RNS Number : 6377S
Portmeirion Group PLC
18 March 2021

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Portmeirion Group PLC
('the Group')

Preliminary results for the year ended 31 December 2020

Strong recovery in H2, ahead of market expectations

Financial summary

	2020	2019
	£m	£m
Revenue	**87.9**	92.8
Headline profit before tax[1]	**1.4**	7.4
EBITDA	**5.1**	11.4
Headline basic earnings per share[1]	**4.96p**	56.32p
Dividends paid and proposed per share in respect of the year	**nil**	8.00p

Headlines:

Financial

- Full year results ahead of recently upgraded market expectations following a strong H2 trading performance and a return to profitability.
- Group revenue of £87.9 million for FY20 (2019: £92.8 million), a decrease of 5.3%, a resilient trading performance against the backdrop of enforced retail shutdown.
- Improved trading performance in H2 of 2020, with like-for-like sales down 5.8% on H2 2019 (H1 2020 against H1 2019: 20.4% decline).
- Significant increase in direct to consumer sales from online channels during the year - which remains a key area of strategic focus and investment. Sales from our own ecommerce platforms increased by 69% over 2019 and we estimate that approximately 47% of total sales in our core UK and US markets are now made via online channels (2019: 30%).
- Headline profit before tax[1] of £1.4 million (2019: £7.4 million).
- EBITDA of £5.1 million (2019: £11.4 million).
- No dividends paid or proposed for 2020 but expect to recommence dividend payments in 2021 assuming a return to normalised trading.
- Completed equity raise in June 2020 providing net proceeds of £11.2 million to:
    - accelerate online channel sales growth;
    - extend Wax Lyrical product lines;
    - build a more significant presence in Canada; and
    - invest in UK manufacturing efficiencies.
- Strong balance sheet maintained with net cash of £0.7 million (2019: net debt £12.3 million). Cash generative with net debt decreasing by £1.8 million during the year excluding the benefit of the equity raise in June 2020.

[1]Headline profit before tax and headline basic earnings per share exclude exceptional items - see note 4.

Operational

- Substantial progress in our strategic objectives including strong growth in online and digital capabilities.
- Healthy and exciting pipeline of new products developed for launch globally in 2021 which we expect will contribute to sales growth across our key markets.
- Acquired additional 50% of share capital in Portmeirion Canada Inc. for £0.5 million in August 2020, to obtain 100% control, in order to leverage our existing US sales and online infrastructure to grow our presence in the Canadian market.
- Board strengthened with the appointment of two new Executive Directors and a new Non-executive Director to the Board in August 2020.
- Successful conversion of a Wax Lyrical manufacturing line to produce hand sanitiser for the NHS and other customers, leading to new hand and body care ranges to be launched in mid-2021.

Mike Raybould, Chief Executive commented:

"Although 2020 was a challenging year due to the huge disruption caused by Covid-19, our consumer homeware brands have shown great resilience and our business has continued to successfully pivot further to online sales. Pleasingly, we saw strong growth in our own online sales channels and we see the market shift to increased online shopping offering us a great opportunity to expand further in our key markets.

Following the successful equity raise in June 2020, and despite the disruption caused by Covid-19, we have increased our investment into the business and made a number of strategic hires, in particular expanding our online and digital marketing teams and making our operations more efficient. We believe this will put our business in a strong position to deliver on our two pillar strategy of generating consistent, sustainable sales growth; and improving our operating margins, thereby converting our sales more effectively into profit.

I would like to thank our employees around the world for working tirelessly and adapting working practices to cope with the undoubted challenges of the pandemic.

We are encouraged to see our positive trading momentum from H2 2020 continue in Q1 2021 despite the ongoing Covid-19 pandemic. We remain alert to further potential disruption in our key markets, but are confident of returning to growth in 2021."

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014 (MAR).

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Portmeirion Group PLC
Chairman and Chief Executive Statements

	2020 £m	2019 £m
Reported sales	**87.9**	92.8
Total like-for-like sales*	**82.4**	92.8
H1 like-for-like sales	**27.8**	34.9
H2 like-for-like sales	**54.6**	57.9
Total own website sales	**11.1**	6.6
UK/US sales via online channels	**47%**	30%

* Like-for-like sales exclude the benefit in 2020 of a full year sales of Nambé (acquired in July 2019) and additional sales from Portmeirion Canada (acquired August 2020).

Trading

2020 was a challenging year due to the huge disruption that Covid-19 caused through globally enforced retailer shutdowns and ensuing supply chain disruption as economies around the world reopened at different times and speeds. However, our consumer homeware brands showed their strength and resilience and we saw significant growth in our online channel sales and a trend of improving sales as the year progressed.

Following an equity raise of £11.2 million in net proceeds in June 2020 we increased our investment, despite disruption caused by Covid-19, in our strategic initiatives. We believe this investment places our business and brands in the best possible position to grow strongly and profitably in the coming years.

In particular, we have continued our transformation to a more online and digital based business and were pleased to see 69% sales growth in our own online website sales and that 47% of total sales in our core UK and US markets now go through all online channels (2019: 30%). We will continue to invest in this area and our capabilities and expect to see further growth in the years ahead.

Our like-for-like sales declined by 11.2% during the year largely as a result of the impact of Covid-19 on physical retail stores, although we did see an improving trend through the third and fourth quarter and strong demand for our products through the key Christmas trading period.

