**(937)**	(570)
Effect of non-underlying items	**1,334**	-	**(696)**	-	**638**	-
Normalised earnings	**9,064**	(6,448)	**21**	1,942	**9,085**	(4,506)

BALANCE SHEET

	H1 2021 £'000	H1 2020* £'000	FY 2020 £'000
Goodwill, acquisition intangibles and investments	**131,212**	148,273	135,044
Property, plant and equipment	**23,610**	25,821	23,600
Right of use asset	**194,073**	198,907	200,041
Inventories	**21,709**	39,972	31,258
Trade receivables	**146,688**	124,124	139,884
Trade payables	**(201,058)**	(157,972)	(221,029)
Net cash / (debt)	**47,591**	(62,438)	56,867
Lease obligations	**(202,945)**	(206,447)	(209,071)
Net pension surplus / (deficit)	**9,880**	(10,737)	(7,880)
Taxation	**1,352**	2,078	3,678

Receivables relating to disposal of Terraquest	**9,598**	-	8,591
Net assets held for resale	**-**	2,024	-
Other payables	**(4,277)**	(5,830)	(4,932)
Net assets	**177,433**	97,775	156,051

**restated as detailed in note 17 to the Interim Results*

The Group reported an increase in net assets during the last 12 months, driven by the profit generated on the disposal on the sale of Terraquest and the Domiciliary Care businesses. In addition, the Group has enjoyed an improvement in the pension scheme balances, as a result of increasing discount rates (reducing the present value of future obligations) combined with strong performance in the equity markets; the Group reported a net surplus at 30 June 2021 of £9.9m (30 June 2020: £10.7m deficit, 31 December 2020: £7.9m deficit).

The Balance Sheet reflects strong cash management; the detailed working capital analysis is covered in fuller detail below.

CASH FLOW AND WORKING CAPITAL MANAGEMENT

The Group excludes the financial impact from IFRS 16 from its adjusted net debt measure. This adjusted net debt measure has been introduced to align with the borrowings measure as defined for the Group's banking covenants, which are required to be stated before the impact of IFRS 16. The Group utilises leases as part of its day-to-day business providing over 10,000 residential properties to vulnerable service users and key workers. A significant proportion of these leases have break provisions and the lease terms are aligned to the Group's customer contracts to mitigate risk. The Group does not recognise these lease obligations as traditional debt instruments given the Group's ability to break these leases and in so doing cancel the associated lease obligation. A reconciliation between the reported net cash/(debt) and the adjusted measure is detailed below:

	H1 2021	**H1 2020***	**FY 2020**
	£'000	**£'000**	**£'000**
Cash and cash equivalents	92,203	61,820	96,220
Long-term borrowings and overdrafts	(44,612)	(124,258)	(39,353)
Adjusted net cash/(debt)	**47,591**	**(62,438)**	**56,867**
Lease liabilities (current)	(34,814)	(37,671)	(42,888)
Lease liabilities (non-current)	(168,131)	(168,776)	(166,183)
Total net (debt)	(155,354)	(268,885)	(152,204)
Less: Lease Obligations (IFRS 16)	202,945	206,447	209,071
Adjusted net cash/(debt)	**47,591**	**(62,438)**	**56,867**

**restated as detailed in note 17 to the Interim Results*

The Group reported an adjusted net cash position at the period-end of £47.6m (HY 2020: £62.4m net debt, FY 2020: £56.9m net cash). A significant part of this improvement related to the consideration received during 2020 in respect of the Terraquest and Domiciliary Care disposals amounting to £63.9m, whilst this has been enhanced further through excellent working capital management and cash generation.

The Group benefited from a number of temporary cash benefits as a result of Covid-19; notably a deferral of the Group's March 2020 VAT liability of £16.0m which has now been settled in full, together with contract payments received on account of £23.0m relating to interim Covid-19 arrangements, of which around half has subsequently unwound. To remove this temporary impact, a more useful measure of performance is the eighteen-month period to 30 June 2021, reporting operating cash flows as a percentage of EBITDA of 131%. This strong performance is also mirrored in the average daily net debt for the 6 months to 30 June at £8.2m (FY 20: net debt £97.3m).

	H1 2021	**FY 2020**	**18 months to 30 June 2021**
	£'000	**£'000**	**£'000**
EBITDA on continuing operations	38,571	55,935	94,507
Cash inflow from operating activities of continuing operations before taxes paid	20,969	103,223	124,192
Cash conversion %	**54%**	**185%**	**131%**
Average daily net debt	**(8,169)**	**(97,345)**	**(67,620)**
Adjusted net cash /(debt) at period end	47,591	56,867	47,591

Given the strong cash performance, and the significant headroom against the banking facilities, the Group part-cancelled the revolving credit facility, reducing the total commitment from £145m to £90m. The current facilities expire in November 2022 and the Group has commenced the renewal process.

The average month end trade receivable and trade payable balance split by Housing category reflects strong working capital management during the period:

	H1 2021			FY 2020		
	Receivables	**Payables**	**Net working capital**	Receivables	Payables	Net working capital
	£m	**£m**	**£m**	£m	£m	£m
Maintenance-led	**141.3**	**(137.8)**	**3.5**	138.5	(125.7)	12.8
Management-led	**20.5**	**(27.8)**	**(7.3)**	32.4	(25.5)	6.9
Development	**25.1**	**(4.2)**	**20.9**	31.0	(6.0)	25.0
	186.9	**(169.8)**	**17.1**	201.9	(157.2)	44.7

The core activities of Maintenance and Management have historically absorbed a relatively low level of working capital when compared to the size of the business and the profit generated. This low working capital intensity remains the case and is reflected in the average month end balances detailed above.

