LPA GROUP PLC

Preliminary results for the year ended 30 September 2016

LPA Group plc ("LPA" or the "Group"), the LED lighting and electro-mechanical system manufacturer and distributor, announces record results for the year ended 30 September 2016 and continuing strong performance in the start to the current financial year.

KEY POINTS

- Sales up 31.7% at £21.42m (2015: £16.27m)
- Operating profit before exceptional items up 427% at £1.533m (2015: £291,000)
- Exceptional gain £14,000 (2015: £545,000)
- Profit before tax £1.516m (2015: £793,000, including exceptional gain of £545,000)
- Basic earnings per share 12.30p (2015: 5.86p)
- Gearing 29.2% (2015: 34.0%)
- Order entry £20.69m (2015: £26.77m)
- Order book £17.96m (2015: £18.69m)
- Group has achieved a step-change in performance and is moving onto a new level
- Group continues to benefit from buoyant UK rail sector and export markets
- Ethernet backbone technology and USB charging sockets continuing to generate great interest for both new build and retrofit applications
- New LED lighting facility nearing completion for occupation first quarter 2017
- Final dividend increased 50% to 1.50p (2015: 1.00p), total for the year 2.50p (2015: 1.70p)

Peter Pollock, Chief Executive, comments:
"The financial year ended 30 September 2016 marked a step change in the performance of the Group, which is becoming established at this new substantially increased level of activity. Having 'galloped' up to a new level, we are now 'moving on'.

"Profits would have been even higher but for an oil and gas sector customer being placed into administration after the year end, and a consequent provision of £124,000 being made against the results for the year. The customer's business was subsequently sold to a third party and trading is expected to resume in due course.

"After very strong order entry in the first half, the uncertainty of Brexit made customers relatively cautious in placing orders during the period from April to August, since when the high levels of order entry have resumed.

"Sales and orders in the first quarter are ahead of last year confirming the continuing growth potential of the business.

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

23 January 2017

ENQUIRIES:
LPA Group plc

Peter Pollock, Chief Executive	Tel: 07881 626123 or 01799 512844
Steve Brett, Finance Director	Tel: 07881 626127 or 01799 512860
Cairn Financial Advisers (Nominated Adviser)	Tel: 020 7213 0880
James Caithie / Tony Rawlinson	
WH Ireland (Broker)	Tel: 0113 394 6600
Tim Feather / Ed Allsopp	
Instinctif Partners (PR Adviser)	Tel: 020 7457 2020
Mark Garraway / Helen Tarbet	

Chairman's Statement

Overview

As I previously advised, the year to 30 September 2016 started at a gallop, which was sustained throughout the year. I am delighted to report that this progress continued during the first quarter of the current year, with excellent levels of output and order entry continuing. The Group appears to have established itself on a new trading level, which it now takes in its stride, so describing current progress as 'galloping' is perhaps no longer appropriate. We are moving on.

Sales for the year were £21.42m (2015: £16.27m), up 31.7%, and operating profit before exceptional items was £1.533m (2015: £291,000), up 427%. The halves were broadly similar although the second half would have been stronger but for one of our oil and gas sector customers being placed in administration, the impact of which reduced profits by £124,000. Nevertheless sales and profits for the year comfortably exceeded anything the Group has previously achieved.

Profit before tax for the year, after an exceptional gain of £14,000, amounted to £1.516m (2015: £793,000, including a net exceptional gain of £545,000) and basic earnings per share for the year were 12.30p (2015: 5.86p). Gearing was 29.2% (2015: 34.0%).

Order entry, which, as previously reported, appeared to have been affected during the summer by the uncertainty over Brexit, amounted to £20.69m (2015: £26.77m). Order entry during the first few months of the new financial year appears to have recovered to pre-Brexit levels. The Group continues to be selected for new 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 at the year-end amounted to £17.96m (2015: £18.69m).

Dividends

The interim dividend was increased to 1.00p (2015: 0.70p). As a consequence of the continuing improved trading performance and our confidence in the future, and 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 Tuesday 14 March 2017 - your Board proposes to increase the final dividend to 1.50p (2015: 1.00p), making a total for the year of 2.50p (2015: 1.70p). The dividend, if approved, will be paid on 24 March 2017 to shareholders registered at the close of business on 3 March 2017.