The Group returned to profitability in the second half of 2020, with H2 headline profit before tax[1] of £4.1 million (H2 2019: £6.9 million). For the full year this left headline profit before tax[1] at £1.4 million (2019:

£7.4 million) following the loss made in the first half of 2020 due to the impact of Covid-19.

We are confident in our long-term strategy for growth and have a strong balance sheet to support our ambitions. The Group continues to be cash generative and our underlying net debt reduced by £1.8 million over 2019.

Financial Headlines

- Revenue was £87.9 million, a decrease of 5.3% (2019: £92.8 million).
- Like-for-like sales were £82.4 million (2019: £92.8 million), a decline of 11.2%.
- Own platform website sales increased by 69% to £11.1 million (2019: £6.6 million) and total online sales in core UK and US markets rose to 47% (2019: 30%).
- H2 returned to headline profit before tax[1] of £4.1 million (2019: £6.9 million), FY20 headline profit before tax[1] of £1.4 million (2019: £7.4 million).
- Headline basic earnings per share[1] was 4.96p per share (2019: 56.32p).

[1]Headline profit before tax and headline basic earnings per share exclude exceptional items - see note 4.

Dividend

The Board has determined not to pay a dividend for FY20 due to the impact and disruption of Covid-19 on our business. Assuming the positive trends we saw in our core sales markets in the second half of 2020 and into 2021 continue, we expect to resume paying dividends for FY21. Our dividend policy will ensure that we retain and invest enough capital in our business to drive long-term growth in our brands and we maintain a prudent and sustainable level of dividend cover.

The Board

The Board keeps its composition and performance under constant review so as to ensure that we have the appropriate skills, experience and resources to deliver on our four main Board requirements of: setting strategy, reviewing progress against strategy, monitoring the resources required to deliver the strategy and complying with relevant requirements be they legal or otherwise. We undertake a formal board effectiveness review each year.

In August 2020, both Lawrence Bryan and Phil Atherton resigned from the Board. We have previously paid testimony to the invaluable contributions which they have both made, but it is appropriate that we record the thanks of ourselves, our colleagues and our shareholders one more time.

Jacqui Gale and Bill Robedee joined the Board in August 2020, Jacqui as Chief Commercial Officer and Bill as President of North America; both of these appointments were internal promotions. These appointments were detailed in the Interim results for the six months ended 30 June 2020 released on 24 September 2020. Their appointments are already delivering notable results.

Clare Askem joined the Board as a Non-executive Director in August 2020 following the retirement of Janis Kong in May 2020 at the Annual General Meeting. This appointment was presaged in the Chairman's Statement within the report and accounts for the year ended 31 December 2019 in March 2020.

Environmental, Social and Governance

We remain committed to the vision and values which support the Group's culture of openness and integrity and encourage behaviours that will positively impact our long-term sustainable success.

The Group is committed to being environmentally responsible through our dedication to reduce energy consumption and eliminate waste. We strive for operational excellence, whilst reducing environmental impact. During 2020, we were successful in a number of energy saving initiatives including in relation to the production method and glaze changes in our Stoke-on-Trent manufacturing process, which has led to substantial savings in energy, cost and processing time. We also continue to use wind power at our Lake District manufacturing site. We make a point of recycling manufacturing waste and utilise recyclable packaging materials where possible.

Our business is only as good as our people and we continue to recruit people who share our values and work together towards realising our vision. Our ethics and governance are unfaltering, supported by our policies and processes. Further details on our corporate culture and its integration within the Group can be found on our website, www.portmeiriongroup.com, and in our annual report and accounts in the Stakeholder Engagement, Our Sustainability and the Corporate Governance Statement sections.

The Covid-19 pandemic threw a huge number of challenges at our people and teams and we would like to thank them for their enormous resilience and hard work throughout 2020. The health, safety and wellbeing of our employees is, and remains, of paramount importance to the Group and we will continue to ensure we have safe places of work.

The Group is a committed member of the Quoted Companies Alliance ("QCA") and has chosen to apply the QCA Corporate Governance Code as the most appropriate for our size and structure. We have complied with the principles of the QCA code throughout 2020 and continue to do so. Further details of our approach to governance can be found on our website and in our annual report and accounts. The Board consider our governance procedures to be appropriate for a company of our size, however we are always open to improvement and welcome feedback from shareholders.

Operational Overview

Revenue for the Group decreased by 5.3% to £87.9 million (2019: £92.8 million).

The United States is our largest geographical market at 38% of Group sales. In translated figures, sales in the US increased by 3.1% to £33.5 million (2019: £32.5 million) due to the benefit of a full year of sales in the Nambé business, acquired in July 2019. On a like-for-like basis sales reduced by 9.8% due to the impact of the Covid-19 pandemic.

Our UK market is our second largest market and in 2020 accounted for 36% of Group sales at £31.8 million (2019: £32.6 million), a decrease of only 2.3% over the prior year. The UK market was significantly disrupted in 2020 due to a number of enforced Covid-19 retailer shutdowns for lengthy periods. However, our ongoing focus in building out and expanding our online sales channels meant that we were able to cope with the rapid increase in online orders and we were delighted with the strength of demand for our brands despite the challenging macroeconomic conditions.