As discussed above the Development portfolio had a strong sell-through in the period totalling £17.7m of revenues and this broadly equates to a cash proceeds inflow. The working capital absorbed within the Development activity has seen a reduction reflecting excellent progress in unlocking the cash that has been absorbed in this legacy part of the business. The working capital balance absorbed in Development as at 30 June 2021 was £15.9m. Management continue to expect to complete the remaining unwind of the working capital absorbed in this area over the course of the next 18 months.

A summary of the consolidated cash flow is detailed below on both a statutory and pre-IFRS 16 basis:

	H1 2021 As reported	H1 2021 Before the impact of IFRS 16	18 months to June 2021 As reported	18 months to June 2021 Before the impact of IFRS 16
	£'000	£'000	£'000	£'000
(Loss) / profit before tax	5,645	7,004	(9,572)	(7,096)
Net finance costs	4,509	1,260	14,507	4,135
Amortisation of acquisition intangibles	3,827	3,827	13,352	13,352
Depreciation and amortisation	24,590	3,694	76,220	13,082
EBITDA	38,571	15,785	94,507	23,473
Other adjustments	173	173	1,781	1,781
Change in inventories	9,548	9,548	14,335	14,335
Change in operating receivables	(6,963)	(6,963)	11,512	11,512
Change in operating payables	(20,360)	(21,545	2,058	2,530
Cash inflow from operating activities	20,969	(3,002)	124,192	53,631
Conversion %	**54%**	**(19%)**	**131%**	**228%**
Taxes paid	(2,253)	(2,253)	(2,212)	(2,212)
Cash inflow from discontinued operations	67	67	2,594	2,594
Capital expenditure	(3,142)	(3,142)	(9,907)	(9,907)
Cash flows relating to property acquisition activity	-	-	4,618	4,618
Acquisitions and Disposals	-	-	54,612	54,612
Net finance costs	(3,956)	(707)	(14,401)	(4,031)
Discharge of lease liability	(20,962)	(239)	(60,920)	(728)
Change in net debt	(9,276)	(9,276)	98,577	98,577
Opening net debt	56,867	56,867	(50,986)	(50,986)
Closing net debt	47,591	47,591	47,591	47,591

RESULTS OF AGM

As set out in its announcement of Results of the AGM on 29 June 2021, the Board notes the votes received against some of the resolutions. Whilst all votes were passed with significant majorities, the Board remains committed to continuing an open and transparent dialogue and will accordingly seek to continue to engage with shareholders on these matters.

Half-year condensed consolidated statement of profit or loss

For the six months ended 30 June 2021

	Note	Six months ended 30 June 2021 (unaudited) £'000	Six months ended 30 June 2020 (restated*) (unaudited) £'000	Year ended 31 December 2020 (audited) £'000
Continuing operations				
Sales revenue	3	**443,731**	396,651	805,817
Cost of sales		**(354,542)**	(322,660)	(649,530)
Gross profit		**89,189**	73,991	156,287
Administrative expenses		**(79,492)**	(83,033)	(162,563)
Operating profit/(loss)		**9,697**	(9,042)	(6,276)
Share of profits of associates		**457**	357	1,056
Finance income	5	**264**	163	293
Finance costs	5	**(4,773)**	(5,320)	(10,291)
Profit/(loss) for the period before tax		**5,645**	(13,842)	(15,218)
Tax (expense)/credit	6	**(1,031)**	1,622	3,207
Profit/(loss) for the period from continuing operations		**4,614**	(12,220)	(12,011)
Discontinued operations				
Profit for the period from discontinued operations	7	**885**	2,614	56,933
Tax charge on discontinued operations	6	**-**	(60)	(121)
Profit for the period after tax from discontinued operations		**885**	2,554	56,812
Profit/(loss) for the period from continuing and discontinued operations		**5,499**	(9,666)	44,801

	Note			
Attributable to:				
Owners of Mears Group PLC		**5,557**	(9,650)	44,519
Non-controlling interest		**(58)**	(16)	282
Profit/(loss) for the period		**5,499**	(9,666)	44,801
Earnings per share - from continuing operations				
Basic	9	**4.21p**	(10.86)p	(10.66)p
Diluted	9	**4.13p**	(10.86)p	(10.66)p
Earnings per share - from continuing and discontinued operations				
Basic	9	**5.01p**	(8.73)p	40.21p
Diluted	9	**4.91p**	(8.73)p	40.21p

* Note 17 contains details of the restatement of the prior period figures.

The accompanying notes form an integral part of these condensed consolidated financial statements.

Half- year condensed consolidated statement of comprehensive income

For the six months ended 30 June 2021

	Note	Six months ended 30 June 2021 (unaudited) £'000	Six months ended 30 June 2020 (restated*) (unaudited) £'000	Year ended 31 December 2020 (audited) £'000
Profit/(loss) for the period		**5,499**	(9,666)	44,801
Other comprehensive income:				
Which will be subsequently reclassified to the Consolidated Statement of Profit or Loss:				
Cash flow hedges:				
· gains/(losses) arising in the period		**441**	(829)	(1,139)
· reclassification to the Consolidated Statement of Profit or Loss		**465**	77	354
(Decrease)/increase in deferred tax asset in respect of cash flow hedges		**(172)**	143	149
Which will not be subsequently reclassified to the Consolidated Statement of Profit or Loss:				
Actuarial gain/(loss) on defined benefit pension scheme	16	**36,959**	(54,597)	(19,114)
Pension guarantee asset movements in respect of actuarial (gain)/loss	16	**(18,654)**	41,772	10,024
(Decrease)/increase in deferred tax asset in respect of defined benefit pension schemes		**(3,375)**	2,437	1,727
Other comprehensive income/(expense) for the period		**15,664**	(10,997)	(7,999)
Total comprehensive income/(expense) for the period		**21,163**	(20,663)	36,802
Attributable to:				
Owners of Mears Group PLC		**21,221**	(20,647)	36,520
Non-controlling interest		**(58)**	(16)	282
Total comprehensive income/(expense) for the period		**21,163**	(20,663)	36,802

Total comprehensive income/(expense) for the period attributable to owners of Mears Group PLC arises from:			
Continuing operations	**20,336**	(23,201)	(19,721)
Discontinued operations	**885**	2,554	56,241
Total comprehensive income/(expense) for the period attributable to owners of Mears Group PLC	**21,221**	(20,647)	36,520

* Note 17 contains details of the restatement of the prior period figures.

