LPA GROUP PLC

Preliminary results for the year ended 30 September 2015

LPA Group plc ("LPA" or the "Group"), the LED lighting and electro-mechanical system manufacturer and distributor, announces its results for the year ended 30 September 2015 and a strong start to the current financial year.

KEY POINTS

- Sales £16.27m (2014: £16.84m)
- Operating profit before exceptional items £291,000 (2014: £636,000)
- Exceptional gain net of reorganisation costs £545,000 (2014: cost of £319,000)
- Profit before tax £793,000 (2014: £295,000)
- Basic earnings per share 5.86p (2014: 2.50p)
- Final dividend increased 17.6% to 1.00p (2014: 0.85p), total for the year 1.70p (2014: 1.55p)
- Gearing 34.0% (2014: 21.1%)
- Record order entry up 44% to £26.77m (2014: £18.55m)
- 129% increase in order book to a record £18.69m (2014: £8.18m)
- Ethernet backbone technology continuing to excite great interest with further orders received
- Transport+ has won a significant new contract with an initial value of £0.5m
- Group is benefiting from buoyant UK rail sector and export markets
- Terms for the acquisition of a replacement facility rather than an extension to the existing LED lighting facility have been agreed

Peter Pollock, Chief Executive, comments:

"The recovery started in earnest at the end of the third quarter and has accelerated since. The first quarter of the current year has been particularly strong, exceeding our internal expectations. We are benefitting from the excellent order entry previously announced during the year, which is now translating into sales growth.

"We have been advised that the revenue threshold for the payment of an overage arising from the housing development of the Group's former property at Tudor Works Saffron Walden has been exceeded and an exceptional gain of £587,000 net of costs has been recognised for the year ended 30 September 2015. The funds are expected to be received by the end of March 2016.

"Order entry remains strong, and has exceeded sales during the early months of the current year as orders are placed for projects for which we have previously been selected and new business is won.

"We look forward to significantly improved progress this year and for the future."

21 January 2016

ENQUIRIES:

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Chairman's Statement

Overview

As I previously advised, the year to 30 September 2015 started very quietly, but, as anticipated, the pace gradually began to quicken during the third quarter and we finished the year at a gallop. I am delighted to report that this progress has continued during the first quarter of the current year, with excellent levels of output and order entry continuing.

Sales for the year were £16.27m (2014: £16.84m), and operating profit before exceptional items amounted to £291,000 (2014; £636,000), the second half being significantly stronger than the first. We were very pleased to be able to announce that, pursuant to an 'overage' clause included in the £2.6m contract for sale of the Group's Tudor Works facility in Saffron Walden for a housing development in August 2013, the Group has been advised that the threshold for the development value of the site, above which overage payments would become payable, had been exceeded: additional proceeds to be received by the Group are estimated to be £587,000 after costs and have been included as an exceptional item in the results for the year: the funds are expected to be received within the first half of the current financial year. Exceptional costs associated with the closure of our Clacton facility and the consolidation of activities at our new facility in Saffron Walden, were £42,000 (2014: £319,000). Profit before tax for the year as a whole amounted to £793,000 (2014: £295,000) and basic earnings per share for the year were 5.86p (2014: 2.50p). Gearing rose to 34.0% (2014: 21.1%).

The Group achieved record order entry up 44% to £26.77m (2014: £18.55m), despite largely withdrawing from sub contract metal fabrication. In addition the Group has been selected to supply a further £7.5m of rail project work, the delivery of which has yet to be fully defined and therefore is not included in the order book. The order book grew 129% to a record £18.7m (2014: £8.2m).

Dividends

The lack of progress during the first half resulted in an unchanged interim dividend of 0.70p (2014: 0.70p). However, as a consequence of the improved trading performance (in the second half and at the start of the current year), recognition of the overage payment due from the sale of Tudor Works and as a measure of our confidence in the future, subject to shareholder approval at the forthcoming annual general meeting - to be held this year at the offices of Instinctif Partners, 65 Gresham Street, London EC2V 7NQ at noon on 21 March 2016 - your Board proposes to increase the final dividend to 1.00p (2014: 0.85p) which will be paid on 1 April 2016 to shareholders registered at the close of business on 11 March 2016.

