

LPA GROUP PLC

Half-Yearly Report for the six months ended 31 March 2018

LPA Group PLC (“LPA” or the “Group”), the high reliability LED lighting and electro-mechanical system manufacturer and distributor, announces a strong performance for the six months to 31 March 2018, £1.8m of LED Lighting and power socket contracts from a new customer and board reorganisation.

KEY POINTS

- Revenue increased 28.9% to £13.93m (2017: £10.81m)
- Operating profit before exceptional items increased 45.4% to £1.122m (2017: £0.77m).
- Exceptional costs £111,000 (2017: £115,000 costs less £341,000 of property gain; net £226,000 gain)
- Profit before tax increased 1.1% to £987,000 (2016: £976,000)
- Diluted earnings per share decreased 0.30p to 6.51p (2017: 6.81p) due to increased profits chargeable to tax
- Interim dividend increased 0.05p to 1.10p (2017: 1.05p)
- Order entry decreased 43.4% to £8.40m (2017: £14.85m)
- Order book stands at £16m (2017: £22m)
- Gearing remains unchanged at 31.2% (2017: 31.6%) despite significant increases in working capital and plant and equipment

Michael Rusch, Chairman, comments:

“In my comments at the Annual General Meeting, I reported that output was at record levels and that this had been sustained during the first half. I am pleased to report that operating profits have also been at record levels and that this performance is continuing during the third quarter and should result in an outstanding result for the year. All parts of the Group are performing well.

However, as previously reported, the medium term maybe more challenging. Order entry in Electro-Mechanical and to a lesser extent in LED Lighting has not kept pace with sales and the Group order book has declined. Successive changes in Government procurement policy have impacted domestic supply chains for both new and refurbished trains and there is increased competition in our Asian markets. Nevertheless, we are rising to this challenge and have been selected for £1.8m of new LED Lighting and power socket export contracts for trains being imported to the UK, for delivery commencing in the next financial year.

Following the appointment of Chris Buckenham as Chief Financial Officer and Company Secretary in March 2018, we are continuing our board reorganisation. Paul Curtis, Managing Director of LPA Channel Electric Equipment Limited (“LPA Channel”), our highly successful distribution business is appointed Chief Operating Officer with effect from 1st October 2018, subject to standard due diligence. Paul was apprenticed at LPA Channel, achieved an MBA and had a successful spell as Sales and Marketing Director of LPA Connection Systems before returning to LPA Channel as Managing Director. At the same time, Peter Pollock, our Chief Executive will become Chairman in succession to me, while I become Group President, remaining a major shareholder and non-executive director. Len Porter remains Senior Non-Executive Director. Once these board appointments have bedded in, we expect to promote Paul to Chief Executive Officer and to appoint a further non-executive director. We shall be adopting the QCA Corporate Governance Code and a road map to compliance.

We have committed a further £1m to capital expenditure as a measure of our confidence in the future and we are increasing the interim dividend by 0.05p to 1.10p.”

MICHAEL RUSCH - Chairman - 21 June 2018

ENQUIRIES:

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LPA Group plc

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Interim Unaudited Group Results for the Six Months ended 31 March 2018

CHAIRMAN'S STATEMENT

In my comments to the Annual General Meeting, I reported that output was at record levels and that this had been sustained during the first half. I am pleased to report that operating profits have also been at record levels and that this performance is continuing during the third quarter and should result in an outstanding result for the year.

During the first half, Sales increased 29% to a record £13.9m (2017: £10.8m) reflecting the exceptionally strong order book at the start of the year and Operating Profit increased 45% to £1.1m, also a new record, (2017: £0.8m). Exceptional costs amounted to £0.1m (2017: Exceptional gain £0.2m). Profit before tax amounted to £0.99m (2017 £0.98m) and diluted earnings per share were 6.51p (2018: 6.81p). The dividend is increased by 0.05p to 1.10p. All parts of the Group are performing well.