As previously reported, sales in our South Korean market have been impacted in recent years by high levels of product re-shipped from other markets. We took considerable steps in the second half of 2019 and throughout 2020 to reduce incidence of this parallel shipping of our Botanic Garden ranges and allowing overstocking in the market to subside. As a result we had planned for sales in this market to decline in 2020. Sales into South Korea (including estimates for parallel shipping) were £13.1 million (2019: £20.8 million). Our distributor, despite the impact of Covid-19 on retail channels, reported sales out to the consumer up 15% against the previous year and the new ranges we developed for them in 2019 are now selling strongly. We were pleased to see that the steps we have taken to stabilise this important market have paid dividends whilst protecting our brands in the long-term and we expect to see growth on this more stable base throughout 2021 and 2022.

For many years we have operated a 50% owned associated company - Portmeirion Canada Inc. - for our distribution operations in our Canadian sales market. In August 2020, we acquired the remaining 50% of the company for £0.5 million. Canada is an important long-term strategic sales market for the Group and we will leverage the benefits of our existing US online sales team, systems and infrastructure to grow our sales in online channels into this market.

Products and brands

Our brands and product ranges are the key economic drivers for the Group. Our six major brands - Portmeirion, Spode, Wax Lyrical, Nambé, Royal Worcester and Pimpernel - have over 700 years of combined history and are sold across the world. Increasing our investment behind these brands in digital and online channels and through new product development is central to our business strategy.

Portmeirion Botanic Garden, first launched in 1972, continues to be our largest selling pattern with ongoing sales of over £20 million annually. We estimate there are over 50 million pieces of Botanic Garden in use worldwide today due to the repeating sales element of this particular design. We continue to be vigilant of imitators to Botanic Garden and indeed our other patterns, and we are diligent in our legal protection of them.

Our Spode brand celebrated its 250th anniversary in 2020 and although much of our planned marketing activity to mark this occasion was disrupted by the Covid-19 pandemic, we were delighted to launch a number of new and limited edition ranges.

We have further exciting new Spode product launches in 2021-22 and we expect sales from our Spode brand to grow as we continue to develop and build on this much loved heritage brand.

A list of our current ranges can be found at www.portmeirion.co.uk, www.spode.co.uk, www.waxlyrical.com, www.royalworcester.co.uk, www.pimpernelinternational.co.uk and www.nambe.co.uk. Customers in the United States should go to www.portmeirion.com and www.nambe.com.

Strategic areas of focus

Our long-term strategy is to leverage and grow our brands driven by digital and online transformation, developing successful new products and building new significant markets, whilst being more efficient and dynamic in all areas of our business.

Our Group strategy is built around two pillars:

1. generating consistent, sustainable sales growth; and
2. improving our operating margins, thereby converting sales more effectively into profit.

Critically, we have increased investment in these strategic areas despite the short-term challenges of Covid-19 in 2020 as we believe this will enable the Group to prosper in the long-term.

The capabilities of the business have therefore taken a significant step forward in the past twelve months through a number of strategic hires, significantly increasing our online sales and digital teams and associated budgets, re-organising our export sales teams, and putting in place three year roadmaps to make our factories more cost effective, environmentally sound and increasing volume capacity.

è **Generating consistent and sustainable sales growth**

1. *Accelerate our online sales transformation*

Our brands are known and loved around the world. Therefore, we have increased our investment programme in online channels in 2020 including re-platforming all of our US websites and improved product photography. We experienced 69% growth in our own website sales in 2020 and total sales in our core UK and US markets through all online channels increased to 47% (2019: 30%) as the Covid-19 crisis changed how our customers ordered product. In the first quarter of 2021, we have gone live with a global new digital asset management system and a new virtual sales and product showroom. We have an ongoing roadmap of investment for further digitisation of our business and during 2021 we expect to complete new CRM and product information systems whilst making significant improvements to customer user experience for all of our UK websites. Early evidence is that we are seeing encouraging results already, not only in online sales growth but also improved margins and conversion levels from our new US platforms. We see a significant growth opportunity for our online channels in the years ahead and believe that our own website sales should represent at least 20% of our total Group sales once we have completed this roadmap.

2. *Develop and launch successful new products*

New product development and launches remain a key part of our strategy to develop and leverage our brand portfolio and grow our sales around the world.

We believe there is an appetite for new products as our global markets recover from Covid-19 and we have purposefully kept our new product development roadmap on track through 2020. Key new launches in 2021 include a new contemporary Sophie Conran for Portmeirion collection, extensions to our heritage Portmeirion Botanic Garden and Spode Christmas Tree ranges, and Wax Lyrical home fragrance ranges that complement some of our best-selling ceramic ranges including Sophie Conran for Portmeirion and Royal Worcester Wrendale Designs.

In addition, we are focused on developing new improved packaging formats for existing products that will sell even more effectively in online channels and in gifting. Our innovation and creative capabilities will serve us well in this endeavour.

3. *Increase investment behind our brands and leverage the benefit of more recent additions such as Wax Lyrical and Nambé*

We will continue to invest more behind our portfolio of homeware brands. Our marketing spend as a percentage of sales grew in 2020 and we expect this to continue through 2021/22. In particular we have more than doubled the size of our brand marketing and digital marketing teams in 2020. Our brands have hundreds of years of history and are loved around the world. Being able to tell the story of what our brands stand for and the quality and design premium of our products is increasingly important in online sales channels and will support our growth ambitions in this area.

