**Norish plc**

**Preliminary results 2018**

# Results

Norish plc (AIM: NSH), is pleased to announce its preliminary results for the year ended 31 December 2018.

**Financial Highlights**

* Profit before tax increased by 17.6% to £1.94m (2017 : £1.65m)
* Diluted adjusted Eps increased by 22% to 5p (2017 : 4.1p)
* Group revenue decreased by 12.4% to £36.8m (2017: £42.0m)
* Dividend increased by 9% to 1.80 €cent (2017: 1.65 €cent)
* Net debt was reduced from Stg£5.4m at start of year to Stg£4.9m at year end.
* Interest cover has increased to 11.4 times (2017: 8.7 times)

**Operations**

**Cold Store Division**

Cold stores are our largest business activity, accounting for circa 75% of the non-current assets in the business. Sales were down 4%, from £14.3m to £13.7m in 2018, due mainly to a reduction in blast freezing activity. Sales excluding blast freezing were £11.3m, down marginally from £11.7m from the prior year. Divisional profits grew by 17%, from Stg £2.3m to Stg £2.7m. Divisional margins improved from 16.0% to 19.7%.

2018 was characterised by lower intake, lower stock turn and higher storage revenues, when compared with the prior year. Occupancy was up two percentage points to 94%.

Costs at site level were reduced by 7%, to more than compensate for the reduction in revenue. Labour, our largest cost, was down 5%, year on year, while power (our second largest cost) was reduced by 10%, against the prior year. Labour and power combined were lowered by 7% or Stg £0.46m. Power units consumed were lower by 11%, year on year. This reflects the aforementioned reduction in blast freezing activity, together with benefits coming through from the implementation of energy saving initiatives.

**Sourcing Division**

Market conditions resulted in a reduction in protein supply during the year under review.

However, while sales fell by 17% from £27.2m to £22.5m, contribution declined by just 3% from £0.68m to £0.64m. Townview Foods sources protein products mainly beef, pork, lamb and chicken. Sales from pork and chicken decreased by £3.2m during the year, while sales from beef and lamb decreased by £2.1m.

Townview Foods, the largest business within the Sourcing Division has repaid its investment, in full, within 5 years of its acquisition. A new structure has been put in place, with management, to continue to develop the business, for an additional 5 year period.

During the year the Group decided to discontinue trading in the sale of juice to the ready to drinks market. This activity was conducted via Foro International Connections Limited (“Foro”). Foro continues to source non protein products for the Irish market.

**Dairy**

The dairy division delivered some underlying progress in 2018 despite challenging weather conditions in the Spring/Summer period. Milk deliveries were up 18% year-on-year reflecting a more mature herd profile whilst underlying costs ex-feed were marginally lower. A cold Spring and subsequent Summer drought resulted in lower pasture production and higher feed costs - this also impacted milk production to some extent. Mark-to-market stock values also declined year-on-year reflecting similar conditions across the industry.

**Discontinued**

During the year the group decided to exit the Juice business for the ready to drinks market, which is part of Foro International Connections. A loss of £0.38m was incurred, compared to £0.1m last year.

In 2016, the Group exited the FMCG market and recorded a loss of £nil during 2018 (2017: £0.1m).

**Capital**

During the period we invested £1.16m (2017: £1.82m), £0.33m in the dairy farm in Kilkenny and £0.83m in routine capital expenditure in the cold store division.

**Outlook**

We anticipate another year of strong profit growth for the group in 2019.

In our cold store division, the year has got off to a strong start in the first two months of the year. Management continues to focus on maximising both sales mix and pricing, in a market that is currently more favorable to cold storage businesses, than it has been at any time in the most recent past. Focus on underlying cost improvement will continue. We look forward to further improving returns in this division during the current year.

The UK frozen food sector is currently the fastest growing retail category, growing at 4% per annum. A combination of factors is driving this growth including growth in online shopping, premiumisation of the category as well as providing a solution to food waste. This growth comes against a background of a cold store market which has seen a lack of significant investment over an extended number of years.

Despite the current volatility in its underlying markets, our protein sourcing division is well placed to deliver in line with expectation on the back of its low risk operating model.

Our dairy farming division is now performing strongly. Work in relation to our major dairy project is ongoing at pace. We have assembled a very experienced team, to drive this initiative, to achieve the market position we have set for this development over a two to four year time frame.

**Financial Review**

Total equity at 31 December 2018 stood at £16.7m (2017: £16.0m). Net debt at 31 December 2018 was £4.9m compared to £5.4m at 31 December 2017.

**Dividend**

The board recommends the payment of a final dividend of 1.80 Eurocent per share. This will be paid on 18 October 2019 to those shareholders on the register on the 27 September 2019. It will bring the total dividend in respect of the financial year to 1.80 €cent per share, against 1.65 €cent per share last year, an increase of 9%.

