United Carpets Group plc - UCG Final Results
Released 07:00 20-Jul-2017

RNS Number : 5592L
United Carpets Group plc
20 July 2017

20 July 2017

UNITED CARPETS GROUP PLC

Unaudited Preliminary Results for the year ended 31 March 2017

United Carpets Group plc ("the Group" or "the Company" or "United Carpets"), the third largest chain of specialist retail carpet and floor covering stores in the UK, today announces its preliminary results for the year ended 31 March 2017.

Highlights

- Like for like sales* increased by 1.3%
- Revenue for the year was £21.2m (2016: £21.4m)
- Profit before tax was £1.53m (2016: £1.49m)
- Earnings per share were 1.58p (2016: 1.51p)
- Store numbers reduced from 61 to 57
- Special dividend of 1.0p per share paid 25 May 2017
- Recommending a final dividend of 0.275p per share (2016: 0.265p per share) payable on 12 October 2017
- Net funds were £2.60m (2016: £1.59m)

*Like for like sales are defined in the Financial Review

Paul Eyre, Chief Executive, said:

"These results show a modest improvement on the prior year together with a positive like for like performance up 1.3%. This is a creditable result against a backdrop of increasing economic uncertainty which has tended to damage consumer confidence. We have been helped by the resilience of our franchise model together with the strength of our core customer offering of providing great quality products at attractive price points."

Enquiries:

United Carpets Group plc Paul Eyre, Chief Executive Ian Bowness, Finance Director	01709 732 666
Novella Communications Ltd Tim Robertson Toby Andrews	020 3151 7008
Cantor Fitzgerald Europe Marc Milmo, Catherine Leftley (Corporate Finance)	020 7894 7000

Chairman's statement

Given the wider environment, this has been a good year for United Carpets. Political and economic changes have affected consumer confidence and this has resulted in a more challenging retail environment so a modest improvement in profit before tax represents sound progress.

During the year, we reduced the overall size of the store portfolio to 57, being 4 fewer than at the start of the financial year, maintaining our focus on stores which meet our performance criteria. That said, the Group will continue to seek to open new stores where it believes there is an opportunity to establish a profitable long-term presence.

It remains difficult to predict the full impact that Brexit and other political developments might have on the UK, however a prolonged period of significant uncertainty has meant that the mood of the UK consumer has fluctuated throughout the past year. It appears probable that this state of flux is unlikely to stabilise in the near term as we go through the Brexit process and therefore we expect the challenging market conditions to remain prevalent over the coming year.

Despite some recent weakening, the UK housing market continues to function reasonably positively and this alongside the Group's debt free, stable financial base and strong market positioning makes the Group, in the Board's opinion, well positioned going forward.

Financial review

Revenue, which includes marketing and rental costs incurred by the Group and recharged to franchisees, was £21.2m (2016: £21.4m). This small overall reduction in revenue reflected the decrease in the average number of corporate stores during the year compared to the prior year, which was largely offset by increased activity through the Group's Warehousing division.

Like for like sales across the whole of the network (based on stores that have traded throughout both the period under review and the corresponding period in the prior year and thus excluding stores that closed during either period) were up 1.3%. This was a pleasing result against strong comparatives in the prior year and during what is considered to be a tough trading environment.

Gross margin in the period was 61.2% compared to 63.8% in the prior year. This primarily reflects the change in the mix of revenue attributable to Franchising and Retail and Warehousing due to the reduction in the average number of corporate stores year on year and increasing proportion of total revenue derived from the Warehousing division which operates on relatively low gross margin. Underlying gross margin was little changed year on year with a small improvement in Franchising and Retail gross margin offset by a reduction in Warehousing gross margin.

Distribution costs and administrative expenses, which include rent, rates and staff costs at the corporate stores, decreased by £0.8m largely as a result of the reduction in the average number of corporate stores year on year, improved efficiency in marketing expenditure and the release of a provision for deferred consideration of £0.15m which is no longer considered necessary. Distribution costs and administrative expenses decreased from 57.2% of revenue to 54.1% principally reflecting the reduction in the proportion of revenue derived from corporate stores.

Profit before tax was £1.53m (2016: £1.49m) and earnings per share were 1.58p (2016: 1.51p).

The statement of financial position included net funds of £2.60m at 31 March 2017 (2016: £1.59m).

Dividend

On 11 May 2017, the Group announced a special dividend of 1.0 pence per share. This dividend was paid on 25 May 2017 and demonstrates the continuing, strong cash generation of the Group, reflecting the improvements made in the business over the last few years.