The accompanying notes form an integral part of these condensed consolidated financial statements.

Half-year condensed consolidated balance sheet

As at 30 June 2021

	Note	As at 30 June 2021 (unaudited) £'000	As at 30 June 2020 (restated*) (unaudited) £'000	As at 31 December 2020 (audited) £'000

Assets	Note	As at 30 June 2021 (unaudited) £'000	As at 30 June 2020 (restated*) (unaudited) £'000	As at 31 December 2020 (audited) £'000
Non-current				
Goodwill		**118,873**	123,204	118,873
Intangible assets		**10,916**	24,176	15,205
Property, plant and equipment		**23,610**	25,821	23,600
Right of use assets		**194,073**	198,907	200,041
Investments		**1,423**	893	966
Loan notes		**3,318**	-	3,160
Contingent consideration	13	**-**	-	5,431
Pension and other employee benefits	16	**16,436**	3,605	7,068
Pension guarantee assets	16	**14,256**	66,604	30,705
Deferred tax asset		**458**	1,898	3,320
		383,363	445,108	408,369
Current				
Assets classified as held for sale		**-**	4,302	-
Inventories	10	**21,709**	39,972	31,258
Trade and other receivables	11	**152,968**	124,124	139,884
Current tax assets		**894**	180	358
Cash and cash equivalents		**92,203**	61,820	96,220
		267,774	230,398	267,720
Total assets		**651,137**	675,506	676,089
Equity				
Equity attributable to the shareholders of Mears Group PLC				
Called up share capital	14	**1,109**	1,105	1,109
Share premium account		**82,249**	82,225	82,225
Share-based payment reserve		**1,507**	2,521	1,312
Hedging reserve		**(26)**	(733)	(760)
Merger reserve		**7,971**	12,956	7,971
Retained earnings		**84,023**	(198)	63,536
Total equity attributable to the shareholders of Mears Group PLC		**176,833**	97,876	155,393
Non-controlling interest		**600**	(101)	658
Total equity		**177,433**	97,775	156,051
Liabilities				
Non-current				
Long-term borrowing and overdrafts		**44,612**	124,258	39,353
Pension and other employee benefits	16	**20,812**	80,946	45,653
Interest rate swaps	13	**90**	338	462
Lease liabilities		**168,131**	168,776	166,183
Other payables		**3,667**	4,501	3,667
		237,312	378,819	255,318
Current				
Trade and other payables	12	**201,058**	157,972	221,029
Interest rate swaps	13	**176**	587	459
Lease liabilities		**34,814**	37,671	42,888
Provisions		**344**	404	344
Liabilities related to assets classified as held for sale		**-**	2,278	-
Current liabilities		**236,392**	198,912	264,720
Total liabilities		**473,704**	577,731	520,038
Total equity and liabilities		**651,137**	675,506	676,089

* Note 17 contains details of the restatement of the prior period figures.

The accompanying notes form an integral part of these condensed consolidated financial statements.

Half-year condensed consolidated cash flow statement

For the six months ended 30 June 2021

	Note	Six months ended 30 June 2021 (unaudited) £'000	Six months ended 30 June 2020 (restated*) (unaudited) £'000	Year ended 31 December 2020 (audited) £'000
Operating activities				
Result for the period before tax		**5,645**	(13,842)	(15,218)
Adjustments	15	**33,100**	37,262	72,761
Change in inventories		**9,548**	(1,975)	4,787
Change in trade and other receivables		**(6,962)**	39,856	18,475
Change in trade, other payables and provisions		**(20,362)**	(46,255)	22,418
Cash inflow from operating activities of continuing operations before taxation		**20,969**	15,046	103,223
Taxes paid		**(2,253)**	1,611	41
Net cash inflow from operating activities of continuing operations		**18,716**	16,657	103,264
Net cash inflow from operating activities of discontinued operations		**67**	1,659	2,527
Net cash inflow from operating activities		**18,783**	18,316	105,791
Investing activities				
Additions to property, plant and equipment		**(2,534)**	(2,759)	(5,065)
Additions to other intangible assets		**(629)**	(1,038)	(1,717)
Proceeds from disposals of property, plant and equipment		**21**	10	17
Cash inflow in respect of property for resale		**-**	-	4,618
Loans repaid by other entities (non-controlled)		**500**	3	10
Interest received		**160**	9	86
Net cash outflow from investing activities of continuing operations		**(2,482)**	(3,775)	(2,051)
Net cash inflow from investing activities of discontinued operations		**-**	1,718	54,612
Net cash (outflow)/inflow from investing activities		**(2,482)**	(2,057)	52,561
Financing activities				
Proceeds from share issue		**24**	1	4
Net movement in revolving credit facility		**5,260**	211	(84,694)
Discharge of lease liabilities		**(20,962)**	(22,311)	(39,958)
Interest paid		**(4,547)**	(5,019)	(10,056)
Net cash outflow from financing activities of continuing operations		**(20,225)**	(27,118)	(134,704)
Net cash outflow from financing activities of discontinued operations		**(93)**	(114)	(489)
Net cash outflow from financing activities		**(20,318)**	(27,232)	(135,193)
Cash and cash equivalents, beginning of period		**96,220**	73,061	73,061
Net (decrease)/increase in cash and cash equivalents		**(4,017)**	(10,973)	23,159
Cash and cash equivalents, end of period (including discontinued)		**92,203**	62,088	96,220
The Group considers its revolving credit facility to be an integral part of its cash management:				
· Cash and cash equivalents		**92,203**	62,088	96,220
· Revolving credit facility		**(44,612)**	(124,258)	(39,353)
Cash and cash equivalents, including revolving credit facility		**47,591**	(62,170)	56,867

* Note 17 contains details of the restatement of the prior period figures.

