Preliminary results for the year ended 30th June 2014

Strategic Review

Principal activity

The principal activity of the group is the manufacturing, marketing and distribution of floor coverings.

Overview

Airea plc is pleased to report an improvement in trading in the second half of the financial year following a difficult first six months, resulting in increased underlying profitability for the year as a whole. Successful product launches reported at the interim stage, backed up by a restructured sales force provided the platform for the recovery in sales performance. However, the long anticipated recovery in the residential carpet market is still awaited.

Although there were some indications of a modest general improvement in market sentiment, the ongoing squeeze in disposable incomes, continuing austerity in the public sector, and problems in the euro zone combined to give a mixed picture. Competition for business remained fierce throughout the year.

We have been able to invest in working capital to support the new products and sales recovery whilst at the same time maintaining the financial headroom to operate debt free. We continue to improve the reliability and flexibility of our manufacturing base, and as a result have been able to maintain high levels of customer service despite raw material supply issues caused by further concentration of the European yarn manufacturing industry. The cost base remains under constant review and once again significant overall savings have been achieved through efficiency gains in operations, which exceeded the further investment in sales resources.

Group results

Revenue for the period was £23.3m (2013: £25.0m) reflecting the difficult trading performance in the first half of the year. The operating profit before exceptional items was £721,000 (2013: £709,000). An exceptional charge of £115,000 has been made in respect of final settlement of a dilapidations dispute concerning leasehold properties exited in 2011, which was settled after the year end. The operating profit after exceptional items was £606,000 (2013: £709,000). After accounting for pension related finance costs and incorporating the appropriate tax charge the profit for the year was £301,000 (2013 restated[1]: £80,000).

Basic earnings per share were 0.65p (2013 restated[1]: 0.17p), and basic adjusted earnings[2] per share were 0.90p (2013 restated[1]: 0.17p)

Operating cash flows before exceptional items and movements in working capital were £1,598,000 (2013: £1,846,000). Working capital increased by £1,633,000 (2013: decrease £416,000) as a result of investment in inventories to support new product launches and increased levels of demand. Contributions of £375,000 (2013: £415,000) were made to the defined benefit pension scheme in line with the agreement reached with the trustees based on the 2011 actuarial valuation. Capital expenditure of £157,000 (2013 £257,000) was focussed on supporting the continuous improvement in flexibility, reliability and productivity of the manufacturing process.

The pension deficit increased marginally to £5.8m (2013: £5.7m).

Key performance indicators

As part of its internal financial control procedures the board monitors certain financial ratios. For the year to 30th June 2014 value added per employee amounted to £67,000 (2013: £69,000), operating return on sales was 3.1% (2013: 2.8%), return on average net operating assets was 4.2% (2013: 5.1%) and working capital to sales percentage was 40.0% (2013: 30.3%). The ratios were affected by the difficult trading in the first half and are expected to improve as the efficiency gains implemented in the second half come through.

Principal risks and uncertainties

The Board has responsibility for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives, and ensuring that risks are managed effectively across the group. Risks are identified as being principal based on the likelihood of occurrence and potential impact on the group. The group's principal risks are identified below, together with a description of how the group mitigates those risks.

The key operational risk facing the business continues to be the competitive nature of the markets for the group's products. To mitigate this risk the group seeks to improve existing products, introduce new products and achieve high levels of customer service and efficiency.

The majority of the group's revenue arises from trade with flooring contractors and independent retailers. The activity levels within this customer base are determined by consumer demand created through a wide range of commercial refurbishment and building projects and activity in the housing market. The general level of activity in these underlying markets has the potential to affect the demand for products supplied by the group. The group mitigates these factors by closely monitoring sales trends and taking appropriate action early, along with strengthening the product range and developing new channels to market, both at home and abroad, to grow demand across a wider range of markets.

The group operates a defined benefit pension scheme. At present, in aggregate, there is an actuarial deficit between the value of the projected liabilities of this scheme and the assets they hold. The amount of the deficit may be adversely affected by changes in a number of factors, including investment returns, long-term interest rate and price inflation expectations, and anticipated members' longevity. Further increases in pension scheme deficit may require the group to increase the amount of cash contributions payable to the scheme, thereby reducing cash available to meet the group's other operating, investing and financing requirements. Following the triennial funding valuation of the group's pension scheme in 2011, a revised deficit recovery plan was agreed. The performance of the group's pension scheme and deficit recovery plan are regularly reviewed by both the group and the trustees of the scheme, taking actuarial and investment advice as appropriate. The results of these reviews are discussed with the Board and appropriate action taken.

Raw material costs are a significant constituent of overall product cost, and are impacted by global commodity markets. Significant fluctuations in raw material costs can have a material impact on profitability. The group continuously seeks out opportunities to develop a robust and competitive supply base, substitute new materials and closely monitors selling prices and margins.

The global nature of the group's business means it is exposed to volatility in currency exchange rates in respect of foreign currency denominated transactions, the most significant being the euro. In order to protect itself against currency fluctuations the group has taken advantage of the opportunity to naturally hedge euro revenue with euro payments by switching European suppliers from sterling to euro prices. This is done in combination with foreign currency bank accounts and forward exchange contracts. No transactions of a speculative nature are undertaken.

Other risks include the availability of necessary materials, business interruption and the duty of care to our employees, customers and the wider public. These risks are managed through the combination of quality assurance and health and safety procedures, and insurance cover.

Management and personnel

Our staff continue to rise to the challenges posed by the highly competitive environment in which we operate and we once again thank everyone in the business for the flexibility, hard work and commitment they have shown.