**Brexit**

The United Kingdom is due to leave the EU on the 29 March 2019. It is difficult to pin point any direct impacts from the ongoing Brexit discussions other than to say they are hardly positive for business generally. However, our balance sheet is in excellent shape and leaves us well positioned to benefit from any disruption and consequent opportunity which may arise.

On behalf of the board, I would like to thank the management team and staff for their commitment and contribution in 2018.

**Ted O’Neill**

**Chairman**

**Financial Review**

**The average occupancy increased from 92% to 94%.**

**The significant feature of the year was the improvement of the profitability and returns at our cold stores.**

**Sales**

Total Group revenue decreased by 12.4% to £36.8m (2017: £42.0m). Cold store revenues decreased by 4% to £13.7m (2017: £14.3m). Revenues were mainly down on the back of a reduction in blast freezing volumes. Revenues in the sourcing division decreased by 17.6% to £22.5m (2017: £27.2m). Townview Foods mainly accounted for the decreased sales.

**Gross profit**

Gross profit increased by 5% to £2.93m (2017: £2.78m).

**Operating profit**

Operating profit increased by 14% to £2.12m (2017: £1.86m).

**Finance expense (net)**

Finance expense decreased to £0.19m (2017: £0.21m).

**Loss from discontinued operations**

During the year the group decided to exit the Juice business for the ready to drinks market. A loss of £0.38m was incurred, compared to £0.1m last year.

In 2016, the Group exited the FMCG market and recorded a loss of £nil during 2018 (2017: £0.1m).

**Earnings per share**

The basic adjusted earnings per share increased by 22% to 5p (2017: 4.1p).

**Capital**

During the period we invested £1.16m (2017: £1.82m), £0.33m in the dairy farm in Kilkenny and £0.83m in routine capital expenditure in the cold store division.

**Cash Position**

Net debt decreased to £4.9m (2017: £5.4m). Cash generated from operations amount to £2.2m (2017: £2.5m) and financing activities absorbed £0.9m (2017: £1.1m). Investment in assets was made of £1.3m (2017: £1.9m).

**Dividend**

The board recommends the payment of a final dividend of 1.80€ cent per share. This will be paid on 18 October 2019 to those shareholders on the register on the 27 September 2019. It will bring the total dividend in respect of the financial year to 1.80 €cent per share, against 1.65€ cent per share last year, an increase of 9%.

**Treasury policy and management**

The treasury function, which is managed centrally, handles all Group funding, debt, cash, working capital and foreign exchange exposures. Group treasury policy concentrates on the minimisation of risk in all of the above areas and is overseen and approved by the Board. Speculative positions are not taken.

**Financial risk management**

The Group’s financial instruments comprise borrowings, cash, derivatives, and various items, such as trade receivables, trade payables etc., that arise directly from its operations. The main purpose of the financial instruments not arising directly from operations is to raise finance for the Group’s operations.

The Group may enter into derivative transactions such as interest rate swaps, caps or forward foreign currency transactions in order to minimise its risks. The purpose of such transactions is to manage the interest rate and currency risks arising from the Group’s operations and its sources of finance.

The main risks arising from the Group’s financial instruments are interest rate risk and, liquidity risk. The Group’s policies for managing each of these risks are summarised below.

**Interest rate risk**

The Group finances its operations through a mixture of retained profits, bank and other borrowings at both fixed and floating rates of interest, and working capital. The Group determines the level of borrowings at fixed rates of interest having regard to current market rates and future trends. At the year-end there are, £2.2m term loans of which, £1.96m are at floating base rate plus a bank margin of 1.85% and £0.24m are at a floating rate of 3.75%.

**Liquidity risk**

The Group’s policy is that, in order to ensure continuity of funding, a significant portion of its borrowings should mature in more than one year. At the year-end, 73% of the Group’s borrowings were due to mature in more than one year. The Group achieves short-term flexibility by means of invoice finance and overdraft.

