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LPA Group Plc

Interim Unaudited Group Results for the Six Months ended 31 March 2020

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LPA GROUP PLC

LPA Group Plc ("LPA" or the "Group"), the high reliability LED lighting and electro-mechanical system manufacturer and distributor, announces its results for the six months to 31 March 2020 and a near record order book.

Key points

- Revenue increased 7% to £10.8m (2019: £10.1m)
- Operating profit before exceptional items increased 28% to £0.23m (2019: £0.18m)
- Profit before tax £0.2m (2019: Loss after exceptional item £0.2m)
- Earnings per share 2.08p (2019: Loss 1.20p)
- Interim dividend nil (2019: 1.10p)
- Order book increased 29% to £24.7m (2019: £19.2m)
- Order entry fell 8% to £14.2m (2019: £15.4m)
- Gearing[1] 25.6% (2019: 22.0%)

Notes: [1] Gearing excludes IFRS16 right of use assets and liabilities. Inclusive 26.8%.

Paul Curtis, CEO, commented:
"Although Covid-19 has caused significant disruption to the first half of the financial year, we are pleased to show a 7% increase in sales, a 29% increase in order book and a return to profitability. Our sites are fully compliant with safe working guidelines and have remained open in support of our customers throughout the period. We continue to work with our excellent staff during this difficult time and thank them all for their efforts and dedication. The Group has significant opportunities to pursue, and, although customer demand remains fragile in some areas, confidence is slowly returning to the market and we look forward to increasing momentum over the coming 18 months."

Paul Curtis
CEO
19 June 2020

The Digital Future
The Group is embracing the digital era by moving its shareholder communication from paper to digital reports. These are available for download from our website (www.lpa-group.com). We will work with shareholders to facilitate this transition, providing only those who have requested a hard copy of our Interim Report with one.

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014.

Caution regarding forward looking statements
Certain statements in this announcement, are, or may be deemed to be, forward looking statements. Forward looking statements are identified by their use of terms and phrases such as ''believe", ''could", "should" ''envisage", ''estimate", ''intend", ''may", ''plan", ''potentially", "expect", ''will" or the negative of those, variations or comparable expressions, including references to assumptions. These forward looking statements are not based on historical facts but rather on the Directors' current expectations and assumptions regarding the Company's future growth, results of operations, performance, future capital and other expenditures (including the amount, nature and sources of funding thereof), competitive advantages, business prospects and opportunities. Such forward looking statements reflect the Directors' current beliefs and assumptions and are based on information currently available to the Directors.

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CHAIRMAN'S STATEMENT

In our Covid-19 trading update of 1 April 2020, we reported that several UK and export customers had suspended operations leading to reduced demand and activity across the Group. However, I am pleased to report that so far during this pandemic all three LPA Sites have remained open for business.

The safety of our people has been our paramount concern and we have carefully followed and implemented government guidelines on safe working. Where possible and practical, we have utilised the government economic support schemes to ameliorate the impact of the pandemic on the business. All sites have adopted flexible working practices, allowing employees to work from home where practical and furloughing where necessary. We have flexed our capacity to match, as closely as possible, extremely variable customer demand and project management requirements during the period.

Nevertheless, I am pleased to report an improved first half performance and that the factory load for the second half, coupled with continued careful matching of capacity to variable customer short term requirements, should deliver further progress.

Sales in the first half increased 7% to £10.8m (2019: £10.1m) despite the impact of non-Covid-19 related customer project delays. Operating profit increased to £0.23m (2019: £0.18m). Profit before tax amounted to £0.2m (2019: loss after exceptional item £0.2m). Earnings per share amounted to 2.08p (2019: loss 1.20p).

Order entry, at £14.2m, fell just short of the very strong levels achieved in the first half last year (2019: £15.4m) and the order book increased 29% to £24.7m (2019: £19.2m).

Gearing, which otherwise would have reduced substantially, increased marginally to 25.6% (2019:22%), due to a substantial late overdue remittance received just after the half year end in early April.

In response to the potential cash flow impact of the Covid-19 outbreak, the proposed final dividend resolution was not put to shareholders at the AGM and thus not paid to conserve cash resources. The current cash position is very sound and in other circumstances the board would probably have considered it appropriate to confirm their confidence in the future and their commitment to a progressive dividend policy by declaring an Interim Dividend. However, under current circumstances the board consider it sensible and prudent to defer any decision on dividends to later in the year.