Dividend *(continued)*

Looking ahead, dividend distributions will remain an important part of the Board's strategy going forwards and when deciding on future, regular dividend payments, modest reductions in dividend cover will be considered subject to any overriding requirements of the business to fund future growth.

The Board is therefore pleased to be recommending a final dividend of 0.275p per share (2016: 0.265p per share). Subject to approval at the Annual General Meeting, this dividend will be paid on 12 October 2017 to all shareholders on the register at the close of business on 29 September 2017. The ex-dividend date will be
28 September 2017.

Operations review

The store portfolio is increasingly stable with the majority of stores producing satisfactory or better returns.

At 31 March 2016, there were 61 stores of which 52 were franchised and 9 were corporate stores. Over the following 12 months, 2 franchised stores and 2 corporate stores were closed and 2 franchised stores and a corporate store were re-located within the same town. As a result, at the end of the financial year, the Group had 57 stores of which 50 were franchised and 7 were corporate.

The streamlining of the store portfolio during the year reflects the Group's continuing focus on developing stores that meet or exceed the performance criteria. Of the 4 stores that were closed, 3 were relatively recent openings that were considered unlikely to be strong long-term contributors. The decision to close them was taken quickly, ensuring that they did not detract from the main focus of profitable contribution to the core portfolio.

The Group continues to seek to open new stores where it can establish a profitable long-term presence. It is anticipated that future opportunities will involve sites with modestly higher annual rental charges reflecting the decision to target slightly higher profile locations. The appointment of a new franchise recruitment manager in May 2017 is aimed at increasing the Group's pool of high quality franchisees.

Across the business, the Group continues to develop its marketing capabilities and during the year it invested in building a long-term online presence. The Group's website functionality has now been expanded to include a transactional facility with online sales being fulfilled via our store network to the benefit of franchisees. Further ongoing investments are anticipated to continue the development of the Group's online capabilities. Alongside this, the Group continues to support the network with a centralised programme of marketing, underpinning awareness of the brand and promotional offers on specific products designed to increase footfall across the store network.

Franchising and Retail

Floor coverings are the Group's primary driver of sales (predominantly carpet, laminate and vinyl floorings) through both franchised stores and the Group's own corporate stores. During the year, the Group delivered a reasonable performance relative to the wider market, with sales up 0.8% on a like for like basis. The product mix was extended during the year, with the introduction of a premium vinyl tile that has added to the overall appeal of the store offer.

While still contributing less than 10% of the Group's total revenues, Beds again delivered in the period recording a like for like sales increase of 7.2% against what are now much tougher comparatives. During the year, the bed range was significantly expanded with the introduction of Silent Night, the dominant bed brand in the UK and this has helped to further establish the Group's credentials amongst its target customers.

Warehousing

Our in-house cutting operation continues to support the whole network providing a quick, efficient cutting and delivery service enabling our franchisees to offer attractive retail price points with good margins. This division continues to benefit from the consolidation of the previously separate Flooring and Beds warehouses into adjacent locations which has led to improved delivery efficiencies and better customer service.

Property

The Property division leases properties from third parties and sublets those properties to the store network.

People

The business performed well in a tougher environment during the year and the Board would like to thank all of its franchisees, suppliers, employees and other stakeholders connected to the Group directly and indirectly for their contribution to the business and looks forward to continuing to work together in the future.

Outlook

Since the year end, the trading environment has remained challenging. Like for like sales for the 15 weeks since the period end to 13 July 2017 have continued to be slightly positive, despite a significant increase in marketing activity.

United Carpets has a well-positioned store portfolio and a debt free base to operate from. The market environment continues to be unsettled. The recent general election has done little to change that and the process of Brexit is likely to create ongoing fluctuations in consumer confidence. This adds a note of caution to the Board's outlook for the business but nevertheless, we expect the Group to continue to develop and pursue expansion opportunities on a selective basis and retain its core focus on its customer offering of providing great quality products at attractive price points.

Peter Cowgill
Chairman

Preliminary announcement of results for the year ended 31 March 2017
Consolidated statement of comprehensive income

	Note	**Year ended 31 March 2017**	Year ended 31 March 2016
		£'000	£'000
Revenue	2	21,192	21,369
Cost of sales		(8,231)	(7,730)
Gross profit		12,961	13,639
Distribution costs		(384)	(299)
Administrative expenses		(11,085)	(11,925)
Other operating income		27	63
Operating profit	3	1,519	1,478
Financial income		11	12
Financial expenses		(3)	(3)
Profit before tax		1,527	1,487
Income tax expense	4	(243)	(258)
Profit for the year*		1,284	1,229
Earnings per share	5		
- Basic (pence per share)		1.58p	1.51p
- Diluted (pence per share)		1.57p	1.49p

*All activities relate to continuing operations and are attributable to the owners of the parent.

