Preliminary results for the year ended 30th June 2015

Strategic Review

Airea plc is pleased to be able to report that the business has made substantial progress in the year, delivering an 11% increase in revenue and a significant improvement in profitability.

Principal activity and strategy

The group remains focused on the manufacture, marketing and distribution of floor coverings. Our approach to strategy is uncomplicated; a robust new product development process that enhances the appeal of our product range to customers whilst exploiting our manufacturing capability, the strengthening of routes to market, a continuous improvement of customer service through the on-going improvement of our operational capability, a relentless search for efficiency improvements and the maintenance of strong financial control.

Overview

Airea plc is pleased to be able to report that the business has made substantial progress in the year, delivering an 11.3% increase in revenue and a significant improvement in profitability. Sales in the UK grew by 12.3% and in international markets by 7.5%. This was largely as a result of the ongoing success of the contract flooring sector sales, which grew by 15.3%, and continued to benefit from new product launches and the restructuring of the sales force. Sales in the domestic market sector also grew, albeit at a more modest rate.

As in previous years the cost base remains under constant review and operating margin increased in the year.

A repurchase of shares was completed in the period, funded from cash flow generated in the year, and contributed to the improvement in earnings per share. Cash generation increased and the group continues to operate debt free.

Group results

Revenue for the period was £25.5m (2014 restated[1]: £22.9m) reflecting the ongoing strengthening of the product range and improvement in routes to market. The operating profit before exceptional items was £1,212,000 (2014: £721,000). The exceptional charge of £114,000 related to the costs of the share re-purchase and the final legal costs incurred in respect of the settlement of the dilapidations dispute reported in the prior period. The operating profit after exceptional items was £1,098,000 (2014: £606,000). After charging other finance costs relating to the defined benefit pension scheme of £448,000 (2014: £276,000), and incorporating the appropriate tax charge, the profit for the year was £581,000 (2014: £301,000).

Basic earnings per share were 1.29p (2014: 0.65p), and basic adjusted earnings per share[2] were 1.50p (2014: 0.90p)

Operating cash flows before movements in working capital and other payables were £1,928,000 (2014: £1,483,000). Working capital increased by £375,000 (2014: £1,633,000) to support the increase in revenues. Contributions of £400,000 (2014: £375,000) 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 £459,000 (2014: £153,000) was focussed on supporting new product launches and the ongoing improvement in the flexibility, reliability and productivity of the manufacturing process. A repurchase of 2,838,102 ordinary shares was completed at a cost of £348,000.

The pension deficit of £5.8m as at 30 June 2014 has increased to a deficit of £7.4m as at 30 June 2015. Significant falls in corporate bond yields have been offset by falls in inflation expectations and the performance of the plan assets, which benefitted from the change in investment strategy implemented at the start of the period. The reason for the worsening of the position is the experience loss resulting from the use of the 30 June 2014 actuarial valuation data as the starting point for the calculations rather than the 30 June 2011 valuation results which underlie previous figures.

Key performance indicators

As part of its internal financial control procedures the board monitors certain financial ratios. For the year to 30th June 2015 value added per employee (the ratio of revenue less material costs to average employee numbers) amounted to £70,000 (2014 restated[1]: £67,000), operating return on sales (the ratio of operating profit before exceptional items to revenue) was 4.7% (2014 restated[1]: 3.1%), return on average net operating assets (the ratio of operating profit before exceptional items to average operating assets) was 7.1% (2014: 4.2%) and working capital to sales percentage was 38.2% (2014 restated[1]: 41.0%). The improvement in the ratios demonstrate the improved productivity of staff, the control of costs relative to the increase in sales and the improvement in working capital efficiency as sales increased.

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 the 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.

Other risks

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. 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

The improvement in the financial performance of the business is testament to the flexibility, hard work and commitment of our staff, we once again thank everyone in the business for their contribution.

Current trading and future prospects

Whilst competition in the European flooring market remains undiminished there are clear and growing signs of improvement in trading conditions in the UK and despite the ongoing strength of sterling the company continues to grow sales in international markets.

Ongoing investment in new products, combined with continuous improvement in manufacturing flexibility and customer service has positioned the business well to face competitive challenges head on. It is pleasing to see that the business has started to reap the benefits of judicious investment in innovation and cost cutting initiatives with a clear pay-back, and given the debt free foundation of the business further investment to facilitate growth is planned for the coming year.

In summary the business is positioned to take advantage of further growth opportunities and whilst there remain clear causes for concern in the Eurozone, so far, the business has been able to grow sales despite currency issues and a general stagnant European market.