There is scope to further leverage our more recently acquired brands, Wax Lyrical and Nambé, across our existing sales and operating infrastructures around the world. We expect both brands to grow strongly in the coming years.

4. *Rest of world sales market expansion*

Our products are sold across more than 70 countries and 89% of our sales fall into our three largest markets of the UK, US and South Korea.

In 2020, we reorganised our export sales teams to accelerate our strategy of building critical mass in 2-3 further markets including the Middle East and Far East. Rest of world sales growth will be an important part of our sales growth over the coming years, and we expect growth in 2021 and further momentum in 2022/23 once footfall returns post pandemic.

5. *Continue to stabilise our South Korean market*

As previously noted, we have been disciplined in reducing the incidence of parallel shipping into our South Korean market. We have successfully introduced new product ranges and will continue to focus on long term brand protection. Further new products are being developed for this market and we expect this sales market to return to growth in 2021 and 2022.

6. *Strategic acquisitions to accelerate progress against our strategic plan*

The Group will consider acquiring businesses where there is a strategic fit to accelerate our long-term strategy and the combination would be earnings enhancing.

è **Improving our Operating margins**

A number of areas of the Group have been identified to support our long-term focus on a step change improvement in our operating margins. These include:

1. *Increasing our operating efficiency and capabilities*

Our operating capabilities are constantly reviewed in order to position the Group to meet the requirements of our customers, including our ongoing strategy of growth in online and direct to consumer fulfilment.

Our operational teams skillfully coped with the significant shift to online sales due to physical retail lockdowns in 2020 and we continue to invest in expanding our capacity to fulfil direct to customer online orders.

We have a roadmap of investment for our UK manufacturing sites which will expand their throughput and efficiency to provide margin improvement, with a target to reduce cost per unit by 10% by the end of 2023. Several factory automation projects that are underway will start to realise benefits from the middle of 2021. Further investments will come on-stream for 2022/23. All of this will both improve efficiencies, but also make for an environmentally sounder manufacturing process.

2. *Improved global processes, working and procurement*

We undertook a review of global operational and management processes during 2020, including our approach to procurement. As part of this we expect to realise efficiency savings by the end of 2022 in excess of £1 million per annum which will improve operating margins.

We have also combined our operational and functional teams which has established further cost savings and will improve and drive growth going forward.

3. *Leveraging the benefit of sales growth across our overheads and global infrastructure*

Portmeirion sells into over 70 countries around the world, although our three largest markets account for 89% of our sales. Upon review, we have determined the Group would benefit from combining our export teams and consequently a cohesive approach and product offering in each export market.

We anticipate sales growth in rest of the world markets as this refreshed approach gathers momentum.

Outlook

We continue to monitor the impact of the Covid-19 pandemic on all parts of our business. Like many, Covid-19 has significantly disrupted our business and there continues to be disruption in key sales markets and international supply channels in the first quarter of 2021 due to national and local lockdowns.

However, the strong growth we have experienced in online sales channels has mitigated much of the impact of retailer shutdowns and we are pleased by the improving trend of sales performance we saw in the second half of 2020. Encouragingly, we have continued to see this improving trend in the first quarter of 2021 and therefore remain confident of returning to sales growth in 2021.

We have a strong balance sheet, a well-invested business and a clear strategy which we believe will enable us to prosper in the medium to long-term.

Dick Steele
Non-executive Chairman

Mike Raybould
Chief Executive

Financial Review

2020 was a year like no other in the history of the Group. The unprecedented Covid-19 pandemic brought significant disruption to most parts of the globe and all of the Group's major sales markets, which were all impacted by Covid-19 restrictions at various points in the year. However, our business responded rapidly to the unique challenges that 2020 brought and we were hugely encouraged by the ongoing strong demand for our products and significant growth in our online channels.

Revenue

Revenue for the year ended 31 December 2020 totaled £87.9 million, which represented a small decrease of 5.3% over the previous year (2019: £92.8 million).

In 2020, the Group benefitted from a full year of sales of Nambé, acquired in July 2019, and additional sales from Portmeirion Canada, which was fully acquired in August 2020. On a like-for-like basis revenue was therefore £82.4 million, an 11.2% reduction over 2019. Like-for-like sales performance improved in the second half of the year, with H1 sales down 20.4% compared to only 5.8% down in H2.

Sales in our US market are translated from US dollars into sterling at the average daily exchange rate. In 2020, sterling was stronger against the US dollar than in 2019 and therefore at a constant currency rate the Group's sales were only down 5.1% on the previous year.

We experienced disruption in our three biggest geographical markets of the US, UK and South Korea. All of these markets were affected by Covid-19 restrictions during 2020, which impacted the demand for our products in physical retail space. However, we saw rapid growth in sales via online channels including our own websites and this compensated for some of the lost sales.

Our home fragrance division experienced a reduction in demand for core products following the UK retail closures, but was able to repurpose its factory to manufacture hand sanitiser. Sales of hand sanitiser were £3.4 million in the year, and we continue to ship this new product line in 2021.

Profit

Headline profit before taxation[1] was £1.4 million, which was a decline from the £7.4 million headline profit reported for 2019. The bulk of this reduction was related to the UK, with a reduction in sales and lockdown closures of both non-essential retail stores and our UK ceramic factory set against a largely fixed cost base.