Board, management and employees

The Board and Group Executive have remained largely unchanged in the year. Stephen Brett intends to retire during the coming year and plans for his succession are in place. Per Staehr, who has completed nine years as a non-executive director, also plans to retire this year.

Our people are our most valuable asset. 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 has allowed us to recruit. Group staffing is back to the level prior to the closure of our Clacton facility in 2015.

Outlook

Our order book and prospects in our home and export markets are very positive indicators. The current financial year has started well.

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

Michael Rusch
Chairman
23 January 2017

Chief Executive's Review

Trading results

The year to 30 September 2016 was unlike its predecessors in that it finally demonstrated that the Group has gained positive momentum, now and for the future.

The first half was taken at a gallop and this continued through the second half and into the current year. We suffered a stumble after the year end, when one of our oil and gas customers was placed into administration causing us to provide £124,000 in the year's accounts: the customer's business was subsequently sold to a third party and trading is expected to resume during 2017.

Reflecting the exceptional levels of prior year order entry (£26.77m), Group sales in the year were at a record £21.42m and operating profit before exceptional items increased fivefold to £1.533m (2015: £291,000).

The referendum caused uncertainty and we saw a reluctance in customers placing orders for the period from April to August. As a consequence, order entry at £20.69m (2015: £26.77m) for the year just failed to keep pace with output resulting in a small fall in the order book of £0.73m to £17.96m (2015: £18.69m). The immediate consequence of the Brexit vote was appreciation of the Japanese yen, which reduced the competitiveness of our Japanese customers, and uncertainty over future supply in Europe: both factors were a negative influence on ultimate customers' investment decisions and order entry during that period. However, the subsequent decline in sterling has made us more competitive at home and in export markets and our pipeline of future opportunities is at least recovering to the previous buoyant levels. In addition, the projects for which we have been selected but for which we do not yet have a delivery schedule, continue to be substantial and underpin order entry expectations in the near and medium term.

The current financial year has started at pace. We have moved up to a new level and we are moving on.

This is particularly true of LED lighting where rail project output during the year was at record levels, following exceptional order entry in the previous year. Significant rail projects supplied in the year included Intercity Express Programme (IEP), Queensland New Generation Rail (QNGR), Abellio Greater Anglia, Abellio ScotRail (ASR), West of England (WOE) and Riyadh Metro together with non-rail sales into the commercial, infrastructure and industrial markets. The pipeline for future lighting orders is brimming and the decline in the sterling exchange rate has improved our competitiveness.

Overall our electro-mechanical activities had a satisfactory year:

- Transport+, which provides after sales support for trains in the UK, had a stunning performance through the delivery of a series of contracts associated with the provision of Ethernet backbones, an essential element in making passenger Wi-Fi available on trains, and which were, in large part, won this year;

- fabrication activity was down reflecting the continued withdrawal from third party work; and

- the connector activity made progress on the back of an increase in rail project deliveries, notably, as in the case of lighting, IEP and ASR but also Crossrail. Sales of the standard connection product ranges for industrial and aircraft ground power supply markets were flat.

The electro-mechanical pipeline is strong, and potentially very strong, with many opportunities for connectors and Transport+. Fabrication is now enjoying substantial growth in inter-company demand for its capabilities.

Engineered component distribution supports all Group activities, particularly rail business at depot level, where in addition to distribution it designs and kits systems incorporating Group and third party products for installation on trains. It also distributes product to the aerospace and defence industry. Engineered component distribution had an excellent year on the back of high rail market sales, benefitting in particular from the introduction of USB seat back charging products.

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 builders are now 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 are contributing to the Group's strong order entry performance and 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, consequently, 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 several significant tenders for product which is to be supplied into the region from elsewhere. Unfortunately, the weak oil price has undermined this market's appetite for investment.

The worldwide air transportation market remains a very significant customer of the Group. 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 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, 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 rail passengers' phones, notebooks and laptops.

Structure and costs

Light & Power House has become the Group's centre of excellence for electro-mechanical design and manufacture.

Our new facility at Normanton in West Yorkshire, which will house our LED lighting centre of excellence, has been extended and is in the process of being refurbished and fitted out: the work is planned to be completed and the lighting operation relocated to the new premises during the first quarter of 2017. The new facility will be called LPA House and the operation will change its name to LPA Lighting Systems. Thereafter our existing lighting facility will be sold: an exceptional gain of £0.3m is anticipated on the disposal.