Although Lighting Systems again suffered some project delays, significant orders, including the prestigious Siemens/ÖBB contract announced in January 2020, further reinforced our position as a global supplier in this market. Lighting Systems continues to invest in smart lighting products and has a near record order book. LPA Connection Systems also suffered significant project delays in the period, but strong order intake has also resulted in a near record order book.

LPA Channel continued to trade very successfully. The order pipeline remains very strong and should lead to significant order entry in the second half. However, the impact of Covid-19 on the business has been a less clear picture in the medium and long term. The board has this matter under constant review and the executive team has been tasked with developing a flexible strategy in response. Planned Capital Expenditure is more modest than in recent years. However, our laser cutting facility has been substantially upgraded, increasing capacity and capability in response to increased customer demand. A loss on disposal of £62k on the old equipment was suffered in the first half.

The adoption of IFRS16 (leases) from 1 October 2019, added 1.2% to the adjusted gearing ratio of 26.8%. All property is freehold and only minor operating leases are held predominantly related to vehicles and office equipment. 'Right of Use Assets' added £0.16m to the Balance Sheet with an equal and opposite liability recognised. The net effect on the results in the period is less than £1k.

I am delighted to confirm that subsequent to the Annual General Meeting, Gordon Wakeford has joined the Board as Non-Executive Director. His experience as Head of Siemens Mobility UK and Chairman of both the Railway Industry Association and the Rail Supply Group, an industry partnership with government, will be invaluable to us.

I am also very pleased to welcome Jonathan Rowe as Managing Director of LPA Connection Systems. Jonathan has an Honours Degree in Engineering from the University of Cambridge and a wealth of experience in manufacturing and business development.

The current circumstances are challenging, but the Group has an excellent executive team, a very strong order book and a strong balance sheet with low gearing. We are in good condition to meet these challenges.

Peter Pollock
Chairman
19 June 2020

CONDENSED CONSOLIDATED INCOME STATEMENT

	6 months to 31 Mar 2020 Unaudited £000	6 months to 31 Mar 2019 Unaudited £000	Year to 30 Sept 2019 Audited £000
Revenue	**10,780**	**10,091**	**19,533**
Operating profit before exceptional items	**226**	**174**	**201**
Pension GMP and reorganisation costs	-	(364)	(403)
Operating profit / (loss)	**226**	**(190)**	**(202)**
Finance costs	(60)	(43)	(99)
Finance income	20	34	64
Profit / (loss) before tax	**186**	**(199)**	**(237)**
Taxation	70	50	185
Profit / (loss) for the period	**256**	**(149)**	**(52)**
Attributable to:			
- Equity holders of the parent	256	(149)	(52)
Earnings per share (see note 4)			
- Basic	2.08p	(1.20p)	(0.43p)
- Diluted	2.01p	(1.20p)	(0.43p)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	6 months to 31 Mar 2020 Unaudited £000	6 months to 31 Mar 2019 Unaudited £000	Year to 30 Sept 2019 Audited £000
Profit / (loss) for the period	**256**	**(149)**	**(52)**
Other comprehensive income			
Actuarial (loss) / gain on pension scheme	(240)	(516)	9
Tax on actuarial (loss) / gain	44	94	(7)
Other comprehensive income net of tax	(196)	(422)	2
Total comprehensive income for the period	**60**	**(571)**	**(49)**