**Aidan Hughes**

**Finance Director**

**Consolidated STATEMENT OF COMPREHENSIVE INCOME**

*for the financial year ended 31 December 2018*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  | **2018** | 2017 |
|  |  |  | **£’000** | £’000 |
|  |  |  |  |  |
| **Continuing operations** |  |  |  |  |
| Revenue |  |  | **36,802** | 42,012 |
| Cost of sales |  |  | **(33,871)** | (39,233) |
|  |  |  |  |  |
| **Gross profit** |  |  | **2,931** | 2,779 |
|  |  |  |  |  |
| Other income |  |  | **43** | 66 |
| Deferred consideration |  |  | **-** | (100) |
| Administrative expenses |  |  | **(851)** | (889) |
| **Operating profit from continuing operations** |  |  | **2,123** | 1,856 |
|  |  |  |  |  |
| Finance income – fair value gain on swaps |  |  | **-** | 10 |
| Finance income – interest receivable |  |  | **3** | 1 |
| Finance expenses – interest paid |  |  | **(187)** | (201) |
| Finance expenses – notional interest |  |  | **-** | (13) |
|  |  |  |  |  |
| **Profit on continuing activities before taxation** |  |  | **1,939** | 1,653 |
|  |  |  |  |  |
| Income taxes – Corporation tax |  |  | **(393)** | (413) |
| Income taxes – Deferred tax |  |  | **(46)** | (28) |
|  |  |  |  |  |
| **Profit for the financial year from continuing operations** |  |  | **1,500** | 1,212 |
|  |  |  |  |  |
| Loss from discontinued operations |  |  | **(379)** | (219) |
|  |  |  |  |  |
| **Profit for the financial year attributable to**  **owners of the parent** |  |  | **1,121** | 993 |
|  |  |  |  |  |
| Other comprehensive income |  |  | - | **-** |
| **Total comprehensive income for the year attributable to owners of the parent** |  |  | **1,121** | 993 |
| |  |  |  |  |  | | --- | --- | --- | --- | --- | | **CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  *for the financial year ended 31 December 2018* | | | | | |  |  |  | **2018** | 2017 | |  |  |  |  |  | | **Earnings per share expressed in pence per share:** |  |  |  |  | | From continuing operations  - basic |  |  | **5.0p** | 4.1p | | - diluted |  |  | **5.0p** | 4.1p | |  |  |  |  |  | |  |  |  |  |  | | From discontinued operations  - basic |  |  | **(1.3)p** | (0.7)p | | - diluted |  |  | **(1.3)p** | (0.7)p | | | | | |
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**Consolidated Statement of financial position**

*at 31 December 2018*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  | **2018** | 2017 |
|  |  |  | **£’000** | £’000 |
| **Non current assets** |  |  |  |  |
| Goodwill |  |  | **2,338** | 2,338 |
| Intangible assets |  |  | **166** | 141 |
| Property, plant and equipment |  |  | **18,125** | 17,759 |
| Biological assets |  |  | **639** | 624 |
|  |  |  | **21,268** | 20,862 |
| **Current assets** |  |  |  |  |
| Trade and other receivables |  |  | **6,250** | 7,537 |
| Inventories |  |  | **624** | 709 |
| Cash and cash equivalents |  |  | **1,543** | 1,558 |
| Assets of disposal group classified as held for sale |  |  | **324** | 279 |
|  |  |  | **8,741** | 10,083 |
|  |  |  |  |  |
| **TOTAL ASSETS** |  |  | **30,009** | 30,945 |
|  |  |  |  |  |
| **Equity attributable to equity holders of the parent** |  |  |  |  |
| Share capital |  |  | **5,640** | 5,616 |
| Share premium account |  |  | **7,321** | 7,281 |
| Other reserves |  |  | **103** | 103 |
| Treasury shares |  |  | **(563)** | (563) |
| Retained earnings |  |  | **4,224** | 3,516 |
| **TOTAL EQUITY** |  |  | **16,725** | 15,953 |
|  |  |  |  |  |
| **Non-current liabilities** |  |  |  |  |
| Borrowings |  |  | **1,787** | 2,390 |
| Deferred tax |  |  | **999** | 953 |
|  |  |  | **2,786** | 3,343 |
| **Current liabilities** |  |  |  |  |
| Trade and other payables |  |  | **5,446** | 6,680 |
| Financial liabilities at fair value through profit or loss |  |  | **-** | 29 |
| Current tax liabilities |  |  | **390** | 367 |
| Borrowings |  |  | **4,647** | 4,555 |
| Liabilities of disposal group classified as held for sale |  |  | **15** | 18 |
|  |  |  | **10,498** | 11,649 |
|  |  |  |  |  |
| **TOTAL EQUITY AND LIABILITIES** |  |  | **30,009** | 30,945 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
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**Consolidated Statement of Changes in Equity**