The accompanying notes form an integral part of these condensed consolidated financial statements.

Half-year condensed consolidated statement of changes in equity

For the six months ended 30 June 2021 (unaudited)

	Attributable to equity shareholders of the Company							
	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Hedging reserve £'000	Merger reserve £'000	Retained earnings (restated*) £'000	Non-controlling interest £'000	Total equity £'000
At 1 January 2020	1,105	82,224	2,421	(124)	12,956	19,840	(85)	118,337
Net result for the period	-	-	-	-	-	(9,650)	(16)	(9,666)
Other comprehensive income	-	-	-	(609)	-	(10,388)	-	(10,997)
Total comprehensive income for the period	-	-	-	(609)	-	(20,038)	(16)	(20,663)
Issue of shares	-	1	-	-	-	-	-	1
Share options - value of employee services	-	-	100	-	-	-	-	100
At 30 June 2020	1,105	82,225	2,521	(733)	12,956	(198)	(101)	97,775

At 1 January 2021	1,109	82,225	1,312	(760)	7,971	63,536	658	156,051
Net result for the period	-	-	-	-	-	5,557	(58)	5,499
Other comprehensive income	-	-	-	734	-	14,930	-	15,664
Total comprehensive income for the period	-	-	-	734	-	20,487	(58)	21,163
Issue of shares	-	24	-	-	-	-	-	24
Share options - value of employee services	-	-	195	-	-	-	-	195
At 30 June 2021	**1,109**	**82,249**	**1,507**	**(26)**	**7,971**	**84,023**	**600**	**177,433**

* Note 17 contains details of the restatement of the prior period figures.

The accompanying notes form an integral part of these condensed consolidated financial statements.

Notes to the half-year condensed consolidated financial statements

For the six months ended 30 June 2021

1. Corporate information

Mears Group PLC is a public limited company incorporated in England and Wales whose shares are publicly traded. The half-year condensed consolidated financial statements of the Company and its subsidiaries for the six months ended 30 June 2021 were authorised for issue in accordance with a resolution of the Directors on 12 August 2021.

2. Basis of preparation and accounting principles

(a) Basis of preparation

The financial information comprises the unaudited results for the six months ended 30 June 2021 and 30 June 2020, together with the audited results for the year ended 31 December 2020. The half-year condensed consolidated financial statements for the six months ended 30 June 2021 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority, with IAS 34 'Interim Financial Reporting', as contained in UK-adopted international accounting standards, and with the Accounting Standards Board's 2017 statement 'Half-yearly financial reports'. The half-year condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2020, which have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union.

This half-year condensed consolidated financial information does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2020 were approved by the Board of Directors on 12 May 2021. Those accounts, which contained an unqualified audit report under Section 495 of the Companies Act 2006, have been delivered to the Registrar of Companies in accordance with Section 441 of the Companies Act 2006.

The half-year condensed consolidated financial statements for the six months ended 30 June 2021 have not been audited or reviewed by an auditor pursuant to the Auditing Practices Board guidance on the Review of Interim Financial Information.

There have been no significant changes to estimates of amounts reported in prior financial years.

Going concern

The Directors consider that, as at the date of approving the interim financial statements, there is a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the period to at least 30 September 2022. When making this assessment, management considers whether the Group will be able to maintain adequate liquidity headroom above the level of its borrowing facilities and to operate within the financial covenants applicable to those facilities which will be measured at 31 December 2021 and 30 June 2022. As at 12 August 2021, the Group had £90m of committed borrowing facilities of which £15m was drawn. At 30 June 2021 the amount drawn was £45m. The principal borrowing facilities are subject to covenants as detailed on page 27 of the 2020 Annual Report. The nature of the principal risks and uncertainties faced by the Group has not changed significantly from those set out on pages 66 and 67 of the 2020 Annual Report and are not expected to change over the next 12 months. The Group has modelled its cash flow outlook for the period to 30 September 2022 and the forecasts indicate significant liquidity headroom will be maintained above the Group's borrowing facilities and that financial covenants will be met throughout the period, including the covenant test at 31 December 2021 and 30 June 2022. The Group's existing debt facilities run to November 2022. The Group considers that there will be enough appetite from its existing or new funders to provide the required level of funding on similar terms.

The Group has carried out stress tests against the base case to determine the performance levels that would result in a breach of covenants or a reduction of headroom against its borrowing facilities to £nil. Further detail regarding the Group's stress testing is provided in the Business Planning and Financial Viability section on pages 68 and 69 of the 2020 Annual Report and the same scenarios were modelled to support the assessment of the Directors in this interim statement. Combining these scenarios shows that the Group would remain viable even in the event of a severe business failure over an extended period.

Consequently, the Directors consider any scenario which would cause the business to be no longer a going concern to be implausible. The Group has continued to trade profitably during the latest lockdown and is confident in its ability to return to more normalised activity levels during the remainder of 2021. The Group also has several mitigating actions under its control including minimising capital expenditure to critical requirements, reducing levels of discretionary spend, rationalising its overhead base and curtailing future dividend payments which, should they be required, could be implemented in order to be able to meet the covenant tests and to continue to operate within borrowing facility limits.

After making these assessments, the Directors have a reasonable expectation that the Company and its subsidiaries have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the interim statement.

(b) Significant accounting policies

The accounting policies adopted in the preparation of the half-year condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2020.

3. Revenue

The Group's revenue disaggregated by pattern of revenue recognition is as follows:

	Six months ended 30 June 2021 (unaudited) £'000	Six months ended 30 June 2020 (restated) (unaudited) £'000
Revenue from contracts with customers		
Repairs and maintenance	**248,245**	229,373
Contracting	**59,384**	50,845
Property income	**109,789**	92,825
Care services	**9,678**	9,584
Other	**127**	31
	427,223	382,658
Lease income	**16,508**	13,993
	443,731	396,651

All of the above categories fall exclusively within the Housing segment.

