8 June 2016

Shoe Zone plc

Interim Results

Shoe Zone plc (“Shoe Zone”, the “Company” or the “Group”) a leading UK specialist value footwear retailer, is pleased to announce its Interim Results for the six months to 2 April 2016.

Financial Highlights

- Revenue reduced to £74.6m (2015 H1: £78.2m) reflecting the closure of 23 loss making and temporary stores
- Product gross margin improved to 61.1% (2015 H1: 60.5%)
- Profit before tax of £1.91m (2015 H1: £2.0m)
- Earnings per share decreased to 3.05p (2015 H1: 3.17p)
- Strong cash conversion maintained with a 37.3% increase in net cash to £8.1m (2015 H1: £5.9m)
- Increase in the interim dividend to 3.3p per share (2015 H1: 3.2p per share)

Operational Highlights

- Further store portfolio improvements with 53 Grade 1 stores created in the period
- Rent on renewals fell on average by 29.9% representing a £222k cost saving
- Rent as a % of turnover is now 14% (2015: 14.7%)
- Significant infrastructure investment at the Leicester distribution centre including new online fulfilment area resulting in efficiency savings
- Non-desktop accounted for 70% of online visits to Shoezone.com (2015 H1: 64%)

Anthony Smith, Chief Executive of Shoe Zone plc, said:
“We have continued to make good progress with our store portfolio upgrade and rationalisation programme and I am pleased with the performance of the Group in what was another difficult period for the clothing and footwear industry. The Grade 1 format increased by 53 stores in the period and further additions will be made in the second half.

“We are excited to be launching our “Big Box” format in three locations in August. This will allow Shoe Zone to access the important out of town market, creating a new avenue for growth. We will provide an update on this trial at the Full Year results in January 2017.

“The Group has traded in line with management’s expectations since the period end and the Board continues to look to the future with confidence.”

There will be a presentation for analysts at the offices of FTI Consulting, 200 Aldersgate, London, EC1A 4HD, at 9:30am on 8 June 2016.

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Chief Executive's Statement

Introduction

Shoe Zone is a leading UK specialist value footwear retailer, offering low price and high quality footwear for the whole family. The Group operates from a portfolio of 518 stores and employs approximately 3,500 employees across the UK and the Republic of Ireland. Shoe Zone's online offering (www.shoezone.com), combined with its extensive store portfolio, enables its customers to shop via multiple channels. I will now provide an update on our core areas of progress in the first six months of our financial year.

Financial Summary

In the six months to 2 April 2016, the Company generated revenues of £74.6m (2015 H1: £78.2m) and profit before tax of £1.91m (2015 H1: £2.0m). The well documented warm weather had an adverse impact on trading during the autumn and winter seasons. In addition, the wider market continues to experience deflation in clothing and footwear. Despite these trends, the inventory has been well managed, product gross margins remain robust at 61.1% (2015 H1: 60.5%) and cash generation continues to be strong. As at 2 April 2016 Shoe Zone had net cash of £8.1m (2015 H1: £5.9m) with no bank debt. Management continues to monitor costs closely and these remain tightly controlled.

Dividend

The Board is declaring an interim dividend of 3.3 pence per share, (2015 H1: 3.2p per share). This will be paid on 17 August 2016 to shareholders on the register on 22 July 2016. The shares will go ex-dividend on 21 July 2016.

Property

We have made significant progress with the Company's strategy to increase the number of larger Grade 1 stores. Since the start of our financial year on 4 October 2015, we have 53 additional Grade 1 stores created via openings, refits and sales floor density enhancements. We have opened six new stores, five of which were relocations to our larger format in better locations, refitted 14 stores and closed 23 loss making and temporary stores.

We continue to enhance the property portfolio and since the half year end, we have opened four new stores and a further 12 are in solicitors' hands. We have a busy second half refit programme rolling out our successful new format. Rent reductions continue to drive store contributions with rents on renewal falling on average by 29.9%, resulting in a saving of £222k. Rent as a % of turnover is now 14% (2015: 14.7%).

	As at 2 April 2016	As at 4 April 2015	As at 3 October 2015
Grade 1 (large - 400 styles)	**284***	216	231
Grade 2 (medium - 350 styles)	**112**	177	168
Grade 3 (small - 300 styles)	**122**	148	136
TOTAL	**518**	541	535

* incl. 36 Grade 1+ (450 styles)

Product range development

The product range has continued to evolve with significant improvements to average price control, margin and shoe range diversity. We have continued to achieve strong performances from the relatively new bags and sundries categories where sales grew by 32% in the period.

