Airea PLC - Final Results

RNS Number : 8040Z
Airea PLC
29 September 2009

AIREA plc

Preliminary results for the year ended 30th June 2009

Review of Operations

Introduction

In our Interim Report we described the difficult trading conditions facing our floor coverings businesses as a consequence of the global economic downturn. In response we initiated a fundamental overhaul of our manufacturing footprint and a far reaching companywide cost reduction programme. Our interim report included the consequent provisions for impairment of property, plant and equipment, surplus inventory and onerous leases. At the same time we have invested heavily in new products for both businesses and we are encouraged by initial market reaction as these new products are progressively introduced.

It is therefore pleasing to report that after incurring a loss in the first half, the group returned to profitability and positive cash generation at the operating level in the final six months of the period. We have made excellent progress against our key objective of stabilising our residential business which was close to break even in the second half of the financial year.

Group results

Within continuing operations, sales of floor covering products reduced by 15.8% to £41.0m (2008: £48.7m). The operating loss was £8.8m (2008 profit: £1.9m). This result was after exceptional operating costs of £4.3m (2008:£0.4m) and goodwill impairment of £4.0m (2008: £8.0m). The exceptional operating costs arose out of a critical review of our asset base and relate to significant provisions for impairment of property, plant and equipment, surplus inventories and onerous leases. The goodwill impairment completes the write-off of the goodwill relating to the residential floor coverings business. The operating result before these exceptional items was a loss of £0.5m (2008: profit £0.5m). It was pleasing to note that the operating result before exceptional items in the second half of the year was a profit of £0.4m (2008: loss £0.1m) demonstrating the effectiveness of our cost reduction measures in stemming the losses within the residential floor coverings business.

After accounting for modest levels of finance income and finance costs, minor adjustments in connection with discontinued activities and incorporating the appropriate tax credit the result for the year was a loss of £9.0m (2008: £3.6m). However, it should be noted that the results to 30th June 2008 included an exceptional profit on sale of fixed assets of £9.9m and a loss on disposal of discontinued operations of £2.7m.

Net cash used in operating activities in the year amounted to £2.4m (2008: £4.1m). Working capital reduced by £1.7m (2008 increase £1.9m) as a result of the focus on inventory reduction and receivables management. Capital expenditure was reduced from £2.3m to £0.9m, and was largely focussed on the range renewal projects. Contributions of £2.5m (2008: £3.7m) were made to the defined benefit pension scheme. The pension deficit reduced to £5.4m (2008: £5.5m), and the group is in discussions with the trustees to agree an appropriate level of future contributions based on the July 2008 actuarial review.

The progression in results is illustrated in the following table:.

Half year ended:	December 07	June 08	December 08	June 09
	£m	£m	£m	£m
Cash generated from (used in) continuing operations	(4.3)	0.2	(2.9)	0.5
Operating (loss) / profit before exceptional items from continuing operations	0.6	(0.1)	(0.9)	0.4

The loss per share was 19.40p (2008: 7.81p). No interim dividend was paid (2008: 0.80p per share) and the directors do not recommend the payment of a final dividend (2008: 1.60p per share).

Key performance indicators

As part of its internal financial control procedures the board monitors certain financial ratios. For the year to 30th June 2009 sales per employee amounted to £115,000 (2008: £122,000), operating return on sales was 1.2% negative (2008: 1.3% positive), return on average net operating assets was 2.7% negative (2008: 2.2% positive) and working capital to sales percentage was 18.0% (2008: 16.1%). The decline in the ratios reflects the difficult trading conditions, and the management action taken during the year addressed these issues. The working capital ratio suffered from a reduction in trade and other payables due to the tightening trade credit environment, and outweighed the improved performance in inventory management and trade receivables control.

Management and personnel

Carolyn Tobin stepped down from the board on 31st December 2008 and Kevin Henry stepped down from the board on 8th June 2009. Carolyn served the company for over ten years as a non-executive director and Kevin served the company for over 25 years, most recently as group finance director and company secretary. We would like to thank Carolyn and Kevin for their service and wish them well for the future.

Martin Toogood joined the group as a non-executive director on 1st April 2009. Martin has considerable experience at executive and non-executive level with a number of major retailers in the UK and Europe and his knowledge of retail markets will be of great assistance in these challenging times.

Roger Salt was appointed company secretary of the company on 8th June 2009. Roger has been with the group for over five years and continues to act as finance director - operations in addition to his new role.

At the completion of his second term of office, Tim Vernon will be retiring from the board at the AGM on November 6th. He will be succeeded as non-executive chairman by Martin Toogood.

There have been a number of changes in key personnel during the year and we would like to thank all our team members throughout the group for their dedication and commitment and for helping the group face the current challenges.

Current trading and future prospects

Market conditions are extremely challenging and our plans do not assume that there will be any improvement at least for the next twelve months. However as a consequence of the actions taken during the period both of our businesses are well placed to withstand further economic uncertainty and take advantage of any improvement in business and consumer confidence as and when this happens.