There were no items of other comprehensive income and therefore no separate section of other comprehensive income has been presented.

Preliminary announcement of results for the year ended 31 March 2017
Consolidated statement of financial position

	At 31 March 2017 £'000	At 31 March 2016 £'000
Non-current assets		
Property, plant and equipment	2,017	2,105
Investment property	97	100
Deferred tax assets	184	208
	2,298	2,413

Current assets		
Inventories	1,721	1,628
Trade and other receivables	1,836	2,651
Cash and cash equivalents	2,621	1,671
	6,178	5,950
Total assets	8,476	8,363
Capital and reserves		
Issued capital	814	814
Retained earnings	4,323	3,361
Total equity attributable to owners of the parent	5,137	4,175
Non-current liabilities		
Borrowings - finance leases	3	24
Trade and other payables	519	640
	522	664
Current liabilities		
Borrowings - finance leases	20	52
Trade and other payables	2,406	2,984
Provisions	156	240
Current tax liabilities	235	248
	2,817	3,524
Total liabilities	3,339	4,188
Total equity and liabilities	8,476	8,363

Preliminary announcement of results for the year ended 31 March 2017
Consolidated statement of changes in equity

	Note	Issued capital £'000	Retained earnings £'000	Total equity attributable to owners of the parent £'000
At 31 March 2015		814	3,251	4,065
Profit for the year		-	1,229	1,229
Equity dividends paid	6	-	(1,119)	(1,119)
At 31 March 2016		814	3,361	4,175
Profit for the year		-	1,284	1,284
Equity dividends paid	6	-	(322)	(322)
At 31 March 2017		814	4,323	5,137

Preliminary announcement of results for the year ended 31 March 2017
Consolidated statement of cash flows

	Note	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Cash flows from operating activities			
Cash generated from operations	7	1,986	1,396
Interest paid		(3)	(3)
Income tax (paid)/received		(232)	136
Net cash flows from operating activities		1,751	1,529
Cash flows from investing activities			
Acquisition of property, plant and equipment		(437)	(1,216)
Acquisition of investment property		-	(100)
Proceeds from sale of property, plant and equipment		-	5
Interest received		11	12
Net cash flows from investing activities		(426)	(1,299)
Cash flows from financing activities			
Payment of finance lease liabilities		(53)	(50)
Equity dividends paid		(322)	(1,119)

Net cash flows from financing activities	(375)	(1,169)
Increase/(decrease) in cash and cash equivalents in the year	950	(939)
Cash and cash equivalents at the start of the year	1,671	2,610
Cash and cash equivalents at the end of the year	2,621	1,671

Preliminary announcement of results for the year ended 31 March 2017
Notes to the preliminary announcement

1. Basis of preparation

The financial information contained in this unaudited preliminary announcement does not constitute accounts as defined by section 434 of the Companies Act 2006. The financial information for the year ended 31 March 2016 is derived from the statutory accounts for that period 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 either section 498(2) or section 498(3) of the Companies Act 2006. The statutory accounts for the year ended 31 March 2017 will be finalised based on the information in this unaudited preliminary announcement and will be delivered to the Registrar of Companies in due course. The Group has prepared its consolidated financial statements for the year ended 31 March 2017 in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The accounting policies applied are consistent with those included in the financial statements of the Group for the year ended 31 March 2016.

2. Segment reporting

Segment information is presented in the financial statements in respect of the Group's business segments, which are the primary basis of segment reporting. The business segment reporting format reflects the Group's management and internal reporting structure.

Franchising and Retail is the income that the Group receives from its franchise activities together with the results of its corporate stores. Warehousing reflects the results of the Group's in-house cutting operation which services the franchised and corporate stores and a small number of third parties. The Property division leases properties from third parties and sublets those to the store network.

Inter-segment pricing is determined on an arm's length basis. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Unallocated income includes rent receivable from investment property.