Outlook

Last year started full bore and continued at a gallop! As expected, business has settled down to a new level significantly higher than that previously achieved. We have orders on hand and projects for which we have been selected which, together with our substantial pipeline of potential new business will provide us with the opportunity to continue to maintain and grow the business further over the next few years. As we win more business, 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
23 January 2017

Financial Review

Trading performance

Revenue was £21.42m (2015: £16.27m), up 31.7% and £5.15m on the prior year, with increased rail activity, in particular lighting projects, the main factor. The significant volume benefits meant that gross margins improved by 1.9% to 29.3% (2015: 27.4%) producing a gross profit of £6.28m (2015: £4.46m). Other operating expenses were £0.583m above last year at £4.747m (2015: £4.164m) - with higher bonuses at £220,000 (2015: £16,000), bad debt expense at £129,000 (2015: credit of £4,000) and share option related costs at £74,000 (2015: credit of £26,000) - such that an operating profit before exceptional items of £1,533,000 (2015: £291,000) resulted, up £1,242,000.

First half sales were £10.48m (2015: £7.93m), up £2.55m, which produced an operating profit before exceptional items of £782,000 (2015: £45,000), up £737,000. In the second half, sales of £10.94m (2015: £8.34m) delivered an operating profit before exceptional items of £751,000 (2015: £246,000) with sales and profits up on the corresponding period last year by £2.60m and £505,000 respectively. Whilst second half sales were £0.46m in front of those in the first half, second half operating profit before exceptional items trailed by £31,000 although the latter included a bad debt expense of £124,000 in respect of the administration of an oil and gas customer.

Exceptional items

The redevelopment of the Group's former Tudor Works site was completed in the year and a final property disposal gain of £14,000 (2015: £587,000) was recognised: these amounts relate to overage provided for in the original sale contract. In addition, the prior year included net reorganisation costs of £42,000 associated with the Group's electro-mechanical activities.

Finance costs and income

Within finance costs, interest on borrowings rose to £85,000 (2015: £75,000), the consequence of higher average borrowings, although weighted average interest rates were lower year on year. Finance income, which comprises the net interest income on the pension asset, was £54,000 (2015: £32,000).

Profit before tax, taxation and earnings per share

Profit before tax was £1,516,000 (2015: £793,000) resulting in a tax charge of £54,000 (2015: £99,000). The profit for the year was £1,462,000 (2015: £694,000) representing basic earnings per share of 12.30p (2015: 5.86p).

Balance sheet

Shareholders' funds rose by £0.70m in the year to £8.69m (2015: £7.99m) giving a net asset value per ordinary share of 72.7p (2015: 67.4p). The tangible net asset value per share (calculated excluding intangibles and pension asset, net of deferred tax, from the calculation) was 57.0p (2015: 47.8p). Net debt decreased by £0.18m over the year to £2.54m with gearing (net debt as a % of total equity) falling to 29.2% (2015: 34.0%).

Property, plant and equipment at 30 September was £5.62m (2015: £4.72m), of which property made up £3.64m (2015: £2.63m) and plant and equipment £1.98m (2015: £2.09m). Additions in the year were £1.34m (2014: £287,000) including £1.05m in respect of the new lighting facility, disposals £nil (2015: £35,000) and the depreciation charge was £442,000 (2015: £440,000).

Net trading assets (defined as inventories plus trade and other receivables, less trade and other payables and current tax) were marginally higher at £3.76m (2015: £3.73m) although the prior year included £0.59m in respect of the property gain noted above: excluding this item the increase was £0.62m which is explained by the increased trading activity seen in the year.

Intangible assets, which comprise goodwill and capitalised development costs, were £1.19m (2015: £1.22m). 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 £0.04m (2015: £0.07m).

The IAS19 actuarial surplus recognised as at 30 September 2016 amounted to £841,000 (2015: £1,379,000). Changes over the course of the year comprised an income statement credit of £54,000 (2015: £32,000), employer contributions received of £100,000 (2015: £100,000) less an actuarial loss of £692,000 (2015: gain of £503,000) recognised in the statement of comprehensive income. The actuarial loss resulted from changes in financial assumptions of £2,674,000 (primarily reflecting the lower discount rate applicable at September 2016, 2.4% as opposed to 3.8%) less an experience gain on liabilities of £155,000 less a better than expected return on plan assets of £1,827,000.