Current trading and future prospects

Although there may be signs of improvement in trading conditions in the UK, the outlook for the Eurozone continues to be fragile, and we remain focused on improving our position in what remains a highly competitive market. Our strategy of strengthening our product offer, continuously improving customer service, our relentless pursuit of efficiency gains and selective investment in projects with a clear payback is starting to produce encouraging results, and provides a solid base for the future. The enhancement of our sales capability in the UK gives us real cause for optimism, and international markets continue to provide growth opportunities as we strengthen our presence in markets beyond the EU. The business remains debt free and has the financial resources to invest where there is a sound business case.

In summary, we approach the new year recognising that competition will remain fierce, but with the confidence that the development of our strategy continues to improve our competitive position. We are encouraged by the progress we have delivered in the second half of the year just ended. As a result, and given the continuing health of our financial resources, the board is pleased to declare a final dividend of 0.6p per share. If approved, the dividend will be paid on 26th November 2014 to shareholders on the register at close of business on 31st October 2014.

[1]Restated on adoption of the revised IAS 19, Employee Benefits

[2] Adjusted earnings are earnings adjusted for exceptional operating costs (net of tax)

Enquiries:

Neil Rylance 01924 266561
Chief Executive Officer

Roger Salt 01924 266561
Group Finance Director

Richard Lindley 0113 388 4789
N+1 Singer

The financial information set out in the announcement does not constitute the group's statutory accounts for the years ended 30 June 2014 or 30 June 2013. The financial information for the year ended 30 June 2013 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 include any statement under s498(2) or s498(3) of the Companies Act 2006. The consolidated balance sheet at 30th June 2014, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the year then ended have been extracted from the Group's 2014 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.

Audited Consolidated Income Statement

Year ended 30th June 2014

	2014	2013
		Restated[1]
	£000	£000
Revenue	23,342	25,049
Operating costs	(22,736)	(24,340)
Operating profit before exceptional items	721	709
Exceptional items	(115)	-
Operating profit	606	709
Finance income	3	2
Finance costs	(279)	(541)
Profit before taxation	330	170
Taxation	(29)	(90)
Profit attributable to the shareholders of the group	301	80
Earnings per share (basic and diluted)	0.65 p	0.17 p

All amounts relate to continuing operations

[1]On adoption of the revised IAS 19, Employee Benefits

Audited Consolidated Statement of Comprehensive Income

Year ended 30th June 2014

	2014		2013	
			Restated[1]	
	£000	£000	£000	£000
Profit attributable to shareholders of the group		301		80
Actuarial (loss)/gain recognised in the pension scheme	(189)		2,713	
Related deferred taxation	(73)		(797)	
		(262)		1,916
Total comprehensive income attributable to the shareholders of the group		39		1,996

[1]On adoption of the revised IAS 19, Employee Benefits

Audited Consolidated Balance Sheet

as at 30th June 2014

	2014		2013	
	£000	£000	£000	£000
Non-current assets				
Property, plant and equipment		5,704		6,428
Deferred tax asset		1,323		1,476
		7,027		7,904
Current assets				
Inventories	10,220		8,874	
Trade and other receivables	4,313		4,331	
Cash and cash equivalents	1,930		2,747	
		16,463		15,952
Total assets		23,490		23,856
Current liabilities				
Trade and other payables	(5,121)		(5,440)	
Provisions	(115)		-	
		(5,236)		(5,440)
Non-current liabilities				
Pension deficit	(5,761)		(5,668)	
Deferred tax	(1)		(41)	
		(5,762)		(5,709)
Total liabilities		(10,998)		(11,149)
		12,492		12,707
Equity				
Called up share capital		11,561		11,561
Share premium account		504		504
Capital redemption reserve		2,395		2,395
Retained earnings		(1,968)		(1,753)
		12,492		12,707

Audited Consolidated Cash Flow Statement

Year ended 30th June 2014

	2014	2013
	£000	£000
Operating activities		
Cash (used in)/generated from operations	(410)	1,847
Investing activities		
Purchase of property, plant and equipment	(157)	(257)
Proceeds on disposal of property, plant and equipment	4	-
	(153)	(257)
Financing activities		
Equity dividends paid	(254)	(185)
Net (decrease)/increase in cash and cash equivalents	(817)	1,405
Cash and cash equivalents at start of the year	2,747	1,342
Cash and cash equivalents at end of the year	1,930	2,747

Audited Consolidated Statement of Changes in Equity

Year ended 30th June 2014

	Share capital	Share premium account	Capital redemption reserve	Share option reserve	Profit and loss account	Total equity
	£000	£000	£000	£000	£000	£000
At 1st July 2012	11,561	504	2,395	16	(3,580)	10,896
Profit for the year (restated[1])	-	-	-	-	80	80
Other comprehensive income for the year (restated[1])	-	-	-	-	1,916	1,916
Reserve transfer relating to share based payment	-	-	-	(16)	16	-
Dividend paid	-	-	-	-	(185)	(185)
At 30th June and 1st July 2013	11,561	504	2,395	-	(1,753)	12,707
Profit for the year	-	-	-	-	301	301
Other comprehensive income for the year	-	-	-	-	(262)	(262)
Dividend paid	-	-	-	-	(254)	(254)
At 30th June 2014	11,561	504	2,395	-	(1,968)	12,492

[1]On adoption of the revised IAS 19, Employee Benefits

In accordance with Rule 20 of the AIM Rules, Airea confirms that the annual report and accounts for the year ended 30th June 2014 will be posted to shareholders and will be available to view on the Company's website at www.aireaplc.co.uk on 30th September 2014.