	Franchising and Retail		**Warehousing**		**Property**		**Consolidated**	
	2017	2016	**2017**	2016	**2017**	2016	**Year ended 31 March 2017**	Year ended 31 March 2016
	£'000	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Gross sales	**11,633**	13,004	**8,823**	8,393	**2,957**	3,076	**23,413**	24,473
Inter-segment sales	**-**	-	**(1,710)**	(2,426)	**(511)**	(678)	**(2,221)**	(3,104)
Segment revenue	**11,633**	13,004	**7,113**	5,967	**2,446**	2,398	**21,192**	21,369
Segment results	**1,373**	1,005	**63**	311	**(11)**	31	**1,425**	1,347
Unallocated income							**67**	68
Other operating income							**27**	63
Operating profit							**1,519**	1,478
Financial income							**11**	12
Financial expenses							**(3)**	(3)
Income tax expense							**(243)**	(258)
Profit for the year							**1,284**	1,229

Preliminary announcement of results for the year ended 31 March 2017
Notes to the preliminary announcement *(continued)*

3. Operating profit

Operating profit is arrived at after charging/(crediting):

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Release of the deferred consideration creditor relating to the acquisition of the trade, assets and certain liabilities of United Carpets (Northern) Limited	(148)	-
Provision for the estimated costs associated with vacating properties	206	84
(Release of provision)/charge for impairment of trade receivables	(132)	42
Release of provision for impairment of inventories	-	(110)

The liquidators of UNCN Realisations 2012 Limited (formerly United Carpets (Northern) Limited) have indicated that the potential dividend owed to United Carpets Group plc is likely to exceed the remaining deferred consideration of £148,000 owed by United Carpets Group plc. While the final amount of the dividend has not yet been announced, the Directors consider that the provision previously held in respect of the deferred consideration is no longer required.

During the year, 4 stores and a small warehouse/store closed and 3 stores relocated resulting in a charge to the provision for vacating properties of £206,000 in the year.

Progress continues to be made working with franchisees to recover historic debts resulting in a release of provision for impairment of trade receivables of £132,000 in the year.

In the prior year, the basis for impairing inventories was reconsidered resulting in a release of provision for impairment of inventories of £110,000.

4. Income tax expense

Analysis of charge for the year:

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Current tax:		
Current year	265	269
Adjustment in respect of prior periods	(46)	(34)
	219	235
Deferred tax:		
Current year	38	41
Adjustment in respect of prior periods	(14)	(18)
Total income tax expense recognised in the current year	243	258

Preliminary announcement of results for the year ended 31 March 2017
Notes to the preliminary announcement *(continued)*

4. Income tax expense *(continued)*

The tax charge for the year differs to the standard rate of corporation tax in the UK of 20% (2016: 20%). The differences are explained below:

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Profit before tax	1,527	1,487
Profit before tax multiplied by the rate of corporation tax in the UK of 20% (2016: 20%)	305	297
Effect of:		
Expenses not deductible for tax purposes	13	12
Adjustments to tax charge in respect of prior periods	(60)	(52)
Other	(15)	1
Total tax	243	258

5. Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the year ended 31 March 2017 was based on the profit attributable to ordinary shareholders of £1,284,000 (2016: £1,229,000) and a weighted average number of ordinary shares outstanding during the year ended 31 March 2017 of 81,400,000 (2016: 81,400,000).

Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 March 2017 was based on the profit attributable to ordinary shareholders of £1,284,000 (2016: £1,229,000) and a weighted average number of ordinary shares outstanding and potential ordinary shares due to options during the year ended 31 March 2017 of 81,784,987 (2016: 82,286,571).

Preliminary announcement of results for the year ended 31 March 2017
Notes to the preliminary announcement *(continued)*

6. Equity dividends

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Special dividend paid during 2015/16 on ordinary shares of 1.0p per share	-	814
Final dividend in respect of 2014/15 paid during the year on ordinary shares of 0.25p per share	-	203
Interim dividend in respect of 2015/16 paid during the year on ordinary shares of 0.125p per share	-	102
Final dividend in respect of 2015/16 paid during the year on ordinary shares of 0.265p per share	216	-
Interim dividend in respect of 2016/17 paid during the year on ordinary shares of 0.13p per share	106	-

	322	1,119

A special dividend of 1.0p per share was paid on 25 May 2017.

A final dividend of 0.275p per share in respect of the year ended 31 March 2017 has been recommended.

7. Cash generated from operations

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Profit before tax	1,527	1,487
Depreciation and other non-cash items:		
Depreciation of property, plant and equipment	221	208
Impairment of property, plant and equipment	304	62
Loss on disposal of property, plant and equipment	-	2
Depreciation of investment property	3	-
Changes in working capital:		
Increase in inventories	(93)	(254)
Decrease/(increase) in trade and other receivables	815	(288)
(Decrease)/increase in trade and other payables	(699)	196
Decrease in provisions	(84)	(8)
Financial income	(11)	(12)
Financial expenses	3	3
Cash generated from operations	1,986	1,396

END

FR SFMFMUFWSEFW