Board, management and employees

Given that the Group is in a period of significant development I am delighted to report that Peter Pollock, our Chief Executive, and Stephen Brett, our Finance Director, have agreed to extensions to their present contracts. The Board and the Group Executive - which comprises the Group's Chief Executive and Finance Director together with the Managing Directors of the four principal operations - have remained unchanged throughout the year.

Our people are our most valuable asset. We regretted that the re-organisation of our electro-mechanical activities led to the necessary redundancy of jobs at our Clacton facility. Staff turnover across the Group remains remarkably low and we are pleased that retirements are now being more closely matched by the appointment of apprentices and trainees and that the growth we are experiencing is allowing us to recruit.

Outlook

In contrast to recent years the current financial year has started very strongly, sales and order entry are currently well ahead of budget and the prospects appear to be very positive for the year as a whole and for the future.

We look forward to our medium and longer term future with increasing confidence.

Michael Rusch
Chairman
21 January 2016

Chief Executive's Review

Trading results

The year to 30 September 2015 was like its predecessors in that it was challenging and frustrating, but unlike them, ultimately satisfying as we appear, finally, to have gained positive momentum for the future.

The first half was affected by the continuing hiatus in rail franchising which has delayed many near term refurbishment and upgrade projects and some longer term new vehicle build projects. However this work is not lost, merely delayed, and we expect will arise in some form later on. The demand for passenger rail services is still growing and it is a great market to be serving both at home and abroad.

The delays did cause disruption during the first half and LED lighting suffered particularly in the gap between the completion of old projects and the start of new, compounded by a slower than desirable development of standard lighting products. Happily this was resolved during the second half and the activity is now growing fast and needs room to expand. The nature of our LED lighting offering has changed from the provision of electronic light engines alone, to the supply of luminaires in addition to the light engines, and luminaire assembly is very space consuming. The Group is now busy supplying luminaires for Intercity Express Programme (IEP), Queensland New Generation Rail (QNGR), Abellio ScotRail (ASR) and Abellio Greater Anglia as well as light engines for Riyadh Metro, other rail projects in Europe and for the energy sector. A range of high performance commercial and infrastructure LED based lighting products has also been launched and initial orders received and satisfied.

Transport+ was also affected by the hiatus, but maintained a lower level of activity throughout the year. Since the year end it has secured the first of an anticipated series of contracts associated with the provision of Ethernet backbones, an essential element in making passenger Wi-Fi available on trains, to which the government is committed. These systems use inter-car jumper equipment of Group design and manufacture: an example of co-operation which is a major feature of our business where many customers are shared across all Group activities.

Our electro-mechanical connection activity had a steady year, overcoming the problems of completing old projects, while engineering and starting up new projects. Like our lighting activity it is now busy supplying product for IEP and ASR rail vehicles and also CrossRail and Taiwan Rolling Stock Company. Unlike our lighting activity, though, it has a long established standard connection product range comprising fire rated connectors, which have been supplied for CrossRail infrastructure, and aircraft ground power supply connectors, which have sustained the activity through quieter periods.

During the year we closed our site at Clacton and transferred a reduced sheet metal working capability to our new Saffron Walden facility. This capability is primarily intended to satisfy Group requirements for sheet metal products including connection boxes and lighting back trays. Third party sub-contract has become a much smaller element of the Group's business which has forgone about £2m of lower margin annual turnover. The transfer proved more complicated and costly than anticipated, particularly due to people issues, which have now been resolved, but more work is still required to fully establish the activity as intended.

Engineered component distribution which supports all Group activities, although in particular rail business at depot level, had another good year. In addition to distribution, it designs and kits systems incorporating Group and third party products for installation on trains, which can be carried out by Transport+. It also supplies the aerospace and defence industry.

Reflecting the impact of the hiatus and the partial withdrawal from sub contract sheet metal fabrication, sales during the year fell 3.4% to £16.27m (2014: £16.84m). Operating profit before exceptional items fell to £291,000 (2014: £636,000). Record order entry of £26.77m (2014: £18.55m) delivered an increase in the order book of 129% to a record of £18.69m (2014: £8.18m). These order numbers do not include a further £7.5m of project work for which the Group has been selected, but for which the delivery is as yet undefined, and so the actual position is even more promising.