However, as previously indicated, the medium term maybe more challenging. Order entry in Electro-Mechanical, and to a lesser extent in LED Lighting, has not kept pace with sales and while Distribution is doing well, the Group order book has declined. Government procurement policy has changed impacting domestic supply chains for both new and refurbished trains. The "long term through life" cost approach used on Cross Rail and London Overground, which favoured our reliable, long lived sustainable products has changed to one requiring only support for the franchise period, typically seven years. In addition, the procurement of 7000 new trains, significantly more than the running annual average of around 700 trains, has exceeded domestic capacity to supply, necessitating import from overseas train builders who are not yet existing customers, presenting us with the challenge of displacing existing suppliers to achieve orders.

The flood of new trains has meant the early retirement of some existing trains which would otherwise have required refurbishment and upgrade and provided us with more routine orders. This has particularly impacted Transport+. Some of our export markets, particularly Japan have suffered from increased competition from China and Korea in their export markets and this has presented us with additional challenges.

However, this scenario had been identified for some time and the Group has acted to mitigate it. We have pursued other export opportunities created by imported trains and have won £1.8m of orders for LED Lighting and power sockets from a new entrant to the UK market for delivery in the next financial year. We have identified other similar opportunities which we are pursuing. We have invested in new products development and in opening new markets.

We are investing £1m in processes and automation to reduce manufacturing costs.

We are continuing to follow a progressive dividend policy: the interim dividend will be increased by 0.05p to 1.10p (2017: 1.05p) which will be paid on 28 September 2018 to those shareholders registered at the close of business on 7 September 2018.

Following the appointment of Chris Buckenham as Chief Financial Officer and Company Secretary in March 2018, we are continuing our board reorganisation. Paul Curtis, Managing Director of LPA Channel Electric Equipment Limited, our highly successful distribution business is appointed Chief Operating Officer with effect from 1st October 2018. Paul was apprenticed at LPA Channel achieved an MBA and had a successful spell as Sales and Marketing Director of LPA Connection Systems before returning to LPA Channel as Managing Director. At the same time, Peter Pollock, our Chief Executive will become Chairman in succession to me, while I become Group President, remaining a major shareholder and Non-Executive Director. Len Porter remains Senior Non-Executive Director. Once these board appointments have bedded in, we expect to promote Paul to Chief Executive Officer and to appoint a further non-executive director.

We shall be adopting the QCA Corporate Governance Code and a road map to full compliance.

As previously reported the levels of sales and profits in the current year are exceptional and may be under pressure next year, but the funnel of opportunities, which leads to the pipeline of orders and order entry, is very encouraging. The Group is in robust shape and we look forward to the future with great confidence.

MICHAEL RUSCH
Chairman - 21 June 2018

Interim Unaudited Group Results for the Six Months ended 31 March 2018

CONSOLIDATED INCOME STATEMENT

	6 months to 31 March 2018 Unaudited £000	6 months to 31 March 2017 Unaudited £000	Year to 30 Sept 2017 Audited £000
Revenue	13,929	10,807	22,482
Operating profit before exceptional items	1,122	772	1,895
Gain on sale of property	-	341	341
Relocation and other nonrecurring costs	(111)	(115)	(268)
Operating profit	1,012	998	1,968
Finance costs	(43)	(32)	(75)
Finance income	18	10	21
Profit before tax	987	976	1,914
Taxation	(127)	(78)	(146)
Profit for the period	860	898	1,768
Attributable to:			
- Equity holders of the parent	860	898	1,768
Earnings per share (see note 2)			
- Basic	6.95p	7.37p	14.40p
- Diluted	6.51p	6.81p	13.42p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	6 months to 31 March 2018 Unaudited £000	6 months to 31 March 2017 Unaudited £000	Year to 30 Sept 2017 Audited £000
Profit for the period	860	898	1,768
Other comprehensive income / (expense)			
<i>Items that will not be reclassified to profit or loss</i>	-	-	-
Actuarial gain / (loss) on pension scheme	(396)	294	349
Tax on actuarial gain / (loss)	65	(57)	(77)
Other comprehensive income / (expense) net of tax	(331)	237	272
Total comprehensive income for the period	529	1,135	2,040
Attributable to:			
- Equity holders of the parent	529	1,135	2,040