Given the improved performance of the business, combined with a strong balance sheet and robust cash flow, we are once again able to support a progressive dividend policy. If approved, a final dividend of 0.9p per share will be paid on 25th November 2015 to shareholders on the register at close of business on 30th October 2015 (ex-dividend date of 29th October 2015).

1 Restated due to reclassification of settlement discount as required by IAS 18, Revenue Recognition

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

Enquiries:

Neil Rylance Chief Executive Officer	01924 266561
Roger Salt Group Finance Director	01924 266561
Richard Lindley N+1 Singer	0113 388 4789

The financial information set out in the announcement does not constitute the group's statutory accounts for the years ended 30 June 2015 or 30 June 2014. The financial information for the year ended 30 June 2014 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 30 June 2015, 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 2015 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 2015

	2015	2014
		Restated
	£000	£000
Revenue	25,538	22,951
Operating costs	(24,440)	(22,345)
Operating profit before exceptional items	1,212	721
Exceptional items	(114)	(115)
Operating profit	1,098	606
Finance income	1	3
Finance costs	(449)	(279)
Profit before taxation	650	330
Taxation	(69)	(29)
Profit attributable to the shareholders of the group	581	301
Earnings per share (basic and diluted)	1.29 p	0.65 p

All amounts relate to continuing operations

Audited Consolidated Statement of Comprehensive Income

Year ended 30th June 2015

	2015		2014	
	£000	£000	£000	£000
Profit attributable to shareholders of the group		581		301
Actuarial loss recognised in the pension scheme	(1,635)		(189)	
Related deferred taxation	267		(73)	
		(1,368)		(262)
Total comprehensive income attributable to the shareholders of the group		(787)		39

Audited Consolidated Balance Sheet

as at 30th June 2015

	2015		2014	
	£000	£000	£000	£000
Non-current assets				
Property, plant and equipment		5,333		5,704
Deferred tax asset		1,557		1,323
		6,890		7,027
Current assets				
Inventories	10,647		10,220	
Trade and other receivables	4,412		4,313	
Cash and cash equivalents	1,883		1,930	
		16,942		16,463
Total assets		23,832		23,490
Current liabilities				
Trade and other payables	(5,308)		(5,121)	
Provisions	-		(115)	
		(5,308)		(5,236)
Non-current liabilities				
Pension deficit	(7,443)		(5,761)	
Deferred tax	(1)		(1)	
		(7,444)		(5,762)
Total liabilities		(12,752)		(10,998)
		11,080		12,492
Equity				
Called up share capital		10,851		11,561
Share premium account		504		504
Capital redemption reserve		3,105		2,395
Retained earnings		(3,380)		(1,968)
		11,080		12,492

Audited Consolidated Cash Flow Statement

Year ended 30th June 2015

	2015	2014
	£000	£000
Cash flow from operating activities		
Profit for the year	581	301
Tax charged	69	29
Finance costs	448	276
Depreciation	830	877
Operating cash flows before movements in working capital and other payables	1,928	1,483
Increase in working capital	(375)	(1,633)
(Decrease)/increase in provisions for liabilities and charges	(115)	115
Cash generated from/(used in) operations	1,438	(35)
Contributions to defined benefit pension scheme	(400)	(375)
Net cash generated from/(used in) operations	1,038	(410)
Investing activities		
Purchase of property, plant and equipment	(459)	(153)
Financing activities		
Interest	(1)	-
Share repurchase	(348)	-
Equity dividends paid	(277)	(254)
	(626)	(254)
Net decrease in cash and cash equivalents	(47)	(817)
Cash and cash equivalents at start of the year	1,930	2,747
Cash and cash equivalents at end of the year	1,883	1,930

Audited Consolidated Statement of Changes in Equity

Year ended 30th June 2015

	Share capital	Share premium account	Capital redemption reserve	Profit and loss account	Total equity
	£000	£000	£000	£000	£000
At 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 1st July 2014	11,561	504	2,395	(1,968)	12,492
Profit for the year	-	-	-	581	581
Other comprehensive income for the year	-	-	-	(1,368)	(1,368)
Share repurchase	(710)	-	710	-	-
Consideration paid on share purchase	-	-	-	(348)	(348)
Dividend paid	-	-	-	(277)	(277)
At 30th June 2015	10,851	504	3,105	(3,380)	11,080

In accordance with Rule 20 of the AIM Rules, Airea confirms that the annual report and accounts for the year ended 30th June 2015 will be posted to shareholders and will be available to view on the Company's website at www.aireaplc.co.uk on 30th September 2015.