Markets

The Group has been focussed on the UK transportation market, particularly rail, and selected export markets for many years. Rail as a global market has been expanding for several years. Much of this growth has been focussed on Chinese and Asian markets, where lowest initial cost, rather than whole life cost, has been the driving factor. In developed economies, like Europe and the UK, where rail is also growing fast, maintenance costs and particularly the availability of maintenance engineers are more important factors, and whole life cost is becoming the stronger criterion in supplier selection. The Group's commitment to quality and reliability, together with its innovation and industry leading technology, is now being more widely recognised. In particular train suppliers are being required to provide maintenance for as long as thirty years, making whole life cost and availability of parts for through-life support, rather than initial cost, the major factors in supplier selection. These various factors have contributed to the Group's strong order entry performance and record order books.

The Group has continued to support the train builders and refurbishers supplying the UK market and all of them are customers to a greater or lesser extent. We have continued to support Japanese train builders for their export products and as a consequence we continue to work with Hitachi, now in the UK also, Kinki Sharyo for Asia and Middle East, and Nippon Sharyo for Taiwan. In Taiwan we also work with Taiwan Rolling Stock Company. In Australia, where the availability of maintenance engineers and whole life cost are major factors, we endeavour to work with all the train builders in Queensland, New South Wales and Victoria. The Group has identified the Gulf Cooperation Council area as being likely to appreciate our commitment to whole life cost and so we have focussed effort on the region and its established suppliers: we have won some business and are presently submitting a number of significant tenders for product which is to be supplied into the region from elsewhere.

The worldwide air transportation market was a very significant customer of the Group during the year. This continues to grow with substantial investment in new airports and new larger aircraft, which are particularly demanding of ground power, which benefits our ground power support products.

Design and development

Our design and development effort last year focussed initially on satisfying the technical requirements of the large rail projects which the Group had won, including IEP, ASR, QNGR and Crossrail. Standard products also received attention including LED lighting products (HighBay, LumiBatten, LumiTwelve and LumiWarrior), high fire performance connection systems for use in emergency egress tunnels, enhanced aircraft ground power connectors and systems, ethernet backbones and USB seat back charging outlets for passenger's phones, notebooks and laptops.

Structure and costs

We completed, with some disruption, the reorganisation of our electro-mechanical activities which involved relocation of a reduced sheet metal fabrication capability from our Clacton facility, which closed, to Light & Power House which has become the Group's centre of excellence for electro-mechanical design and manufacture.

Plans to extend the existing lighting facility in Normanton proved more complicated and costly than anticipated and have been abandoned in favour of acquiring larger freehold premises. Terms have been agreed for a site located within 200m of our existing facility. In the short term, terms have been agreed to rent leasehold premises to ease the pressure on space. 'Overage' proceeds arising from the sale of the Group's Tudor Works facility in Saffron Walden, expected to amount to £587,000 net of costs, will be applied towards the cost of the new facility in Normanton. The old facility, once vacated will be sold and the proceeds applied to reducing borrowings.

Outlook

In total contrast to last year when we started quietly, this year has started full bore! We expect matters to settle down to a sustainable beat rate significantly higher than that previously achieved. We have orders on hand and projects for which we have been selected which will provide us with a very significant base load to sustain us through to 2019. We are very well positioned in the market place to win more business and should this occur, we shall have the very pleasant task of enhancing our capabilities to satisfy this demand.

We look forward to the future with increasing optimism and confidence.

Peter Pollock
Chief Executive
21 January 2016

Financial Review

Trading performance

Revenue in the current year fell by £0.57m (3.4%) to £16.27m (2014: £16.84m). Gross margins fell 2.2% to 27.4% (2014: 29.6%), reflecting lower project margins and costs associated with the consolidation of our ongoing electro-mechanical businesses onto one site, and a gross profit of £4.46m (2014: £4.98m) resulted. Other operating expenses were £0.18m below last year at £4.16m (2014: £4.34m) producing an operating profit before exceptional items of £291,000 (2014: £636,000), down £345,000.

In the first half of the year sales of £7.93m (2014: £7.97m) produced an operating profit before exceptional items of £45,000 (2014: £195,000) with sales and profits down on the corresponding period last year by £42,000 and £150,000 respectively. The second half result, sales of £8.34m and an operating profit before exceptional items of £246,000 represented an improvement over the first half but again profitability remained behind the corresponding period last year (2014: sales of £8.87m, profit of £441,000).