We closed our UK ceramic factory in March 2020 during the first national lockdown in order to maintain the safety of our people and to create a Covid-19 secure environment. We reopened the factory at a reduced capacity in May 2020 and steadily increased the output, so by the end of July 2020 we were broadly producing at a pre-lockdown level.

Our home fragrance division also has a UK production site which is based in the Lake District. This site ran at a reduced capacity during the first national lockdown due to lower sales of home fragrance to UK retailers.

The impact of these unavoidable factory inefficiencies and reduced sales meant that our operating margin reduced to 2.5% (2019: 8.4%). We believe this is a creditable performance set against such a disrupted year and remain confident of rebuilding this operating margin to historic levels for the Group. A number of programmes remain ongoing with regards to margin growth.

The Group also made a number of claims under the permitted Covid-19 support schemes in the UK, US and Canada. These were largely for continuing to employ and pay staff under job retention schemes and amounted to £3.5 million.

[1]Headline profit before taxation excludes exceptional items - see note 4.

Interest and financing costs

Finance costs for the Group increased by £0.1 million to £0.7 million (2019: £0.6 million) due to a full year impact of the July 2019 term loan for the Nambé acquisition.

Following the equity raise in June 2020 the business ended the year £0.7 million net cash positive and we anticipate interest costs reducing in future years as loan facilities mature.

Taxation

The charge for taxation for the year was £0.5 million (2019: £1.3 million). The charge largely represents the impact of the change in deferred tax rate from 17% to 19% in line with the expected corporation tax rate in the UK.

Dividends

Due to the unprecedented uncertainty facing many businesses in 2020, the Board did not declare or pay any dividends during the year. The Board is not recommending a final dividend for the 2020 year (2019: £nil).

The Group retains strong headroom and cash facilities and on the basis that trading continues to improve as seen in H2 2020, the Board anticipates recommencing dividend payments for FY21 and will update at the time of the Interim announcement.

Cash generation and net debt

At 31 December 2020, the Group had a net cash balance of £0.7 million (comprising cash and cash equivalents of £11.6 million less borrowings of £10.9 million). This compares to net debt of £12.3 million at the prior year end.

The Group continues to be cash generative, and excluding the equity raise net proceeds of £11.2 million we improved our cash position by £1.8 million during the year. This cash improvement was despite increased investment in order to advance our strategy, including specifically increased year on year spend on capex of £0.8 million and the acquisition of the remaining 50% equity of Portmeirion Canada for £0.5 million.

Bank facilities

The Group has agreed debt facilities with Lloyds Bank which totalled £26 million at the balance sheet date. This consists of a £10 million revolving credit facility available until May 2022, a £5 million overdraft on an annual renewal cycle, a £10 million term loan repayable by October 2021 of which £2 million was

outstanding at the year end and a £10 million term loan repayable by January 2025 of which £9 million was outstanding at the year end.

Our business remains seasonal due to the second half weighting of our sales. We therefore experienced a working capital swing of around £8 million during the year as we built inventory to match our sales demand. Our committed funding addresses this dynamic and we believe is prudent.

Assets and liabilities

We improved our working capital position by £3.7 million during the year. This was largely driven by reducing our receivables balance due to mix of customers and the shift to online sales, particularly our own website sales which are directly translated into cash at the point of customer order.

Our inventory balance increased to £27.3 million (2019: £26.6 million) which was caused by additional inventory in the newly consolidated Portmeirion Canada and hand sanitiser raw materials and finished product in our home fragrance division. Excluding these items our inventory would have reduced by £0.8 million or 3% on a like-for-like basis. Inventory remains an area of focus and we expect further reductions as trading becomes more stable following the Covid-19 disruption.

We continue to make contributions to our closed defined benefit pension scheme and paid £0.9 million during the year. Many companies carry defined benefit pension scheme deficits and ours is relatively modest. The accounting deficit on our balance sheet increased from £0.4 million to £2.7 million at the end of the year despite these contributions. The increase in liability was mainly due to the discount rate used on scheme liabilities which is based on corporate bond yields. We continue to keep the scheme performance under review.

At the year end we held treasury shares with a book value of £0.4 million in order to satisfy employee share option schemes, which had been bought at an average price of £1.87 per share, equating to 226,975 shares, having used 3,407 during the year. In addition, we also hold 234,523 shares in The Portmeirion Employees' Share Trust. These shares have a book value of £2.7 million, having been bought at an average cost of £11.58 each. The balance of these shares did not move during the year.

Goodwill and intangible assets on our balance sheet largely represent the value of the acquired brands of Spode, Royal Worcester, Wax Lyrical and Nambé, as well as computer software investment including our online webstore and associated infrastructure. The balance of intangible assets reduced during the year due to the amortisation charge on these assets.

Treasury and risk management

The impact of transactional currency flows on the Group's profit is not material due to the natural matching of revenue and costs across our global businesses. We anticipate that the recent strengthening of sterling against both the US dollar and euro will have no material impact on Group profit.

When any anticipated exposure arises, our policy is to use appropriate hedging instruments to mitigate that risk. We have a robust approach to managing risk to deliver our strategy as explained in our annual report and accounts.