*For the financial year ended 31 December 2018*

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | **Non-** |  |
|  | **Share** | **Share** | **Other** | **Treasury** | **Retained** |  | **Controlling** | **Total** |
|  | **capital** | **premium** | **Reserves** | **shares** | **earnings** | **Total** | **interest** | **Equity** |
|  | **£'000** | **£'000** | **£'000** | **£’000** | **£'000** | **£'000** | **£'000** | **£'000** |
|  |  |  |  |  |  |  |  |  |
| **At 1 January 2017** | **5,616** | **7,281** | **23** | **(563)** | **2,926** | **15,283** | **(22)** | **15,261** |
| Net profit for the financial year | - | - | - |  | 993 | 993 | - | 993 |
| **Total comprehensive income for the financial year** | **-** | **-** | **-** | **-** | **993** | **993** | **-** | **993** |
| Issue of share capital | - | - | - | - | - | - | - | - |
| Equity dividends paid (recognised directly in equity) | - | - | - | - | (381) | (381) | - | (381) |
| Foreign exchange gain | - | - | 80 | - | - | 80 | - | 80 |
| Minority Interest acquired | - | - | - | - | (22) | (22) | 22 | - |
| **Transactions with owners** | **-** | **-** | **80** | **-** | **590** | **670** | **22** | **692** |
| **At 31 December 2017** | **5,616** | **7,281** | **103** | **(563)** | **3,516** | **15,953** | **-** | **15,953** |
|  |  |  |  |  |  |  |  |  |
| Net profit for the financial year | - | - | - |  | 1,121 | 1,121 | - | 1,121 |
| **Total comprehensive income for the financial year** | **-** | **-** | **-** |  | **1,121** | **1,121** | **-** | **1,121** |
| Issue of share capital | 24 | 40 | - |  | - | 64 | - | 64 |
| Equity dividends paid (recognised directly in equity) | - | - | - |  | (413) | (413) | - | (413) |
| Foreign exchange gain | - | - | - | - | - | - | - | - |
| Minority Interest acquired | - | - | - | - | - | - | - | - |
| **Transactions with owners** | **24** | **40** | **-** | **-** | **708** | **772** | **-** | **772** |
| **At 31 December 2018** | **5,640** | **7,321** | **103** | **(563)** | **4,224** | **16,725** | **-** | **16,725** |

**Consolidated Cash Flow Statement**

|  |  |  |  |
| --- | --- | --- | --- |
| *for the financial year ended 31 December 2018* |  | **2018** | 2017 |
|  |  | **£’000** | £’000 |
| Profit on continuing activities before taxation |  | **1,939** | 1,653 |
| Gain on biological assets |  | **(43)** | (66) |
| Amortisation of intangible assets |  | **141** | 6 |
| Foreign exchange (loss)/gain |  | **(23)** | 63 |
| Loss on discontinued activities |  | **(379)** | (219) |
| Deferred consideration |  | **-** | 100 |
| Finance expenses |  | **187** | 214 |
| Finance income |  | **(3)** | (11) |
| Depreciation – property, plant and equipment-net |  | **812** | 709 |
|  |  | **2,631** | 2,449 |
| **Changes in working capital and provisions:** |  |  |  |
| (Decrease)/increase in inventories |  | **85** | (226) |
| Decrease/(increase) in trade and other receivables |  | **1,287** | (854) |
| Decrease/(increase) in current assets held for sale |  | **(45)** | - |
| (Decrease)/Increase in current liabilities held for sale |  | **(3)** | 11 |
| (Decrease) /Increase in payables |  | **(1,234)** | 1,598 |
| **Cash generated from operations** |  | **2,721** | 2,978 |
|  |  |  |  |
| Interest paid |  | **(187)** | (201) |
| Interest received |  | **3** | 1 |
| Taxation paid |  | **(370)** | (251) |
| **Net cash generated from operating activities** |  | **2,167** | 2,527 |
|  |  |  |  |
| **Investing activities** |  |  |  |
| Investment in intangible assets |  | **(166)** | (82) |
| Purchase of property, plant and equipment |  | **(1,160)** | (1,816) |
| Sale of biological assets |  | **68** | - |
| Purchase of biological assets |  | **(35)** | (19) |
| **Net cash used in investing activities** |  | **(1,293)** | (1,917) |
| **Financing activities** |  |  |  |
| Dividends paid to shareholders |  | **(413)** | (381) |
| Deferred consideration payments |  | **(29)** | (372) |
| Share issue proceeds |  | **64** | - |
| Invoice finance receipts |  | **551** | 487 |
| Overdraft repayments |  | **(210)** | (94) |
| Finance lease capital repayments |  | **(216)** | (189) |
| Term loan advance |  | **2,200** | 266 |
| Finance lease advance |  | **73** | 24 |
| Term loan repayments |  | **(2,909)** | (837) |
| **Net cash outflow from financing activities** |  | **(889)** | (1,096) |
|  |  |  |  |
| **Net decrease in cash and cash equivalents** |  | **(15)** | (486) |
|  |  |  |  |
| Cash and cash equivalents and bank overdrafts,  Beginning of period |  | **1,558** | 2,044 |
|  |  |  |  |
| Cash and cash equivalents end of period |  | **1,543** | 1,558 |