4. Segment reporting

The Group had one continuing operating segment during the period:

- Housing - following the disposal of the Group's domiciliary care operations, all services provided by the Group fall within this segment. This includes housing repairs and maintenance services, a full housing management service and Care services directly related to housing provision.

All of the Group's activities are carried out within the United Kingdom and the Group's principal reporting to its chief operating decision maker is not segmented by geography.

The principal financial measures used by the chief operating decision maker to review the performance of the Group are those of revenue growth and operating margin. The operating result utilised within the key performance measures is stated before non-underlying items, amortisation of acquisition intangibles and costs relating to the long-term incentive plans. Whilst the Business Review includes reference to a number of subcategories of activities, this has been included to assist stakeholders in understanding the Group's business model. The key decision around the allocation of resources is made at the full continuing Group level.

The disclosures below also include information in respect of the discontinued activities of the business, which comprise Care and Planning Solutions activities.

	Six months ended 30 June 2021 (unaudited)		**Six months ended 30 June 2020 (restated) (unaudited)**	
Operating segments	**Housing (continuing) £'000**	**Care and Planning Solutions (discontinued) £'000**	**Housing (continuing) £'000**	**Care and Planning Solutions (discontinued) £'000**
Revenue	**443,731**	**127**	396,651	22,791
Operating profit/(loss) including share of profits of associates	**10,154**	**887**	(8,685)	2,614
Net finance costs	**(4,509)**	**(2)**	(5,157)	-
Tax (expense)/credit	**(1,031)**	**-**	1,622	(60)
Profit/(loss) for the period	**4,614**	**885**	(12,220)	2,554

5. Finance income and finance costs

	Six months ended 30 June 2021 (unaudited) £'000	**Six months ended 30 June 2020 (restated) (unaudited) £'000**
Interest charge on overdrafts and loans	**(873)**	(1,469)
Interest charge on hedged items	**(465)**	(77)
Interest on lease obligations	**(3,249)**	(3,444)
Finance costs on bank loans, overdrafts and finance leases	**(4,587)**	(4,990)
Interest charge on net defined benefit scheme obligation	**(186)**	(330)
Total finance costs	**(4,773)**	(5,320)
Interest income resulting from short-term bank deposits	**2**	3
Interest income resulting from net defined benefit scheme asset	**104**	160
Other interest income	**158**	-
Finance income	**264**	163
Net finance charge	**(4,509)**	(5,157)

6. Tax expense

Tax recognised in the Consolidated Statement of Profit or Loss:

	Six months ended 30 June 2021 (unaudited) £'000	**Six months ended 30 June 2020 (unaudited) £'000**
United Kingdom corporation tax	**1,717**	(732)
Adjustment in respect of previous periods	**-**	-
Total current tax charge/(credit) recognised in Consolidated Statement of Profit or Loss	**1,717**	(732)
Total deferred taxation recognised in Consolidated Statement of Profit or Loss	**(686)**	(890)
Total tax charge/(credit) recognised in Consolidated Statement of Profit or Loss on continuing operations	**1,031**	(1,622)
Total tax charge recognised in Consolidated Statement of Profit or Loss on discontinued operations	**-**	60
Total tax charge/(credit) recognised in Consolidated Statement of Profit or Loss	**1,031**	(1,562)

7. Discontinued activities

As described in the 2020 Annual Report, during 2020 the Group completed the disposal of its Domiciliary Care business and its Planning Solutions business. The results of all disposed businesses prior to their disposal are presented within discontinued operations for the six months ended 30 June 2020.

During the six months ended 30 June 2021, a small amount of revenue has been recognised in respect of the provision by the Group of IT and software support, as part of the transitional arrangements on disposal. This revenue and associated costs are presented within discontinued operations for the current period.

An element of the consideration receivable for the sale of the Group's Planning Solutions business is contingent on the performance of the disposed business against a profit target in the financial year ending 31 December 2021. This contingent consideration is carried at fair value and the increase in fair value of £0.85m during the period was recognised in the Consolidated Statement of Profit or Loss and is presented in discontinued operations.

The results of all discontinued operations are detailed in note 4.

8. Dividends

Given the return of normalised trading arrangements, the strong cash performance and positive pipeline outlook, the Board is recommending an interim dividend of 2.50p (2020: nil) per share. This is not recognised as a liability at 30 June 2021 and will be payable on 28 October 2021 to shareholders on the register of members at the close of business on 8 October 2021.

9. Earnings per share

	Continuing		**Discontinued**		**Continuing and discontinued**	
	Six months ended 30 June 2021 (unaudited) p	**Six months ended 30 June 2020 (unaudited) p**	**Six months ended 30 June 2021 (unaudited) p**	**Six months ended 30 June 2020 (unaudited) p**	**Six months ended 30 June 2021 (unaudited) p**	**Six months ended 30 June 2020 (unaudited) p**
Basic earnings per share	**4.21**	(10.86)	**0.80**	2.13	**5.01**	(8.73)
Impact of dilutive shares	**(0.08)**	-	**(0.02)**	-	**(0.10)**	-
Diluted earnings per share	**4.13**	(10.86)	**0.78**	2.13	**4.91**	(8.73)

The profit attributable to shareholders for both basic and diluted EPS is:

	Six months ended 30 June 2021 (unaudited) £'000	**Six months ended 30 June 2020 (unaudited) £'000**
Continuing profit/(loss) attributable to shareholders	**4,672**	(12,003)
Discontinued profit attributable to shareholders	**885**	2,352
Profit/(loss) attributable to shareholders	**5,557**	(9,650)

The calculation of EPS is based on a weighted average of ordinary shares in issue during the period. The diluted EPS is based on a weighted average of ordinary shares calculated in accordance with IAS 33 'Earnings per Share', which assumes that all dilutive options will be exercised. IAS 33 defines dilutive options as those whose exercise would decrease earnings per share or increase loss per share from continuing operations.