David Sproston

Group Finance Director

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
Revenue	**3**	**87,854**	92,816
Operating costs		**(85,661)**	(84,988)
Headline operating profit[1]		**2,193**	7,828
Exceptional items	**4**		
- restructuring costs		**(1,288)**	(688)
- acquisition costs		**(104)**	(574)
- share issue costs		**(55)**	-
- Covid-19 costs		**(176)**	-
- gain on disposal of associate		**-**	947
Operating profit		**570**	7,513
Interest income		**13**	44
Finance costs	**5**	**(740)**	(632)
Share of results of associated undertakings		**(75)**	175
Headline profit before tax[1]		**1,391**	7,415
Exceptional items	**4**		
- restructuring costs		**(1,288)**	(688)
- acquisition costs		**(104)**	(574)
- share issue costs		**(55)**	-
- Covid-19 costs		**(176)**	-
- gain on disposal of associate		**-**	947
(Loss)/profit before tax		**(232)**	7,100
Tax[2]		**(503)**	(1,286)
(Loss)/profit for the year attributable to equity holders		**(735)**	5,814

Earnings per share	**2**		
Basic		**(6.02)p**	54.66p
Diluted		**(6.02)p**	54.58p
Headline earnings per share[1]	**2**		
Basic		**4.96p**	56.32p
Diluted		**4.95p**	56.24p
Dividends proposed and paid per share	**6**	**0.00p**	8.00p

All the above figures relate to continuing operations.

[1] Headline operating profit is statutory operating profit of £570,000 (2019: £7,513,000) add exceptional items of £1,623,000 (2019: £315,000). Headline profit before tax is statutory loss before tax of £232,000 (2019: £7,100,000 profit before tax) add exceptional items of £1,623,000 (2019: £315,000).

[2] Tax on exceptional items in the current period has reduced the charge by £283,000 (2019: £138,000).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020 £'000	2019 £'000
(Loss)/profit for the year	**(735)**	5,814
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of net defined benefit pension scheme liability	**(3,208)**	(1,624)
Deferred tax relating to items that will not be reclassified subsequently to profit or loss	**843**	276
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(525)**	(1,141)
Deferred tax relating to items that may be reclassified subsequently to profit or loss	**(26)**	46
Other comprehensive income for the year	**(2,916)**	(2,443)
Total comprehensive income for the year attributable to equity holders	**(3,651)**	3,371

CONSOLIDATED BALANCE SHEET

31 December 2020

	2020 £'000	2019 £'000
Non-current assets		
Goodwill	**8,978**	8,978
Intangible assets	**6,976**	7,647
Property, plant and equipment	**12,197**	11,261
Right-of-use assets	**6,910**	6,146
Interests in associates	**-**	713
Deferred tax asset	**119**	306
Total non-current assets	**35,180**	35,051
Current assets		
Inventories	**27,313**	26,619
Trade and other receivables	**15,269**	19,274
Current income tax asset	**579**	247
Cash and cash equivalents	**11,590**	1,151
Total current assets	**54,751**	47,291
Total assets	**89,931**	82,342
Current liabilities		
Trade and other payables	**(12,601)**	(12,915)
Lease liabilities	**(2,143)**	(1,273)
Borrowings	**(3,972)**	(4,543)
Total current liabilities	**(18,716)**	(18,731)
Non-current liabilities		
Pension scheme deficit	**(2,721)**	(414)
Deferred tax liability	**(738)**	(1,086)
Lease liabilities	**(5,096)**	(5,083)
Borrowings	**(6,951)**	(8,930)
Total non-current liabilities	**(15,506)**	(15,513)

Total liabilities	**(34,222)**	(34,244)
Net assets	**55,709**	48,098
Equity		
Called up share capital	**710**	555
Share premium account	**18,344**	7,310
Investment in own shares	**(3,140)**	(3,146)
Share-based payment reserve	**152**	87
Translation reserve	**1,077**	1,628
Retained earnings	**38,566**	41,664
Total equity	**55,709**	48,098

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Share capital £'000	**Share premium account £'000**	**Investment in own shares £'000**	**Share-based payment reserve £'000**	**Translation reserve £'000**	**Retained earnings £'000**	**Total £'000**
At 1 January 2019	555	7,310	(3,257)	282	2,723	41,037	48,650
Profit for the year	-	-	-	-	-	5,814	5,814
Other comprehensive income for the year	-	-	-	-	(1,095)	(1,348)	(2,443)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(1,095)**	**4,466**	**3,371**
Dividends paid	-	-	-	-	-	(3,990)	(3,990)
Decrease in share-based payment reserve	-	-	-	(39)	-	-	(39)
Transfer on exercise or lapse of options	-	-	-	(156)	-	156	-
Shares issued under employee share schemes	-	-	111	-	-	(8)	103
Deferred tax on share- based payment	-	-	-	-	-	3	3
At 1 January 2020	**555**	**7,310**	**(3,146)**	**87**	**1,628**	**41,664**	**48,098**
Loss for the year	-	-	-	-	-	(735)	(735)
Other comprehensive income for the year	-	-	-	-	(551)	(2,365)	(2,916)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(551)**	**(3,100)**	**(3,651)**
Unclaimed dividends written back	-	-	-	-	-	4	4
Issue of own shares	155	11,074	-	-	-	-	11,229
Cost of issue of							