Exceptional items

The Group recognised a £2.06m gain on the disposal of its Tudor Works property in 2013, the sale contract for which provided for additional payments to be made in the event that site development revenues exceed a certain level. The site redevelopment is now approaching completion and the Company has been advised that this revenue threshold has been exceeded: the directors have assessed the fair value of the consideration as £587,000 net of costs and this amount has been recognised as an exceptional gain in the year.

Net reorganisation costs of £42,000 (2014: £204,000 of anticipated closure costs) associated with the closure of the Group's Clacton facility and the transfer of its ongoing fabrication business from Clacton to Light & Power House were included in the year. The figure comprises £39,000 of business relocation costs, £6,000 of further closure costs, a stock write down of £39,000 less a gain on the disposal of plant and machinery of £42,000. In addition to the reorganisation costs noted above, the prior year included £115,000 of relocation costs covering the transfer of its Saffron Walden activities from Tudor Works to Light & Power House.

Finance costs and income

Within finance costs the interest on borrowings rose to £75,000 (2014: £68,000), reflecting higher average borrowings with interest rates essentially unchanged. Finance income, which comprises the net interest income on the pension asset, was £32,000 (2014: £46,000).

Profit before tax, taxation and earnings per share

Profit before tax was £793,000 (2014: £295,000) resulting in a tax charge of £99,000 (2014: £Nil). The profit for the year was £694,000 (2014: £295,000) representing basic earnings per share of 5.86p (2014: 2.50p).

Balance sheet

Shareholders' funds rose by £0.90m in the year to £7.99m (2014: £7.09m) giving a net asset value per ordinary share of 67.4p (2014: 59.8p). The tangible net asset value per share (calculated excluding intangibles and pension asset, net of deferred tax, from the calculation) was 47.8p (2014: 44.4p). Net debt increased by £1.22m over the year to £2.72m with gearing (net debt as a % of total equity) rising to 34.0% (2014: 21.1%).

Property, plant and equipment at 30 September was £4.72m (2014: £4.91m), of which property made up £2.63m (2014: £2.68m) and plant and equipment £2.09m (2014: £2.23m). Additions in the year were £287,000 (2014: £2.57m which included £1.90m relating to the refurbishment of Shire Hill), disposals £35,000 (2014: £18,000) and the depreciation charge was £440,000 (2014: £309,000).

Net trading assets (defined as inventories plus trade and other receivables, less trade and other payables and current tax) were higher by £1.31m at £3.73m (2014: £2.42m) as a consequence of increasing activity at the end of the year and inclusion of the £0.59m property gain noted above.

Provisions at September 2015 were £Nil (2014: £0.57m in respect of onerous lease and closure costs associated with the electro-mechanical reorganisation).

Intangible assets, which comprise goodwill and capitalised development costs, were £1.22m (2014: £1.24m). Goodwill, which relates to the Group's investment in Excil Electronics, was unchanged at £1.15m and capitalised development costs, which relate to the development of LED lighting products, were £0.07m (2014: £0.09m).

Financial Review (continued)

Balance sheet (continued)

The IAS19 actuarial surplus recognised as at 30 September 2015 amounted to £1,379,000 (2014: £744,000). Improvements over the course of the year comprised an income statement credit of £32,000 (2014: £46,000), employer contributions received of £100,000 (2014: £100,000) and an actuarial gain of £503,000 (2014: loss of £362,000) recognised in the statement of comprehensive income. The actuarial gain of £503,000 resulted from changes in assumptions adopted of £417,000 plus an experience gain on liabilities of £230,000 less a worse than expected return on plan assets of £144,000.

Cash flow

Cash absorbed from operations was £614,000 (2014: generation of £602,000) made up of reorganisation costs of £583,000 (2014: £378,000) associated with the closure of the Clacton facility (comprising provision utilisation of £544,000 and exceptional relocation costs of £39,000), a working capital build of £825,000 (2014: £18,000) less trading cash inflows of £794,000 (2014: £998,000). With no tax payments (2014: receipts of £43,000) and pension contributions of £100,000 (2014: £100,000) net cash absorbed from operating activities was £714,000 (2014: generated £545,000).