Our Residential business has undergone a period of major change. We are already benefitting from the streamlined manufacturing footprint, but just as important are the changes made to the product portfolio with the vast majority of products having been redesigned and repackaged in recent months and we are greatly encouraged by the positive reaction they have received so far from both the independent and multiple retail sector.

Our Commercial floor coverings business continues to demonstrate notable resilience to the uncertainty of market conditions, and has undoubtedly benefitted from its strength in the public sector. In anticipation of expected weakening of public sector spending the business has successfully targeted additional non public sector opportunities and broadened its product range.

We are confident we are pursuing the right strategy for the business, but market conditions remain uncertain, and will probably remain so for some time to come, therefore we will remain highly focussed on preserving and improving our cash resources.

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The financial information set out in the announcement does not constitute the group's statutory accounts for the years ended 30 June 2009 or 30 June 2008. The financial information for the year ended 30 June 2008 is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditors reported on those accounts; their report was unqualified and did not contain a statement under s237(2) or (3) of the Companies Act 1985. The consolidated balance sheet at 30th June 2009 and the consolidated income statement, the statement of recognised income and expense and the consolidated cash flow statement for the year then ended have been extracted from the Group's 2009 statutory financial statements upon which the auditor's opinion is unqualified and does not include any statement under s498(2) or s498(3) of the Companies Act 2006.
The announcement has been agreed with the company's auditor for release.

Consolidated Income Statement

year ended 30th June 2009

	2009	2008
	£000	£000
CONTINUING OPERATIONS		
Revenue	40,970	48,713
Operating costs	(45,792)	(48,648)
Impairment of goodwill	(4,000)	(8,012)
Exceptional profit on sale of property	-	9,858
Operating (loss)/profit after exceptional items	(8,822)	1,911
Analysed between:		
Operating (loss)/profit before exceptional items	(496)	484
Exceptional operating costs	(4,326)	(419)
Impairment of goodwill	(4,000)	(8,012)
Exceptional profit on sale of property	-	9,858
Finance income	97	383
Finance costs	(340)	(237)
(Loss)/profit before taxation	(9,065)	2,057
Taxation	103	(1,623)
(Loss)/profit from continuing operations	(8,962)	434
Loss from discontinued operations	(10)	(4,047)
Loss for the year	(8,972)	(3,613)
Loss per share		
(basic and diluted)	(19.40)p	(7.81)p
(Loss)/earnings per share from continuing operations		
(basic and diluted)	(19.38)p	0.94p

Consolidated Balance Sheet

as at 30th June 2009

	2009		2008	
	£000	£000	£000	£000
Non-current assets				
Property, plant and equipment		7,938		8,865

Goodwill		-		4,000
Deferred tax asset		2,217		1,540
Loan notes		-		300
		10,155		14,705
Current assets				
Loan notes	150		-	
Inventories	6,995		10,970	
Trade and other receivables	5,622		8,793	
Income tax receivable	121		448	
Cash and cash equivalents	3,242		6,063	
		16,130		26,274
Non-current assets held for sale		-		452
Total assets		26,285		41,431
Current liabilities				
Trade and other payables	(5,391)		(10,891)	
Provisions	(722)		-	
		(6,113)		(10,891)
Non-current liabilities				
Provisions	(1,038)		-	
Pension deficit	(5,440)		(5,500)	
Deferred tax	(159)		(252)	
		(6,637)		(5,752)
Total liabilities		(12,750)		(16,643)
		13,535		24,788
Equity				
Called up share capital		11,561		11,561
Share premium account		504		504
Capital redemption reserve		2,395		2,395
Retained earnings		(925)		10,328
		13,535		24,788

Consolidated Cash Flow Statement

year ended 30th June 2009

	2009	2008
	£000	£000
Operating activities		
Cash used in operations	(2,401)	(4,148)
Interest received	64	187
Income tax received	435	5
	(1,902)	(3,956)
Investing activities		
Purchase of property, plant and equipment	(878)	(2,323)
Proceeds on disposal of property, plant and equipment	549	16,261
Disposal of subsidiary undertaking	-	2,409
	(329)	16,347
Financing activities		

Equity dividends paid		(740)		(1,110)
Redemption of loan notes		150		(88)
Repayment of bank loans		-		(3,652)
		(590)		(4,850)
Net (decrease)/ increase in cash and cash equivalents		(2,821)		7,541
Cash and cash equivalents at start of the year		6,063		(1,478)
Cash and cash equivalents at end of the year		3,242		6,063

Statement of Recognised Income and Expense

year ended 30th June 2009

	2009		2008	
	£000	£000	£000	£000
Loss attributable to shareholders of the group		(8,972)		(3,613)
Actuarial losses recognised in the pension scheme	(2,140)		(920)	
Related deferred taxation	599		276	
		(1,541)		(644)
Total recognised income and expense relating to the year		(10,513)		(4,257)

Notes:

In accordance with Rule 20 of the AIM Rules, Airea confirms that the annual report and accounts for the year ended 30th June 2009 will be posted to shareholders and will be available to view on the Company's website at www.aireaplc.co.uk.

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