own shares	-	(40)	-	-	-	-	(40)
Increase in share-based payment reserve	-	-	-	86	-	(21)	65
Transfer on exercise or lapse of options	-	-	-	(21)	-	21	-
Shares issued under employee share schemes	-	-	6	-	-	(6)	-
Deferred tax on share- based payment	-	-	-	-	-	4	4
At 31 December 2020	**710**	**18,344**	**(3,140)**	**152**	**1,077**	**38,566**	**55,709**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	2020 £'000	2019 £'000
Operating profit	**570**	7,513
Adjustments for:		
Depreciation of property, plant and equipment	**1,634**	1,479
Depreciation of right-of-use assets	**2,037**	1,770
Amortisation of intangible assets	**848**	677
Charge/(credit) for share-based payments	**65**	(39)
Exchange loss	**(100)**	(14)
Profit on sale of associated undertaking	**-**	(947)
Loss on sale of tangible fixed assets	**12**	4
Operating cash flows before movements in working capital	**5,066**	10,443
Decrease/(increase) in inventories	**171**	(3,882)
Decrease/(increase) in receivables	**4,398**	(2,390)
Decrease in payables	**(913)**	(1,518)
Cash generated from operations	**8,722**	2,653
Contributions to defined benefit pension scheme	**(900)**	(1,200)
Interest paid	**(497)**	(566)
Income taxes paid	**(125)**	(1,478)
Net cash inflow/(outflow) from operating activities	**7,200**	(591)
Investing activities		
Interest received	**12**	11
Dividend received from associate	**-**	120
Proceeds on disposal of investments	**-**	3,263
Purchase of investments	**-**	(363)
Purchase of property, plant and equipment	**(2,556)**	(1,548)
Purchase of intangible assets	**(196)**	(450)
Acquisition of subsidiary	**(541)**	(9,434)
Net cash outflow from investing activities	**(3,281)**	(8,401)
Financing activities		
Equity dividends paid	**-**	(3,990)
Shares issued under employee share schemes	**-**	103
Issue of own shares	**11,229**	-
Costs taken directly through reserves	**(40)**	-
New bank loans raised	**5,000**	17,491
Principal elements of lease payments	**(2,084)**	(1,635)
Repayments of borrowings	**(7,581)**	(9,000)
Net cash inflow from financing activities	**6,524**	2,969
Net increase/(decrease) in cash and cash equivalents	**10,443**	(6,023)
Cash and cash equivalents at beginning of year	**1,151**	7,214
Effect of foreign exchange rate changes	**(4)**	(40)
Cash and cash equivalents at end of year	**11,590**	1,151

NOTES TO THE PRELIMINARY RESULTS

1. This announcement was approved by the Board of Directors on 17 March 2021.

1.1 The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2020 or 2019, but is derived from those accounts. Statutory accounts for 2019 have been delivered to the Registrar of Companies and those for 2020 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts: their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under Sections 498(2) or (3) of the Companies Act 2006.

1.2 For the year ended 31 December 2020 the Group has prepared its annual report and accounts in accordance with accounting standards in conformity with the requirements of the Companies Act 2006 (International Financial Reporting Standards).

This financial information has been prepared in accordance with the accounting policies stated in the Group's financial statements for the year ended 31 December 2020.

The financial statements have been prepared on the historical cost basis, with the exception of derivative financial instruments which are stated at their fair value.

1.3 At the year end the Group had net cash of £0.7 million (comprising cash and cash equivalents of £11.6 million less borrowings of £10.9 million) and cash and unutilised bank facilities of £26.6 million. Operating cash generation was strong during the year at £7.2 million (2019: operating cash used of £0.6 million).

The Group sells into over 70 countries worldwide and has a spread of customers within its major UK and US markets with adequate credit insurance cover in export markets where required. The Group manufactures approximately 42% of its products and sources the remainder from a range of third-party suppliers.

The trading performance of the Group was impacted during 2020 by the Covid-19 pandemic, but despite the non-essential retail closures the Group continued to see strong demand for our products and experienced significant growth in sales made via online channels. Whilst there is potential for future disruption from the pandemic, the Group is well diversified and retains a strong balance sheet with significant funding headroom available.

The Group has also produced a sensitivity analysis to its cash flow forecast based upon current trading conditions to allow for further potential impact of Covid-19; this demonstrated the Group still has sufficient headroom within borrowing facilities.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

NOTES TO THE PRELIMINARY RESULTS
Continued

2. Earnings per share

The calculation of basic and diluted earnings per share is based on the following data:

	Earnings £'000	**2020 Weighted average number of shares**	**Earnings per share (pence)**	Earnings £'000	2019 Weighted average number of shares	Earnings per share (pence)
Basic earnings per	**(735)**	**12,208,723**	**(6.02)**	5,814	10,637,059	54.66

share						
Effect of dilutive securities:	**-**	**-**	**-**	-	15,935	-
employee share options						
Diluted earnings per share	**(735)**	**12,208,723**	**(6.02)**	5,814	10,652,994	54.58

The calculation of headline basic and diluted earnings per share adjusted for exceptional items and associated tax benefits is based on the following data:

	Earnings £'000	**2020 Weighted average number of shares**	**Earnings per share (pence)**	Earnings £'000	2019 Weighted average number of shares	Earnings per share (pence)
Headline basic earnings per share	**605**	**12,208,723**	**4.96**	5,991	10,637,059	56.32
Effect of dilutive securities:	**-**	**8,335**	**-**	-	15,935	-
employee share options						
Headline diluted earnings per share	**605**	**12,217,058**	**4.95**	5,991	10,652,994	56.24