Interim Unaudited Group Results for the Six Months ended 31 March 2018

CONSOLIDATED BALANCE SHEET

	As at 31 March 18 Unaudited £000	As at 31 March 17 Unaudited £000	As at 30 Sept 17 Audited £000
Non-current assets			
Intangible assets	1,187	1,190	1,185
Property, plant and equipment	6,843	6,686	6,851
Retirement benefits	983	1,195	1,311
	<u>9,013</u>	<u>9,071</u>	<u>9,347</u>
Current assets			
Inventories	4,821	3,593	4,417
Trade and other receivables	6,041	4,721	5,054
Cash and cash equivalents	44	138	119
	<u>10,905</u>	<u>8,452</u>	<u>9,590</u>
Total assets	<u>19,917</u>	<u>17,523</u>	<u>18,937</u>
Current liabilities			
Bank overdraft	(817)	(640)	(216)
Bank loans and other borrowings	(251)	(265)	(277)
Current tax payable	(188)	(199)	(64)
Trade and other payables	(4,947)	(4,061)	(4,969)
	<u>(6,203)</u>	<u>(5,165)</u>	<u>(5,526)</u>
Non-current liabilities			
Bank loans and other borrowings	(2,420)	(2,327)	(2,379)
Deferred tax liabilities	(159)	(251)	(221)
Other payables	(90)	-	(90)
	<u>(2,669)</u>	<u>(2,578)</u>	<u>(2,690)</u>
Total liabilities	<u>(8,871)</u>	<u>(7,743)</u>	<u>(8,216)</u>
Net assets	<u>11,046</u>	<u>9,780</u>	<u>10,721</u>
Equity			
Share capital	1,238	1,231	1,238
Share premium account	628	610	628
Un-issued shares reserve	134	183	134
Merger reserve	230	230	230
Retained earnings	8,816	7,526	8,491
Equity attributable to shareholders of the parent	<u>11,046</u>	<u>9,780</u>	<u>10,721</u>

LPA Group Plc

Interim Unaudited Group Results for the Six Months ended 31 March 2018

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	6 months to 31 March 2018 Unaudited £000	6 months to 31 March 2017 Unaudited £000	Year to 30 Sept 2017 Audited £000
Opening equity	10,721	8,689	8,689
Total comprehensive income	529	1,135	2,040
Transactions with owners:			
Dividends	(204)	(185)	(315)
Proceeds from issue of shares	-	141	166
Tax benefit on share based payments	-	-	141
Closing equity	11,046	9,780	10,721

Interim Unaudited Group Results for the Six Months ended 31 March 2018

CONSOLIDATED CASH FLOW STATEMENT

	6 months to 31 March 2018	6 months to 31 March 2017	Year to 30 Sept 2017
	Unaudited	Unaudited	Audited
	£000	£000	£000
Profit before tax	987	976	1,914
Finance costs	43	32	75
Finance income	(18)	(10)	(21)
Operating profit	1,012	998	1,968
<i>Adjustments for:</i>			
Depreciation	319	230	543
Amortisation of intangible assets	6	17	36
(Gain) on sale of property, plant and equipment	(8)	(341)	(321)
Loan arrangement fees	-	4	4
	1,329	908	2,230
<i>Movements in working capital:</i>			
Change in inventories	(404)	(563)	(1,387)
Change in trade and other receivables	(987)	(43)	(376)
Change in trade and other payables	(22)	259	1,237
Cash generated from operations	(83)	561	1,704
Income taxes paid	-	-	(112)
Retirement benefits	(50)	(50)	(100)
Net cash from operating activities	(133)	511	1,492
Purchase of property, plant and equipment	(173)	(1,354)	(1,643)
Proceeds from sale of property, plant and equipment	8	524	525
Capitalised development expenditure	(8)	(13)	(27)
Net cash (used in) / from investing activities	(173)	(843)	(1,145)
Drawdown of bank loans	-	500	500
Repayment of bank loans	(98)	(603)	(702)
Repayment of obligations under finance leases	(53)	(27)	(81)
Interest paid	(15)	(7)	(23)
Proceeds from issue of share capital	-	141	166
Dividends paid	(204)	(185)	(315)
Net cash (used in) / from financing activities	(370)	(181)	(455)
Net (decrease) / increase in cash and cash equivalents	(676)	(513)	(108)
Cash and cash equivalents at start of the period	(97)	11	11
Cash and cash equivalents at end of the period	(773)	(502)	(97)