In April 2015 we appointed a new Merchandise Director who has helped implement changes to improve the timing of ranges coming into stores and also enhanced range diversity giving broader customer appeal. We have retained a strong management focus on controlling average price for current and future trading. Our long term strategy for supply chain efficiencies continues to show margin gains despite a difficult currency headwind. In light of these changes, we are confident of achieving further supply chain improvements which will result in a positive impact on cash.

Operational improvements

During the first half of the year, our Leicester distribution centre has benefitted from significant infrastructure investment, which has resulted in efficiency savings. This, combined with lower fuel costs has had a positive impact on our distribution cost base.

The increase in Grade 1 format stores has allowed us to continue to control wages well and this, together with rent reductions and the closure of loss making stores, enables us to build a more effective cost base for the future. We will also continue to look for growth opportunities and efficiency savings to offset the impact of the National Living Wage.

Multichannel

We have invested in a new online fulfilment zone in the distribution centre in Leicester which will allow us to grow online sales over the next few years without any logistical issues. This area will come into use in the second half and will further improve our impressive customer service levels and fulfilment accuracy. Multichannel revenue is up 10% for the period and continues to contribute at a higher percentage rate than our average high street store. Amazon now represents 25% (2015 H1: 17%) of multichannel revenue and eBay 10% (2015 H1: 7%).

Our email club has grown 21% over the first half to 344,000 members. Customer returns are well managed at 10.4% of sales. The website is now a fully responsive design and work continues to enhance site conversion which is now up to 4.17% (2015 H1: 4.03%). Non-desktop visits account for 70% (2015 H1: 64%) of total visits and non-desktop revenue has grown to 57% (2015 H1: 50%). We continue to develop mobile technology as the primary focus of our digital strategy.

Current trading and Outlook

Looking at performance over the nine weeks to June 2016, April was a challenging month with a cooler start to spring than anticipated. This has been offset with a strong May performance where temperatures were closer to seasonal averages. Overall the business continues to trade in line with management's expectations.

We remain on schedule to launch our new 'Big Box' format in August 2016, which will be trialled in three locations. This new format will benefit from a much larger product range, encompassing a higher priced branded offering within an enhanced aspirational shopping environment. This will allow Shoe Zone to access the out of town market and larger High Street stores, creating a new avenue for growth. A new brand buyer joins us in July 2016 which will greatly support the growth of this format. The Board of Directors would like to thank all of our Shoe Zone teams and business partners for all their hard work in the first half of the financial year.

Unaudited consolidated income statement

	Note	**26 weeks ended 2 April 2016**	Restated 26 weeks ended 4 April 2015	52 weeks ended 3 October 2015
		£'000	£'000	£'000
Revenue	3	**74,593**	78,171	166,819
Cost of sales		**(64,699)**	(67,730)	(139,503)
Gross profit		**9,894**	10,441	27,316
Administration expenses		**(5,086)**	(5,324)	(10,939)
Distribution costs		**(2,850)**	(3,044)	(6,095)
Profit from operations		**1,958**	2,073	10,282
Finance income		**34**	22	44
Finance expense		**(83)**	(95)	(186)
Profit before taxation		**1,909**	2,000	10,140
Taxation	5	**(382)**	(414)	(2,039)
Profit attributable to equity holders of the parent	6	**1,527**	1,586	8,101
Earnings per share – basic and diluted	6	**3.05p**	3.17p	16.20p

Unaudited consolidated statement of total comprehensive income

	26 weeks ended 2 April 2016	26 weeks ended 4 April 2015	52 weeks ended 3 October 2015
	£'000	£'000	£'000
Profit for the period	**1,527**	1,586	8,101
Items that will not be reclassified subsequently to the income statement			
Remeasurement losses on defined benefit pension scheme	**(1,254)**	(1,762)	(499)
Movement in deferred tax on pension schemes	**226**	352	100
Effect of change in deferred tax rate on opening liability	**(103)**	-	-
Cash flow hedges			
Fair value movements in other comprehensive income	**358**	241	314
Tax on cash flow hedges	**(64)**	(49)	(63)
Effect of change in deferred tax rate on opening liability	**6**	-	-
Other comprehensive expense for the period	**(831)**	(1,218)	(148)
Total comprehensive income for the period attributable to equity holders of the parent	**696**	368	7,953