NOTES TO THE PRELIMINARY RESULTS
Continued

3. Segmental analysis

The following tables provide an analysis of the Group's revenue by operating segment and geographical market, irrespective of the origin of the products:

Operating segment	**2020 £'000**	2019 £'000
Portmeirion UK	**38,086**	45,634
Portmeirion North America	**34,936**	32,377
Global home fragrance	**14,832**	14,805
	87,854	92,816

Geographical market	**2020 £'000**	2019 £'000
United Kingdom	**31,845**	32,579
United States		32,477

South Korea	**13,093**	20,758
Rest of the World	**9,445**	7,002
	87,854	92,816

4. Exceptional items

Exceptional items by type are as follows:

	2020 £'000	2019 £'000
Restructuring costs	**1,288**	688
Acquisition costs	**104**	574
Share issue costs	**55**	-
Covid-19 costs	**176**	-
Gain on disposal of associate	**-**	(947)
	1,623	315

5. Finance costs

	2020 £'000	2019 £'000
Interest paid	**561**	487
Interest on lease liabilities	**179**	138
Realised losses on financial derivatives	**-**	7
	740	632

NOTES TO THE PRELIMINARY RESULTS
Continued

6. Dividends

Due to the unprecedented uncertainty facing businesses around the world from Covid-19, the Board is not recommending a final dividend at this time (2019: 0.00p per share), giving total dividends paid and proposed for the year of 0.00p (2019: 8.00p).

7. Reconciliation of earnings before interest, tax, depreciation and amortisation (EBITDA)

	2020 £'000	2019 £'000
Operating profit	**570**	7,513
Add back:		
Depreciation	**3,671**	3,249
Amortisation	**848**	677
Earnings before interest, tax, depreciation and amortisation	**5,089**	11,439

8. Government grants

Government grants were receivable as part of Government initiatives to provide financial support as a result of Covid-19 lockdowns. There are no future related costs in respect of these grants which are receivable solely as compensation for past expenses.

The Group received funding from the UK Government's 'Coronavirus Job Retention Scheme' and retail support grants, the US Government's 'Paycheck Protection Programme' and the Canadian Government's 'Emergency Wage Subsidy'. In total this support amounted to £3,475,000 (2019: £nil) and is included as a credit within operating costs.

9. Acquisition of subsidiary

On 12 August 2020, the Group acquired the remaining 50% interest in Portmeirion Canada Inc. from Royal Selangor Inc. for a net consideration of $935,000 Canadian dollars (including cash acquired of $653,000) before acquisition costs. This included the trade and assets of Royal Selangor Inc. which were included as part of the transaction.

The acquisition provides the Group with additional scale in its Canadian market and strategically complements its existing US subsidiary while continuing to diversify the company into new homeware product categories.

The acquisition terms do not include any contingent consideration or deferred consideration arrangements. Details of the total consideration and the provisional fair values of the assets and liabilities acquired are as follows:

NOTES TO THE PRELIMINARY RESULTS
Continued

9. Acquisition of subsidiary (continued)

	Net assets acquired $'000	Fair value adjustment $'000	Initial fair value acquired $'000	Initial fair value acquired £'000
Cash and cash equivalents	653	-	653	378
Trade and other receivables	709	-	709	411
Inventory	2,160	(43)	2,117	1,225
Property, plant and equipment	101	-	101	58
Trade and other payables	(1,000)	-	(1,000)	(579)
Right-of-use asset	835	-	835	483
Lease liabilities	(835)	-	(835)	(483)
Identifiable intangible assets	72	-	72	42
Deferred tax asset	-	66	66	38
Total identifiable assets	2,695	23	2,718	1,573
Goodwill not recognised	229	-	229	132
Total consideration	**2,924**	**23**	**2,947**	**1,705**

	$'000	£'000
Satisfied by:		
Cash	1,588	919
Previously held interest	1,359	786
Total consideration transferred	**2,947**	**1,705**

The CAD/GBP exchange rate at acquisition was 1.7275.

	£'000
Net cash outflow arising on acquisition:	
Cash consideration	919
Less: cash and cash equivalents	(378)
	541

The acquisition of the remaining 50% shareholding of Portmeirion Canada Inc. has been accounted for as a staged acquisition in accordance with IFRS3. This resulted in a gain on revaluation of the previously held interest of £132,000 ($229,000). Subsequently, £132,000 ($229,000) of goodwill arose on acquisition of the remaining 50% shareholding of Portmeirion Canada Inc. and the Group has chosen not to recognise this goodwill. The net impact of these transactions was no gain or loss. The intangible assets value of £42,000 represents a website recognised at fair value, which is being amortised over its estimated useful life.

NOTES TO THE PRELIMINARY RESULTS
Continued

10. Post balance sheet events

There are no post balance sheet events.

11. Availability of annual report and accounts

The accounts for the year ended 31 December 2020 will be posted to shareholders on or before 12 April 2021 and laid before the Company at the Annual General Meeting on 25 May

2021. Copies will be available from the Company Secretary at Portmeirion Group PLC, London Road, Stoke-on-Trent, Staffordshire, ST4 7QQ, or from the website www.portmeiriongroup.com.

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