Cash flow

Net cash from operating activities was £1,222,000 (2015: absorbed £714,000) made up of a trading cash inflow of £2,033,000 (2015: £794,000) less an increase in working capital of £711,000 (2015: £825,000), pension contributions of £100,000 (2015: £100,000) and reorganisation costs of £nil (2015: £583,000).

Capital expenditure was much increased at £1,294,000 (2015: £287,000) and included £1,050,000 spent on the new lighting facility; asset disposal proceeds, which all relate to overage on the sale of Tudor Works, were £601,000 (2015: £78,000); and capitalised development expenditure was £11,000 (2015: £45,000).

The Group switched its banking arrangements from Lloyds to Barclays in the year which entailed the drawdown of a new Barclays term loan of £2,475,000 (2015: £nil) and repayment of the existing Lloyds facility. Debt repayments comprised £1,750,000 (2015: £200,000) in respect of term loans together with £40,000 (2015: £35,000) in respect of finance leases. Interest payments on borrowings amounted to £72,000 (2015: £75,000). Dividend payments were higher in the year at £238,000 (2015: £184,000) and £51,000 (2015: £4,000) was received from the exercise of share options.

Overall there was a net increase in the cash position of £944,000 (2015: decrease of £1,458,000).

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 2015	1,700	84	933	2,717
New finance lease obligations	-	51	-	51
Draw down of bank loans	2,475	-	(2,475)	-
Interest and arrangement fee	32	-	-	32
Repayment of borrowings	(1,750)	(40)	1,790	-
Cash generated	-	-	(259)	(259)
At 30 September 2016	2,457	95	(11)	2,541

Banking arrangements

During the year the Group switched its banking arrangements from Lloyds to Barclays. The Group's main bank finance is now a £2.475 million bank loan repayable over 5 years which was drawn down in two tranches: the first of £0.656 million in April 2016 to assist in the purchase of a freehold property to accommodate its lighting operation; and the second of £1.819 million in July 2016 to refinance the Lloyds debt. As at September 2016 the amount outstanding was £2.457 million which is to be repaid through 18 quarterly instalments of £49,800 commencing in October 2016 with the residual balance payable in April 2021: interest is payable at base rate plus 1.95%. The outstanding balance on the Lloyds loan (£1.500 million) was repaid in July 2016: in the year, interest was payable at LIBOR plus 2.75%.

A second £0.500 million bank loan facility, repayable one year after draw down, has been negotiated to assist in the extension of the property noted above although it was not utilised in the current year. Repayment is expected to be made from proceeds of the sale of the Group's existing lighting facility where a sale contract is already in place. Interest is payable at base rate plus 2.15%.

The Barclays overdraft facility has been utilised from the end of July 2016 and interest is payable at base rate plus 2.0%. In the first 10 months of the year interest was payable at 2.5% over base rate.

Treasury

The Group's treasury policy operates within approved Board guidelines and has not changed since 2015.

Stephen Brett
Finance Director
23 January 2017

Consolidated Income Statement

For the year ended 30 September 2016

	Note	2016 £'000	2015 £'000
Revenue		21,422	16,265
Cost of sales		(15,142)	(11,810)
Gross profit		6,280	4,455
Distribution costs		(1,697)	(1,557)
Administrative expenses		(3,050)	(2,607)
Operating profit before exceptional items		1,533	291
Gain on property disposal		14	587
Reorganisation costs		-	(42)
Operating profit		1,547	836
Finance costs		(85)	(75)
Finance income		54	32
Profit before tax attributable to equity holders of the parent		1,516	793
Taxation		(54)	(99)
Profit for the year		1,462	694
Attributable to:			
- Equity holders of the parent		1,462	694
Earnings per share	1		
Basic		12.30p	5.86p
Diluted		11.35p	5.48p

All activities are continuing.