	Six months ended 30 June 2021 (unaudited) Million	**Six months ended 30 June 2020 (unaudited) Million**
Weighted average number of shares in issue:	**110.90**	110.50
· Dilutive effect of share options	**2.32**	-
Weighted average number of shares for calculating diluted earnings per share	**113.22**	110.50

As the Group made a loss from continuing operations during the six months ended 30 June 2020, there were no dilutive options during this period. The number of antidilutive potential shares not included in the above table for the six months to 30 June 2020 was 0.53 million.

10. Inventories

	As at 30 June 2021 (unaudited) £'000	**As at 30 June 2020 (unaudited) £'000**	**As at 31 December 2020 (audited) £'000**
Materials and consumables	**3,341**	8,128	3,558
Work in progress	**18,368**	31,844	27,700
	21,709	39,972	31,258

11. Trade and other receivables

	As at 30 June 2021 (unaudited) £'000	As at 30 June 2020 (restated) (unaudited) £'000	As at 31 December 2020 (audited) £'000
Trade receivables	**47,094**	34,503	39,831
Contract assets	**85,188**	70,779	88,594
Contract fulfilment costs	**1,201**	1,330	1,408
Prepayments and accrued income	**9,915**	7,962	6,517
Deferred consideration	**500**	-	500
Contingent consideration	**6,280**	-	-
Other debtors	**2,790**	9,550	3,034
Total trade and other receivables	**152,968**	124,124	139,884

Deferred consideration of £0.5m (30 June 2020: £nil) is consideration receivable in respect of the disposal of the Group's Domiciliary Care business as detailed in the 2020 Annual Report. Contingent consideration of £6.3m is receivable in respect of the disposal of the Group's Planning Solutions business and has been classified in current assets as it is expected to be received in April 2022.

12. Trade and other payables

	As at 30 June 2021 (unaudited) £'000	As at 30 June 2020 (unaudited) £'000	As at 31 December 2020 (audited) £'000
Trade payables	**108,486**	73,906	114,711
Accruals	**47,770**	40,924	42,797
Social security and other taxes	**30,559**	34,675	34,983
Contract liabilities	**11,736**	2,213	25,330
Other creditors	**2,507**	6,254	3,208
	201,058	157,972	221,029

13. Financial instruments

Categories of financial instruments

	As at 30 June 2021 (unaudited) £'000	As at 30 June 2020 (restated) (unaudited) £'000	As at 31 December 2020 (audited) £'000
Non-current assets			
Fair value (level 3)			
Investments - other investments	**65**	-	65
Contingent consideration	**-**	-	5,431
	65	-	5,496
Amortised cost			
Loan notes	**3,318**	-	3,160
Current assets			
Fair value (level 3)			
Contingent consideration	**6,280**	-	-
Amortised cost			
Trade receivables	**47,094**	34,503	39,831
Deferred consideration	**500**	-	500
Other debtors	**2,790**	9,550	3,034
Cash at bank and in hand	**92,203**	61,820	96,220
	142,587	105,873	139,585
Non-current liabilities			
Fair value (level 2)			
Interest rate swaps - effective	**(19)**	(338)	(479)
Interest rate swaps - ineffective	**(71)**	-	17
Interest rate swaps	**(90)**	(338)	(462)
Amortised cost			
Long-term borrowing and overdrafts	**(44,612)**	(124,258)	(39,353)
Lease liabilities	**(168,131)**	(168,776)	(166,183)
Other payables	**(3,667)**	(4,501)	(3,667)

	As at 30 June 2021 (unaudited) £'000	As at 30 June 2020 (restated) (unaudited) £'000	As at 31 December 2020 (audited) £'000
	(216,410)	(297,535)	(209,203)
Current liabilities			
Fair value (level 2)			
Interest rate swaps - effective	**(25)**	(587)	(484)
Interest rate swaps - ineffective	**(151)**	-	25
Interest rate swaps	**(176)**	(587)	(459)
Amortised cost			
Trade payables	**(108,486)**	(73,906)	(114,711)
Lease liabilities	**(34,814)**	(37,671)	(42,888)
Other creditors	**(2,507)**	(6,254)	(3,208)
	(145,807)	(117,831)	(160,807)
	(210,233)	(310,418)	(222,690)

The IFRS 13 hierarchy level categorisation relates to the extent the fair value can be determined by reference to comparable market values. The classifications range from level 1, where instruments are quoted on an active market, through to level 3, where the assumptions used to arrive at fair value do not have comparable market data.

The fair values of interest rate swaps have been calculated by a third-party expert discounting estimated future cash flows on the basis of market expectations of future interest rates (level 2). As a result of the improved cash performance of the business during the six months ended 30 June 2021, management made the decision to reduce the amount drawn down against the Group's rolling credit facility to below the level previous hedged. This decision resulted in all but one of the Group's hedge relationships becoming ineffective for the purposes of hedge accounting. The fair value of the ineffective hedge instruments at 30 June 2021 has therefore been recognised immediately through the Consolidated Statement of Profit or Loss.

The remaining hedge relationship covers £15m of the Group's rolling credit facility and remains effective. Movements in the fair value of this hedge instrument are recognised in other comprehensive income, before being reclassified to the Consolidated Statement of Profit or Loss in line with the cash flows associated with the hedge.

The amount of contingent consideration receivable is determined by performance against a profit target of the disposed business in the financial year ending 31 December 2021. The fair value of this contingent consideration has been calculated by management with reference to expected future income and expenditure of the disposed business and the terms of the sale (level 3). The fair value of the contingent consideration is discounted at the Group's weighted average cost of capital. During the six months ended 30 June 2021, management have revised the expected results of the disposed Planning Solutions business upwards, in line with its performance over the first half of 2021. This, along with the reduction in the discount period from the passage of time, has resulted in an increase in the fair value of contingent consideration of £0.8m.