Capital expenditure was much reduced at £287,000 (2014: £2,489,000 - in large part Light & Power House refurbishment), asset disposal proceeds were £78,000, of which £73,000 arose on the disposal of surplus Clacton assets, (2014: £1,307,000 which included the second tranche of Tudor Works proceeds at £1,300,000) and development expenditure capitalised was £45,000 (2014: £22,000).

There were no facility changes in the year (2014: £600,000 draw down of term loan) and debt repayments included £200,000 (2014: £100,000) in respect of the term loan plus £35,000 (2014: £33,000) in respect of finance leases. Increased overdraft interest meant that total interest payments on borrowings increased to £75,000 (2014: £68,000). In the year £4,000 (2014: £16,000) was received from the exercise of share options and dividend payments were higher at £184,000 (2014: £171,000).

Overall there was a net decrease in the cash position of £1,458,000 (2014: £415,000).

Net debt

An analysis of the change in net debt is shown below:

	Bank loans £'000	Finance lease obligations £'000	Cash and cash equivalents £'000	Net debt £'000
At 1 October 2014	1,900	119	(525)	1,494
Cash absorbed	-	-	1,223	1,223
Repayment of borrowings	(200)	(35)	235	-
At 30 September 2015	1,700	84	933	2,717

The bank loan is repayable over eight and a half years (in 34 quarterly instalments of £50,000 with the first of these due in October 2015) and the finance lease obligations over the next three years. At the year-end the Group had an overdraft of £0.93m (2014: cash of £0.53m) and had £0.57m (2014: £1.5m) of un-drawn overdraft facilities available.

Interest is payable on the term loan at 2.75% over LIBOR. Subsequent to the year end the Group has negotiated working capital facilities through to the end of December 2016 which comprise an overdraft facility of £1.5m and a guarantee facility of £1.0m. Interest is payable on the overdraft facility at 3.0% (previously 2.5%) over base.

Treasury

The Group's treasury policy operates within approved Board guidelines and has not changed since 2014. It seeks to ensure that adequate financial resources are available for the development of the Group's business whilst managing its foreign currency, interest rate, liquidity and credit risks.

Stephen Brett
Finance Director
21 January 2016

Consolidated Income Statement

For the year ended 30 September 2015

	Note	2015 £'000	2014 £'000
Revenue		16,265	16,835
Cost of sales		(11,810)	(11,860)
Gross profit		4,455	4,975
Distribution costs		(1,557)	(1,697)
Administrative expenses		(2,607)	(2,642)
Operating profit before exceptional items		291	636
Reorganisation costs		(42)	(319)
Gain on property disposal		587	-
Operating profit		836	317
Finance costs		(75)	(68)
Finance income		32	46
Profit before tax attributable to equity holders of the parent		793	295
Taxation		(99)	-
Profit for the year		694	295
Attributable to:			
- Equity holders of the parent		694	295
Earnings per share	1		
Basic		5.86p	2.50p
Diluted		5.48p	2.31p

All activities are continuing.

Consolidated Statement of Comprehensive Income

For the year ended 30 September 2015

	2015 £'000	2014 £'000
Profit for the year	694	295
Other comprehensive expense		
Items that may be reclassified subsequently to profit or loss	-	-
Items that will not be reclassified to profit or loss		
Actuarial gain / (loss) on pension scheme	503	(362)
Tax on actuarial gain / loss	(121)	52
Other comprehensive income / (expense) net of tax	382	(310)
Total comprehensive income / (expense) for the year	1,076	(15)
Attributable to:		
- Equity holders of the parent	1,076	(15)

Consolidated Balance Sheet

At 30 September 2015

	2015 £'000	2014 £'000
Non-current assets		
Intangible assets	1,222	1,235
Property, plant and equipment	4,721	4,909
Retirement benefits	1,379	744
	7,322	6,888
Current assets		
Inventories	2,658	2,145
Trade and other receivables	4,101	3,473
Cash and cash equivalents	5	525
	6,764	6,143
Total assets	14,086	13,031
Current liabilities		
Bank overdraft	(938)	-
Bank loans and other borrowings	(236)	(235)
Provisions	-	(567)
Current tax payable	(30)	-
Trade and other payables	(2,977)	(3,179)
	(4,181)	(3,981)
Non-current liabilities		
Bank loans and other borrowings	(1,548)	(1,784)
Deferred tax liabilities	(350)	(160)
Other payables	(20)	(21)
	(1,918)	(1,965)
Total liabilities	(6,099)	(5,946)
Net assets	7,987	7,085
Equity		
Share capital	1,185	1,184
Share premium account	464	461
Un-issued shares reserve	197	192
Merger reserve	230	230
Retained earnings	5,911	5,018
Equity attributable to shareholders of the parent	7,987	7,085