CONSOLIDATED BALANCE SHEET

		As at 31 Mar 2020 Unaudited £000	As at 31 Mar 2019 Unaudited £000	As at 30 Sept 2019 Audited £000
Non-current assets	- Intangible assets	1,400	1,248	1,359
	- Property, plant and equipment	7,019	7,267	7,006
	- Right of use assets	152	-	-
	- Retirement benefits	2,080	1,613	2,250
		10,651	10,128	10,615
Current assets	- Inventories	4,234	3,746	3,824
	- Trade and other receivables	5,819	4,800	4,437
	- Current tax receivable	129	-	59
	- Cash and cash equivalents	221	304	889
		10,403	8,850	9,209
Total assets		21,054	18,978	19,824
Current liabilities	- Trade and other payables	(4,806)	(3,602)	(3,839)
	- Bank loans and other borrowings	(422)	(355)	(2,805)
	- Right of use lease liabilities	(81)	-	-
	- Current tax payable	-	(283)	-
		(5,309)	**(4,240)**	**(6,644)**
Non-current liabilities	- Bank loans and other borrowings	(2,968)	(2,576)	(504)
	- Deferred tax liabilities	(313)	(212)	(352)
	- Right of use lease liabilities	(72)	-	-
		(3,353)	**(2,788)**	**(856)**
Total liabilities		(8,662)	(7,028)	(7,500)
Net assets		**12,392**	**11,950**	**12,324**
Equity	- Share capital	1,266	1,261	1,266
	- Investment in own shares	(324)	(324)	(324)
	- Share premium account	708	688	708
	- Un-issued shares reserve	90	123	82
	- Merger reserve	230	230	230
	- Retained earnings	10,422	9,972	10,362
Equity attributable to shareholders of the parent		**12,392**	**11,950**	**12,324**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		6 months to 31 Mar 2020 Unaudited £000	6 months to 31 Mar 2019 Unaudited £000	Year to 30 Sept 2019 Audited £000
Opening equity		12,324	12,711	12,711
Total comprehensive income		60	(571)	(49)
Transactions with owners:	- Dividends	-	(222)	(357)
	- Proceeds from issue of shares	-	83	108
	- Cost of investment in own shares	-	(110)	(110)
	- Tax benefit on share-based payments	-	58	18
	- Share-based payments	8	1	3
Closing equity		**12,392**	**11,950**	**12,324**

CONSOLIDATED CASH FLOW STATEMENT

	6 months to 31 Mar 2020 Unaudited £000	6 months to 31 Mar 2019 Unaudited £000	Year to 30 Sept 2019 Audited £000
Profit / (loss) before tax	186	(199)	(237)
Finance costs	60	43	99
Finance income	(20)	(34)	(64)
Operating profit	**226**	**(190)**	**(202)**
Adjustments for:			
Depreciation	367	361	693
Amortisation of intangible assets	43	12	48
Loss / (gain) on sale of plant and equipment	61	-	(2)
Equity settled share based payments	8	-	-
Past service cost liability recognition (GMP)	-	364	333
	705	**547**	**870**
Movements in working capital:			
Change in inventories	(410)	135	57
Change in trade and other receivables	(1,381)	924	1,102
Change in trade and other payables	968	(1,447)	(1,059)
Cash generated from operations	(118)	159	970
Income taxes received / (paid)	2	-	(210)
Retirement benefits – DB pension contributions	(50)	(50)	(100)
Net cash from operating activities	**(167)**	**109**	**660**
Purchase of software, plant and equipment	(117)	(245)	(399)
Proceeds from sale of property, plant and equipment	6	-	3
Capitalised development expenditure	(76)	(60)	(124)
Purchase of Own Shares	-	(110)	(110)
Net cash (used in) investing activities	**(187)**	**(415)**	**(630)**
Drawdown of bank loans	-	-	2,626
Repayment of bank loans	(122)	(99)	(2,242)
Repayment of obligations under finance leases	(133)	(94)	(201)
Payments in respect of right of use assets	(43)	-	-
Interest paid	(17)	(14)	(31)
Proceeds from issue of share capital	-	83	108
Dividends paid	-	(222)	(357)
Net cash (used in) financing activities	**(315)**	**(346)**	**(97)**
Net (decrease) / increase in cash and cash equivalents	(668)	(652)	(67)
Cash and cash equivalents at start of the period	889	956	956
Cash and cash equivalents at end of the period	**221**	**304**	**889**

ANALYSIS OF NET DEBT

	Bank loans £000	Finance lease obligations £000	Right of use asset obligations £000	Cash and cash equivalents £000	Net debt £000
At 1 October 2019	2,585	724	-	(889)	**2,420**
Introduced at 1 October 2019	-	-	156	-	**156**
New lease obligations	-	297	37	-	**334**
Interest and arrangement fees	40	-	3	-	**43**
Repayment of borrowings	(123)	(133)	(43)	299	**-**
Cash absorbed	-	-	-	369	**369**
At 31 March 2020	**2,502**	**888**	**153**	**(221)**	**3,322**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PREPARATION

These interim financial statements are for the six months ended 31 March 2020. They do not include all 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 2019, which have been filed at Companies House with an unmodified audit report.

These interim financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and applicable law (IFRS), in accordance with IAS 34 – Interim Financial Reporting 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 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 2019, other than where described under new standards and interpretation adopted by the Group. 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 2020.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of judgements and estimates

In preparing these interim financial statements management is required to make judgements on the application of the Group's accounting policies and make estimates about the future. Actual results may differ from these assumptions. 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 described in the consolidated financial statements for the year ended 30 September 2019.