A 1% change in the eventual profit of the disposed business would result in an approximately £0.3m change in the fair value of the contingent consideration. However, the minimum guaranteed value would result in a fair value of £4.7m.

The increase in the fair value of contingent consideration of £0.85m during the period was recognised in the Consolidated Statement of Profit or Loss and presented in discontinued operations, as detailed in note 8.

The fair values of investments in unlisted equity instruments are determined by reference to an assessment of the fair value of the entity to which they relate. This is typically based on a multiple of earnings of the underlying business (level 3).

There have been no transfers between levels during the period.

Fair value information

The fair value of the Group's financial assets and liabilities approximates to the book value, as disclosed above.

Deferred and contingent consideration

The table below shows the movements in consideration receivable:

	Deferred £'000	Contingent £'000	Total £'000
At 1 January 2021 (audited)	500	5,431	5,931
Movement in fair value during the period	-	849	849
At 30 June 2021 (unaudited)	**500**	**6,280**	**6,780**

The balance of both deferred and contingent consideration is expected to be received within one year.

14. Share capital

	2021 £'000	2020 £'000
Allotted, called up and fully paid		

At 1 January 110,881,897 (2020: 110,490,459) ordinary shares of 1p each (audited)	**1,109**	1,105
Issue of 16,753 (2020: 12,708) shares on exercise of share options	**-**	-
At 30 June 110,898,650 (2020: 110,503,167) ordinary shares of 1p each (unaudited)	**1,109**	1,105

During the period 16,753 (2020: 12,708) ordinary 1p shares were issued in respect of share options exercised.

15. Notes to the Consolidated Cash Flow Statement

The following non-operating cash flow adjustments have been made to the result for the period before tax:

	Six months ended 30 June 2021 (unaudited) £'000	Six months ended 30 June 2020 (unaudited) £'000	Year ended 31 December 2020 (audited) £'000
Depreciation	**23,506**	25,843	47,688
Impairment of fixed assets	**-**	-	1,500
Loss on disposal of property, plant and equipment	**(33)**	(98)	231
Amortisation	**4,917**	6,823	11,736
Share-based payments	**195**	64	993
IAS 19 pension movement	**545**	-	878
Equity accounted income from investments	**(457)**	(357)	(365)
Finance income	**(160)**	(3)	(86)
Finance cost	**4,587**	4,990	10,186
Total	**33,100**	37,262	72,761

16. Pensions

The Group contributes to defined benefit schemes which require contributions to be made to separately administered funds. The assets of the schemes are administered by trustees in funds independent from the assets of the Group.

In certain cases, the Group will participate under Admitted Body status in the LGPS. The Group will contribute for a finite period up until the end of the particular contract. The Group is required to pay regular contributions as detailed in the scheme's schedule of contributions. In some cases, these contributions are capped and any excess can be recovered from the body from which the employees originally transferred. Where the Group has a contractual right to recover the costs of making good any deficit in the scheme from the Group's client, the fair value of that asset has been recognised as a separate pension guarantee asset.

For the purposes of the interim financial statements management has estimated the movements in pension liabilities by reference to the changes in principal assumptions since 31 December 2020, using the sensitivities calculated at that time to movements in these assumptions. The movements in pension assets have been estimated by reference to market index returns over the period for different asset classes in line with the asset portfolios held at 31 December 2020.

The principal actuarial assumptions that have changed since 31 December 2020 are as follows:

	As at 30 June 2021 (unaudited)	As at 31 December 2020 (audited)
Discount rate	**1.90%**	1.35%
Retail prices inflation	**3.15%**	2.85%
Consumer prices inflation	**2.60%**	2.45%

The amounts recognised in the Consolidated Balance Sheet and major categories of plan assets are:

	30 June 2021 (unaudited)			31 December 2020 (audited)		
	Group schemes £'000	Other schemes £'000	Total £'000	Group schemes £'000	Other schemes £'000	Total £'000
Group's estimated asset share	**189,136**	**307,436**	**496,572**	185,436	288,491	473,927
Present value of funded scheme liabilities	**(173,031)**	**(297,133)**	**(470,164)**	(181,184)	(320,186)	(501,370)

Funded status	**16,105**	**10,303**	**26,408**	4,252	(31,695)	(27,443)
Scheme surpluses not recognised as assets	**-**	**(30,784)**	**(30,784)**	-	(11,142)	(11,142)
Pension asset/(liability)	**16,105**	**(20,481)**	**(4,376)**	4,252	(42,837)	(38,585)
Pension guarantee assets	**-**	**14,256**	**14,256**	-	30,705	30,705

There are two Group schemes, one of which had a recognised surplus at 30 June 2021 of £16.4m (31 December 2020: £7.1m) while the other had a deficit of £0.3m (31 December 2020: £2.8m). The scheme in deficit is aggregated with the other schemes in deficit on the face of the Consolidated Balance Sheet.

The movements in the net pension assets/liabilities for the six months ended 30 June 2021 are:

	Group schemes £'000	Other schemes £'000	Total £'000
Pension asset/(liability) at 1 January 2021 (audited)	4,252	(42,837)	(38,585)
Recognised in the Consolidated Statement of Profit or Loss	(458)	(2,292)	(2,750)
Recognised in other comprehensive income	12,311	24,648	36,959
Pension asset/(liability) at 30 June 2021 (unaudited)	**16,105**	**(20,481)**	**(4,376)**

Changes in the fair value of guarantee assets are as follows:

	£'000
Fair value of guarantee assets at 1 January 2021 (audited)	30,705
Recognised in the Consolidated Statement of Profit or Loss	2,205
Recognised in other comprehensive income	(18,654)
Fair value of guarantee assets at 30 June 2021 (unaudited)	14,256

The Group's defined benefit obligation is sensitive to changes in certain key assumptions. A 0.1% reduction in the net discount rate (the base discount rate less the rate of inflation) would result in an increase in the present value of the defined benefit obligation of approximately 1.8%, although an element of the increase would be mitigated by an increase in the pension guarantee assets, as described above.