Consolidated Cash Flow Statement

For the year ended 30 September 2015

	2015 £'000	2014 £'000
Profit for the year	694	295
Finance costs	75	68
Finance income	(32)	(46)
Income tax	99	-
Operating profit	836	317
Adjustments for:		
Depreciation	440	309
Amortisation of intangible assets	58	23
(Gain) / loss on sale of property, plant and equipment	(43)	11
Non-cash charge for equity-settled share-based payments	6	19
	1,297	679
Movements in working capital and provisions:		
Change in inventories	(513)	27
Change in trade and other receivables	(628)	322
Change in trade and other payables	(203)	(325)
Change in provisions	(567)	(101)
Cash (absorbed) / generated from operations	(614)	602
Income tax received	-	43
Retirement benefits (pension contributions)	(100)	(100)
Net cash from operating activities	(714)	545
Purchase of property, plant and equipment	(287)	(2,489)
Proceeds from sale of property, plant and equipment	78	1,307
Capitalised development expenditure	(45)	(22)
Net cash from investing activities	(254)	(1,204)
Drawdown of bank loans	-	600
Repayment of bank loans	(200)	(100)
Repayment of obligations under finance leases	(35)	(33)
Interest paid	(75)	(68)
Proceeds from issue of share capital	4	16
Dividends paid	(184)	(171)
Net cash from financing activities	(490)	244
Net decrease in cash and cash equivalents	(1,458)	(415)
Cash and cash equivalents at start of the year	525	940
Cash and cash equivalents at end of the year	(933)	525

Notes

1 – EARNINGS PER SHARE

The calculation of earnings per share is based upon the profit for the year of £694,000 (2014: £295,000) and the weighted average number of ordinary shares in issue during the year of 11.846m (2014: 11.818m). The weighted average number of ordinary shares diluted for the effect of outstanding share options was 12.664m (2014: 12.783m).

	Earnings £'000	2015 Weighted average number of shares Million	Earnings per share Pence	Earnings £'000	2014 Weighted average number of shares Million	Earnings per share Pence
Basic earnings per share	694	11.846	5.86	295	11.818	2.50
Effect of share options	-	0.818	(0.38)	-	0.965	(0.19)
Diluted earnings per share	694	12.664	5.48	295	12.783	2.31

2 - INFORMATION

The preceding information does not constitute the Company's statutory accounts for the years ended 30 September 2015 or 30 September 2014 but is derived from those accounts. The 2015 accounts are expected to be posted to shareholders on 15 February 2016 and will be available from the Company Secretary, LPA Group Plc, Light & Power House, Shire Hill, Saffron Walden, Essex, CB11 3AQ and on LPA's website (www.lpa-group.com), shortly thereafter. Statutory accounts for 2014 have been delivered to the Registrar of Companies, and those for 2015 will be delivered following the annual general meeting. The auditors have reported on these accounts and their reports were unqualified and did not contain statements under the Companies Act.

The Chairman's Statement, the Chief Executive's Review, and the Financial Review included in this preliminary announcement form part of the Strategic Report included in the 2015 accounts. The Strategic Report and other content of this preliminary announcement have been prepared solely for the shareholders of the Company as a body. To the extent permitted by law the Company, its directors, officers and employees disclaim liability to any other persons in respect of the information contained in this preliminary announcement. Sections may include statements containing risks and uncertainties facing the Group, and other forward-looking statements, which by their nature involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The Company undertakes no obligation to update any forward-looking statements.

3 - ANNUAL GENERAL MEETING

The annual general meeting of the Company is to be held at 12 noon on Monday 21 March 2016 at the offices of Instinctif Partners, 65 Gresham Street, London, EC2V 7NQ: please note that the venue has changed from that used last year.