Unaudited consolidated statement of financial position

	Notes	26 weeks ended 2 April 2016 £'000	Restated 26 weeks ended 4 April 2015 £'000	52 weeks ended 3 October 2015 £'000
Assets				
Non-current assets				
Property, plant and equipment		**18,260**	20,286	18,688
Total non-current assets		**18,260**	20,286	18,688
Current assets				
Inventories		**25,485**	28,416	29,172
Trade and other receivables		**7,038**	6,566	8,148
Derivative financial assets	4	**672**	1,660	553
Cash and cash equivalents		**8,140**	5,897	14,221
Total current assets		**41,335**	42,539	52,094
Total assets		**59,595**	62,825	70,782
Current liabilities				
Trade and other payables		**(17,970)**	(20,775)	(23,649)
Provisions for liabilities and charges		**(991)**	(1,095)	(802)
Corporation tax liability		**(702)**	(427)	(1,373)
Total current liabilities		**(19,663)**	(22,297)	(25,824)
Non-current liabilities				
Trade and other payables		**(2,664)**	(3,414)	(3,037)
Provisions for liabilities and charges		**(130)**	(167)	(363)
Employee benefit liability		**(6,336)**	(6,472)	(5,150)
Deferred tax liability		**(72)**	(176)	(124)
Total non-current liabilities		**(9,202)**	(10,229)	(8,674)
Total liabilities		**(28,865)**	(32,526)	(34,498)
Net assets		**30,730**	30,299	36,284
Equity attributable to equity holders of the company				
Called up share capital		**500**	500	500
Share premium reserve		**2,662**	2,662	2,662
Cash flow hedge reserve		**551**	192	251
Retained earnings		**27,017**	26,945	32,871
Total equity and reserves		**30,730**	30,299	36,284

Unaudited consolidated statement of changes in equity

	Share capital	Share premium	Cash flow hedge reserve	Retained earnings	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
At 4 October 2014	500	2,662	-	28,569	31,731
Profit for the period	-	-	-	1,586	1,586
Other comprehensive income/(expense)	-	-	192	(1,410)	(1,218)
Total comprehensive income for the period	-	-	192	176	368
Dividends paid during the year	-	-	-	(1,800)	(1,800)
Total contributions by and distributions to owners	-	-	-	(1,800)	(1,800)
At 4 April 2015	500	2,662	192	26,945	30,299
At 4 October 2014	500	2,662	-	28,569	31,731
Profit for the period	-	-	-	8,101	8,101
Other comprehensive income/(expense)	-	-	251	(399)	(148)
Total comprehensive income for the period	-	-	251	7,702	7,953
Dividends paid during the year	-	-	-	(3,400)	(3,400)
Total contributions by and distributions to owners	-	-	-	(3,400)	(3,400)
At 3 October 2015	500	2,662	251	32,871	36,284
Profit for the period	-	-	-	1,527	1,527
Other comprehensive income/(expense)	-	-	300	(1,131)	(831)
Total comprehensive income for the period	-	-	300	396	696
Dividends paid during the year	-	-	-	(6,250)	(6,250)
Total contributions by and distributions to owners	-	-	-	(6,250)	(6,250)
At 2 April 2016	**500**	**2,662**	**551**	**27,017**	**30,730**

Unaudited consolidated statement of cash flows

	26 weeks ended 2 April 2016	26 weeks ended 4 April 2015	52 weeks ended 3 October 2015
	£'000	£'000	£'000
Operating activities			
Profit after taxation	**1,526**	1,586	8,101
Corporation tax	**382**	414	2,039
Finance income	**(34)**	(22)	(44)
Finance expense	**83**	95	186
Pension contributions paid	**(150)**	(150)	(300)
Depreciation of property, plant and equipment	**1,596**	1,953	3,713
Impairment of property, plant and equipment	**-**	-	459
Loss on disposal of property, plant and equipment	**56**	26	46
	3,459	3,902	14,200
Decrease in trade and other receivables	**1,030**	1,789	303
Increase in foreign exchange contract	**239**	-	501
Decrease in inventories	**3,687**	765	9
Decrease in trade and other payables	**(5,956)**	(6,257)	(3,148)
Decrease in provisions	**(44)**	(167)	(264)
	(1,044)	(3,870)	(2,599)
Cash generated from operations	**2,415**	32	11,601
Income taxes paid	**(1,040)**	(542)	(1,538)
Net cash flows from operating activities	**1,375**	(510)	10,063
Investing activities			
Purchase of property, plant and equipment	**(1,356)**	(1,035)	(1,879)
Sale of property, plant and equipment	**116**	106	280
Interest received	**34**	22	44
Net cash used in investing activities	**(1,206)**	(907)	(1,555)
Financing activities			
Dividends paid during the year	**(6,250)**	(1,800)	(3,400)
Interest paid	**-**	-	(1)
Net cash used in financing activities	**(6,250)**	(1,800)	(3,401)
Net (decrease)/increase in cash and cash equivalents	**(6,081)**	(3,217)	5,107
Cash and cash equivalents at beginning of period	**14,221**	9,114	9,114
Cash and cash equivalents at end of period	**8,140**	5,897	14,221