17. Restatement of prior period

Discontinued activities

The Consolidated Statement of Profit or Loss for the six months ended 30 June 2020 has been restated to reflect the disposal of the Group's Planning Solutions business, which was the subject of a disposal in December 2020, as detailed in note 8.

Deferred tax reclassification

A reclassification adjustment of £3.2m has been made to deferred tax and relates to the netting off of the deferred tax asset against the deferred tax liability, where the asset and liability were previously reported separately.

Reassessment of lease accounting

As described in the 2020 Annual Report, the Group revisited the assumptions made at the time of the adoption of IFRS 16, and its assessment of the right of use assets and lease obligations as at transition and at 31 December 2019. The Directors concluded that in the year ended 31 December 2019, the right of use asset and associated lease obligation were overstated. Consequently, the Consolidated Statement of Profit or Loss, Consolidated Balance Sheet and Consolidated Cash Flow Statement for the period to 30 June 2020 have been restated to correct this error.

Further details of the underlying factors behind this restatement can be found on pages 176 to 178 of the 2020 Annual Report. The consequential impacts of the restatement in respect of the 6 months to 30 June 2020 are shown in the tables below:

Consolidated Statement of Profit or Loss	**Previously reported (unaudited) £'000**	**Discontinued activities £'000**	**Reassessment of lease accounting £'000**	**Restated (unaudited) £'000**
Continuing operations				
Sales revenue	406,963	(8,957)	(1,355)	396,651
Cost of sales	(327,445)	3,537	1,248	(322,660)
Gross profit	79,518	(5,420)	(107)	73,991
Other administrative expenses	(80,525)	3,082	124	(77,319)
Exceptional costs	-	-	-	-
Amortisation of acquisition intangibles	(5,714)	-	-	(5,714)
Total administrative costs	(86,239)	3,082	124	(83,033)
Operating (loss)/profit	(6,721)	(2,338)	17	(9,042)
Share of profits of associates	357	-	-	357
Finance income	163	-	-	163
Finance costs	(5,303)	-	(17)	(5,320)
Loss for the period before tax	(11,504)	(2,338)	-	(13,842)

Tax credit	1,562	60	-	1,622
Loss for the period from continuing operations	(9,942)	(2,278)	-	(12,220)

Consolidated Balance Sheet - restated lines	**Previously reported (unaudited) £'000**	**Deferred tax reclassification £'000**	**Reassessment of lease accounting £'000**	**Restated (unaudited) £'000**
Non-current assets				
Right of use assets	264,210	-	(65,303)	198,907
Deferred tax asset	5,008	(3,223)	113	1,898
Current assets				
Trade and other receivables	122,794	-	1,330	124,124
Equity				
Retained earnings	458	-	(656)	(198)
Non-current liabilities				
Deferred tax liabilities	3,223	(3,223)	-	-
Lease liabilities	228,352	-	(59,576)	168,776
Current liabilities				
Lease liabilities	41,299	-	(3,628)	37,671

Consolidated Cash Flow Statement - abridged	**Previously reported (unaudited) £'000**	**Discontinued activities £'000**	**Reassessment of lease accounting £'000**	**Restated (unaudited) £'000**
Operating activities				
Net cash inflow from operating activities of continuing operations	21,894	(4,784)	(453)	16,657
Net cash outflow from operating activities of discontinued operations	(3,125)	4,784	-	1,659
Net cash inflow from operating activities	18,769	-	(453)	18,316
Investing activities				
Net cash (outflow)/inflow from investing activities of continuing operations	(5,220)	1,445	-	(3,775)
Net cash (outflow)/inflow from investing activities of discontinued operations	3,163	(1,445)	-	1,718
Net cash outflow from investing activities	(2,057)	-	-	(2,057)
Financing activities				
Proceeds from share issue	1	-	-	1
Net movement in revolving credit facility	211	-	-	211
Discharge of lease liabilities	(21,899)	(882)	470	(22,311)
Interest paid	(5,002)	-	(17)	(5,019)
Net cash outflow from financing activities of continuing operations	(26,689)	(882)	453	(27,118)
Net cash outflow from financing activities of discontinued operations	(996)	882	-	(114)
Net cash outflow from financing activities	(27,685)	-	453	(27,232)
Net increase in cash and cash equivalents	(10,973)	-	-	(10,973)

18. Half-year condensed consolidated financial statements

Further copies of the Interim Report are available from the registered office of Mears Group PLC at 1390 Montpellier Court, Gloucester Business Park, Gloucester, GL3 4AH or www.mearsgroup.co.uk.

19. Principal risks and uncertainties

The nature of the principal risks and uncertainties faced by the Group has not changed significantly from those set out on pages 66 and 67 of the 2020 Annual Report and Accounts and is not expected to change over the next six months. The uncertainty as to the future impact on the Group of the Covid-19 outbreak continues to be considered a critical short-term risk. In addition, the four principal risks which are considered to impact most significantly on the Group's strategic objectives over the longer term are: reputation, people, health and safety, and IT and data.

20. Forward-looking statements

This report contains certain forward-looking statements with respect to the financial condition, results of operations and businesses of Mears Group PLC. These statements involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements.

The Directors confirm, to the best of their knowledge, that this condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union and that the Interim Report includes a fair review of the information required by Rules 4.2.4, 4.2.7 and 4.2.8 of the Disclosure and Transparency Rules of the UK Financial Conduct Authority.

The names and functions of the Directors of Mears Group PLC are as listed in the Group's Annual Report for 2020 with the exception of Roy Irwin and Geraint Davies who did not stand for re-election at the AGM on 29 June 2021.

By order of the Board

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12 August 2021