Interim Unaudited Group Results for the Six Months ended 31 March 2018

Reconciliation of cash and cash equivalents

	6 months to 31 March 2018 Unaudited £000	6 months to 31 March 2017 Unaudited £000	Year to 30 Sept 2017 Audited £000
Cash and cash equivalents in current assets	44	138	119
Bank overdraft in current liabilities	(817)	(640)	(216)
Cash and cash equivalents at end of the period	(773)	(502)	(97)

NOTES

1 - BASIS OF PREPARATION

These interim consolidated financial statements are for the six months ended 31 March 2018. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group, for the year ended 30 September 2017.

They have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and applicable law (IFRS) and in accordance with the provisions of the Companies Act 2006 applicable to companies applying IFRS. These financial statements have been prepared under the historical cost convention with the exception of certain items which are measured at fair value.

These consolidated interim financial statements have been prepared in accordance with the accounting policies adopted in the last annual financial statements for the year to 30 September 2017. The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these interim financial statements and are expected to be followed throughout the year ending 30 September 2018.

2 - EARNINGS PER SHARE

The calculations of earnings per share are based upon the profit after tax attributable to ordinary equity shareholders and the weighted average number of ordinary shares in issue during the period. Details are as follows:

	6 months to 31 March 2018 Unaudited	6 months to 31 March 2017 Unaudited	Year to 30 Sept 2017 Audited
Profit for the period - £000	860	898	1,768
Weighted average number of ordinary shares in issue during the period (million)	12.377	12.186	12.276
Dilutive effect of share options	0.831	0.995	0.903
Number of shares for diluted earnings per share	13.208	13.181	13.179
Basic earnings per share	6.95p	7.37p	14.40p
Diluted earnings per share	6.51p	6.81p	13.42p

LPA Group Plc

Interim Unaudited Group Results for the Six Months ended 31 March 2018

3 - ANALYSIS OF NET DEBT

	Bank loans	Finance lease obligations	Cash and cash equivalents	Net debt
	£000	£000	£000	£000
At 1 October 2017	2,311	345	97	2,753
New finance lease obligations	-	138	-	138
Draw down of bank loans	-	-	-	-
Interest and arrangement fees	28	-	-	28
Repayment of borrowings	(98)	(53)	151	-
Cash absorbed	-	-	525	525
At 31 March 2018	2,241	430	773	3,444

4 - INFORMATION

LPA Group plc is the Group's ultimate parent company. It is incorporated in England and Wales and domiciled in the UK. The address of LPA Group plc's registered office, which is also its principal place of business, is Light & Power House, Shire Hill, Saffron Walden, CB11 3AQ. LPA Group plc's shares are quoted on the AIM market of the London Stock Exchange.

LPA Group plc's consolidated interim financial statements are presented in Pounds Sterling (£000), which is also the functional currency of the parent company. These consolidated interim financial statements have been approved for issue by the Board of Directors on 21 June 2018. The financial information for the year ended 30 September 2017 set out in this interim report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The Group's statutory financial statements for the year ended 30 September 2017 have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain statements under Section 498(2) or Section 498(3) of the Companies Act 2006.

Summarised copies of this Interim Report are being sent to shareholders. Copies are also available from the Company's registered office address as above, or are available on the Company's website (www.lpa-group.com).