Notes to the financial statements for the 26 weeks ended 2 April 2016

1. Basis of preparation

The consolidated interim financial statements of the Group for the 26 weeks ended 2 April 2016, which are unaudited, have been prepared in accordance with the same accounting policies, presentation and methods of computation followed in the condensed set of financial statements as applied in the group's latest annual audited financial statements. A copy of those accounts has been delivered to the Registrar of Companies.

The financial information for the 52 weeks ended 3 October 2015, contained in this interim report, does not constitute the full statutory accounts for that period. The Independent Auditors' Report on the Annual Report and Financial Statements for 2015 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

The consolidated interim financial statements have neither been audited nor reviewed pursuant to guidance issued by the Auditing Practices Board.

The condensed consolidated interim financial statements have been prepared on a going concern basis and under the historical cost convention, as modified by the revaluation of derivative financial instruments to fair value.

The condensed consolidated interim financial statements are presented in sterling and have been rounded to the nearest thousand (£'000).

The preparation of financial information in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual events ultimately may differ from those estimates.

2. Accounting policies

In preparing these interim financial statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements reported in latest annual audited financial statements for the 52 weeks ended 3 October 2015.

In the annual audited financial statements for the 52 weeks ended 3 October 2015 the directors carried out a detailed review of the allocation of distribution costs and administrative expenses to arrive at a more accurate allocation of these costs given the growth of our online offering. The allocation of costs for the 26 weeks ended 4 April 2015 has been restated accordingly. The charge for distribution costs has increased by £0.6 million and administrative expenses have reduced by the same amount. There is no impact on the results or net assets from this restatement.

Similarly, in the annual audited financial statements for the 52 weeks ended 3 October 2015 the directors carried out a review on the aging of provisions between less than and greater than one year. The 4 April 2015 comparative has been restated accordingly. Provision for liabilities and charges in current liabilities has increased £0.6 million and provisions in Non-current liabilities have reduced by the same amount. There is no impact on the results or net assets from this restatement.

3. Segmental information

The group complies with IFRS 8 'Operating Segments', which determines and presents operating segments based on information provided to the chief operating decision-maker. The chief operating decision maker has been identified as the management team including the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer. The Board considers that each store is an operating segment but there is only one reporting segment as the stores qualify for aggregation, as defined under IFRS 8.

	2 April 2016	4 April 2015	3 October 2015
	£'000	£'000	£'000
External revenue by location of customers:			
United Kingdom	**72,225**	75,768	161,761
Republic of Ireland	**2,368**	2,403	5,058
	74,593	78,171	166,819

There are no customers with turnover in excess of 10% of total turnover

	2 April 2016	4 April 2015	3 October 2015
	£'000	£'000	£'000
Non-current assets by location:			
United Kingdom	**18,260**	20,286	18,688

Non-current assets held in the Republic of Ireland are not disclosed on the grounds of materiality.

4. Derivative financial instruments

At the balance sheet date, details of the forward foreign exchange contracts that the group has committed to are as follows:

	2 April 2016	4 April 2015	3 October 2015
	£'000	£'000	£'000
Derivative financial assets			
Derivatives not designated as hedging instruments	**-**	1,419	239
Derivatives designated as hedging instruments	**672**	241	314
	672	1,660	553

5. Taxation

The taxation charge for the 26 weeks ended 2 April 2016 is based on the estimated effective tax rate for the full year of 20% (2015: 20.7%).

Further changes to the UK Corporation tax rates were substantively enacted as part of the Finance Bill 2015-16 on 26 October 2015. These include a reduction to the main rate to 19% from 1 April 2017 and to 18% from 1 April 2020. Deferred tax has been calculated at 18% being the rate at which the timing differences are expected to reverse.

6. Earnings per share

	2 April 2016	4 April 2015	3 October 2015
	£'000	£'000	£'000
Profit for the period and earnings used in basic and diluted earnings per share	**1,527**	1,586	8,101
Earnings per share – basic and diluted	**3.05p**	3.17p	16.20p