Consolidated Statement of Comprehensive Income

For the year ended 30 September 2016

	2016 £'000	2015 £'000
Profit for the year	1,462	694
Other comprehensive expense		
Items that may be reclassified subsequently to profit or loss	-	-
Items that will not be reclassified to profit or loss		
Actuarial (loss) / gain on pension scheme	(692)	503
Tax on actuarial loss / gain	119	(121)
Other comprehensive (expense) / income net of tax	(573)	382
Total comprehensive income for the year	889	1,076
Attributable to:		
- Equity holders of the parent	889	1,076

Consolidated Balance Sheet

At 30 September 2016

	2016 £'000	2015 £'000
Non-current assets		
Intangible assets	1,194	1,222
Property, plant and equipment	5,624	4,721
Retirement benefits	841	1,379
	7,659	7,322
Current assets		
Inventories	3,030	2,658
Trade and other receivables	4,678	4,101
Cash and cash equivalents	149	5
	7,857	6,764
Total assets	15,516	14,086
Current liabilities		
Bank overdraft	(138)	(938)
Bank loans and other borrowings	(247)	(236)
Current tax payable	(122)	(30)
Trade and other payables	(3,803)	(2,977)
	(4,310)	(4,181)
Non-current liabilities		
Bank loans and other borrowings	(2,305)	(1,548)
Deferred tax liabilities	(193)	(350)
Other payables	(19)	(20)
	(2,517)	(1,918)
Total liabilities	(6,827)	(6,099)
Net assets	8,689	7,987
Equity		
Share capital	1,196	1,185
Share premium account	504	464
Un-issued shares reserve	183	197
Merger reserve	230	230
Retained earnings	6,576	5,911
Equity attributable to shareholders of the parent	8,689	7,987

Consolidated Cash Flow Statement

For the year ended 30 September 2016

	2016 £'000	2015 £'000
Profit before tax	1,516	793
Finance costs	85	75
Finance income	(54)	(32)
Operating profit	1,547	836
Adjustments for:		
Depreciation	442	440
Amortisation of intangible assets	39	58
(Gain) / loss on sale of property, plant and equipment	(14)	(43)
Non-cash charge for equity-settled share-based payments	-	6
Loan arrangement fees	19	-
	2,033	1,297
Movements in working capital and provisions:		
Change in inventories	(372)	(513)
Change in trade and other receivables	(1,212)	(628)
Change in trade and other payables	873	(203)
Change in provisions	-	(567)
Cash generated / (absorbed) from operations	1,322	(614)
Retirement benefits (pension contributions)	(100)	(100)
Net cash from operating activities	1,222	(714)
Purchase of property, plant and equipment	(1,294)	(287)
Proceeds from sale of property, plant and equipment	601	78
Capitalised development expenditure	(11)	(45)
Net cash used in investing activities	(704)	(254)
Drawdown of bank loans	2,475	-
Repayment of bank loans	(1,750)	(200)
Repayment of obligations under finance leases	(40)	(35)
Interest paid	(72)	(75)
Proceeds from issue of share capital	51	4
Dividends paid	(238)	(184)
Net cash from / used in financing activities	426	(490)
Net decrease in cash and cash equivalents	944	(1,458)
Cash and cash equivalents at start of the year	(933)	525
Cash and cash equivalents at end of the year	11	(933)

Notes

1 – EARNINGS PER SHARE

The calculation of earnings per share is based upon the profit for the year of £1,462,000 (2015: £694,000) and the weighted average number of ordinary shares in issue during the year of 11.884m (2015: 11.846m). The weighted average number of ordinary shares diluted for the effect of outstanding share options was 12.887m (2015: 12.664m).

	Earnings £'000	2016 Weighted average number of shares Million	Earnings per share Pence	Earnings £'000	2015 Weighted average number of shares Million	Earnings per share Pence
Basic earnings per share	1,462	11.884	12.30	694	11.846	5.86
Effect of share options	-	1.003	(0.95)	-	0.818	(0.38)
Diluted earnings per share	1,462	12.887	11.35	694	12.664	5.48

2 - INFORMATION

The preceding information does not constitute the Company's statutory accounts for the years ended 30 September 2016 or 30 September 2015 but is derived from those accounts. The 2016 accounts are expected to be posted to shareholders on 17 February 2017 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 2015 have been delivered to the Registrar of Companies, and those for 2016 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 2016 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 Tuesday 14 March 2017 at the offices of Instinctif Partners, 65 Gresham Street, London, EC2V 7NQ.