New standards and interpretation adopted by the Group

IFRS 16 - Leases

Adoption of IFRS 16 (Leases) introduces a single on-balance sheet accounting model for leases and replaces IAS 17 - Leases. From 1 October 2019, the Group is required to recognise a Right of Use asset and corresponding liabilities representing its obligation to make lease payments. Short term and low value items are excluded and continue to be reported as operating lease costs on a straight-line basis over the lease term of the asset.

IFRS16 recognises an asset and liability on the Balance Sheet, with interest and depreciation charged through the Income Statement, replacing operating lease charges. The Group has adopted IFRS 16 using the modified retrospective transition approach which introduces an equal asset value and lease liability at 1 October 2019, without adjustment to the comparative period results.

The Right of Use lease liability is measured at the present value of the lease payments outstanding at 1 October 2019, based on the interest rate inherent in the lease agreement or calculated where the rate is uncertain. Depreciation is calculated on a straight-line basis through to the termination of the lease agreement.

Short term leases are those with an expiry or duration of less than 12 months. Low value leases are defined under IFRS 16 as assets having a value of less than US$5,000, after deduction of service elements within the lease.

The effect on Profit before tax through adoption of IFRS 16 for the six months ended 31 March 2020 is less than £1,000.

Guaranteed Minimum Pension (GMP)

The 2019 statements include a historic provision for historic GMP equalisation which, whilst it remains an estimate, is believed to be a full provision. This is in line with the High Court ruling in October 2018 requiring all UK companies to remove inequalities between men and women in scheme benefits that arose under GMP. As the basis of calculation was not previously available, the ruling is considered to create a new obligation leading to accounting for the increase in liabilities as a past service cost, which is recognised in the current period profit and loss account as an exceptional cost.

NOTE 3 – GOING CONCERN

Currently there are uncertainties due to the Covid-19 pandemic and Brexit which makes forecasting more difficult.

Having assessed all aspects of the business and the likely effectiveness of mitigating actions that the Directors would consider undertaking or have undertaken, the going concern basis has been adopted in preparing these interim financial statements. Actions taken include both cost reductions and a proactive policy of cash retention achieved in part through the UK Government's Job Retention Scheme grants, VAT deferral scheme and the non-declaration of dividends through this period.

In reaching this conclusion, the Directors, after making enquiries, inclusive but not limited to updated forecasts and expectations, liabilities and risks and ongoing support from the Group's bank, have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

NOTE 4 – EARNINGS PER SHARE

The calculations of earnings / (loss) per share are based upon the profit/ (loss) after tax attributable to ordinary equity shareholders and the weighted average number of ordinary shares in issue during the period. Diluted earnings per share are based on the weighted average number of ordinary shares; share options in issue during in the period.

Details are as follows:	**6 months to 31 Mar 2020 Unaudited**	**6 months to 31 Mar 2019 Unaudited**	**Year to 30 Sept 2019 Audited**
Profit / (loss) for the period - £000	256	(149)	(52)
Weighted average number of ordinary shares in issue during the period (million)	12.358	12.186	12.238
Dilutive effect of share options (million)	0.391	0.995	0.506
Number of shares for diluted earnings per share	12.749	13.181	12.744
Basic earnings per share	2.08p	(1.20p)	(0.43p)
Diluted earnings per share	2.01p	(1.20p)	(0.43p)

Basic and diluted earnings per share are equal for the 6 months to 31 March 2019 and year ended to 30 September 2019, since where a loss is incurred the effect of outstanding share options and warrants is considered anti-dilutive and is ignored for the purpose of the loss per share calculation.

NOTE 5 – INFORMATION

LPA Group Plc is the Group's ultimate parent company. It is incorporated in England and Wales and domiciled in the UK, Company Number 686429. 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 interim financial statements have been approved for issue by the Board of Directors on 18 June 2020. The financial information for the year ended 30 September 2019 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 2019 have been filed with the Registrar of Companies. The auditor's report on those financial statements was unmodified 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 who have requested to receive a hard copy. Copies are also available from the Company's registered office address as above, from the Company's Registrar, or are available on the Company's website (www.lpa-group.com). Shareholders are encouraged to visit our website where useful links and assistance have been provided through our Registrars to assist utilisation of digital channels.

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