Northern Bear

Northern Bear plc

Interim Report
30 September 2019

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Chairman's statement

Introduction

I am pleased to report the unaudited interim results for the six months ended 30 September 2019 (the "Period") for Northern Bear plc (the "Company" and, together with its subsidiaries, the "Group").

In our preliminary results for the year to 31 March 2019 ("FY19"), announced in July 2019, we stated that the Group had experienced a slow first financial quarter ended 30 June 2019 ("Q1"), due to a number of contract delays arising from matters which were beyond our control. We also stated that, with such contracts having commenced, trading was expected to be stronger in the second quarter.

We subsequently issued a trading update in October 2019 to confirm that trading in the second quarter ended 30 September 2019 ("Q2") was much stronger than Q1, and ahead of the corresponding period last year, with excellent results across the Group since July.

Further to the October trading update, I am pleased to confirm the Group's results for the Period with adjusted operating profit (stated prior to the impact of amortisation and other acquisition related adjustments) of £1.4m (2018: £1.7m) and adjusted basic earnings per share of 5.6p (2019: 7.4p).

Whilst we are greatly encouraged by performance in Q2, the slower trading in Q1 means that reported results for the Period are not as strong as those for the six months to 30 September 2018 (the "Prior Period"). However, when we reported the interim results for the Prior Period, we stated that these results were considered exceptional and this should be taken into account when comparing the results for the Period.

Trading

There were some excellent results for our Group companies over the Period. Our Roofing division produced some outstanding results, despite the impact of the contract delays in Q1 referred to above, after very strong trading in Q2.

Revenue for the Period was £27.8m (2018: £28.6m) and, through continued careful contract selection and execution, gross margins were in line with Prior Period at 19.5% (2018: 19.7%).

Administrative expenses increased to £4.1m (2018: £3.9m) due primarily to non-payroll costs including fleet expenses (which vary depending on contract locations) and investment in training and compliance costs.

Overall profit before income tax for the Period was £1.2m (2018: £1.6m) and basic earnings per share was 5.4p (2018: 6.9p).

Cash flow

Net bank debt at 30 September 2019 was £0.7m (30 September 2018: £0.3m, 31 March 2019: £2.0m net cash).

We had stated in the March 2019 results that the cash position at 31 March 2019 reflected some favourable working capital swings which to an extent would be expected to reverse post year end. This was the case, and the current customer and contract mix has an increased working capital requirement which reduced operating cash flow in the Period. The cash position was also impacted by the payment of the FY19 final ordinary and special dividends totalling £0.7m (2018: £0.7m), and annual bonus payments related to FY19 but settled in the Period which contributed to the movement in trade and other payables.

As we have emphasised previously, the net bank debt position represents a snapshot at a particular point in time and our net cash/bank debt position can move by up to £1.5m in a matter of days given the nature, size and variety of contracts that we work on and the related working capital balances. The highest bank position in the Period was £2.0m net cash, the lowest net bank debt position during the period was £2.6m, and the average was £1.1m net bank debt.

Chairman's statement *(continued)*

Cash flow (continued)

Our revolving credit facility and overdraft with Yorkshire Bank are committed to 31 May 2020. We have already commenced renewal discussions and are confident that facilities will be renewed in the New Year. Pending this renewal, we have presented the amount drawn on the revolving facility at 30 September 2019 of £2.0m (30 September 2018: £2.0m, 31 March 2019: £1.0m) in loans and borrowings in current liabilities, as it falls due within one year.

Balance sheet

Details of new accounting standards which are being applied for the Group's current financial year are set out in Note 2 to this document. The principal change in the Period is the adoption of IFRS 16 "Leases", which requires all leases to be included on the balance sheet with recognition of right of use assets and corresponding liabilities for future lease payment obligations.

The Group's leases previously reported as operating leases relate to land and buildings and motor vehicles. The related balances have been presented separately on the face of the consolidated balance sheet in order to show the impact of IFRS 16 adoption. We have not restated comparative information for prior periods.

Dividend

Our stated policy is to pay only a final dividend, at the Board's discretion, and to assess future dividend levels in line with the Group's relative performance, after taking into account the Group's available cash, working capital requirements, corporate opportunities, debt obligations, and the macro economic environment at the relevant time.

Provided that the strong trading performance and operating environment continues for the remainder of the financial year, it is the current intention of the Board to continue with our dividend policy. However, we do not intend to pay further special dividends unless profitability increases from FY19 levels.

Strategy

We continue to seek acquisitions of established specialist building services businesses, either in the same or complementary sectors to our current operations. Our main criteria are that a business is well-established in its sector, has a consistent track record of profitability and cash generation and has a strong management team who are committed to remaining with the business. Any potential acquisition would, in addition, need to be earnings accretive and provide an acceptable return on investment.

Outlook

The Group continues to hold a high level of committed orders although, as experienced in Q1, we have limited short term visibility as to when these orders will be realised. The strong momentum in Q2 has, to date, continued into the second half of the financial year and we consider the outlook for the current financial year to remain positive, despite continued uncertainty in the macro-economic environment, and are hopeful of reporting another strong set of full year results.

Conclusion

I am pleased to be reporting what we consider to be a strong set of results for the Period. As always, our loyal, dedicated and skilled workforce is a key part of our success and we make every effort to support them through continued training and health and safety compliance. I would once more like to thank all of our employees for their hard work and contribution.

Steve Roberts
Executive Chairman

25 November 2019

Consolidated statement of comprehensive income
for the six month period ended 30 September 2019

	6 months ended 30 September 2019 Unaudited £'000	6 months ended 30 September 2018 Unaudited £'000	Year ended 31 March 2019 Audited £'000
Revenue	**27,849**	28,576	56,575
Cost of sales	**(22,431)**	(22,942)	(44,659)
Gross profit	**5,418**	5,634	11,916
Other operating income	**12**	12	24
Administrative expenses	**(4,059)**	(3,903)	(8,725)
Operating profit (before amortisation and other adjustments)	**1,371**	1,743	3,215
Deferred consideration adjustments	**36**	23	265
Amortisation of intangible assets arising on acquisitions	**(77)**	(76)	(152)
Operating profit	**1,330**	1,690	3,328
Finance costs	**(97)**	(103)	(197)
Profit before income tax	**1,233**	1,587	3,131
Income tax expense	**(235)**	(302)	(540)
Profit for the period	**998**	1,285	2,591
Total comprehensive income attributable to equity holders of the parent	**998**	1,285	2,591
Earnings per share from continuing operations			
Basic earnings per share	**5.4p**	6.9p	14.0p
Diluted earnings per share	**5.4p**	6.9p	13.9p

Consolidated statement of changes in equity

for the six month period ended 30 September 2019

	Share capital	Capital redemption reserve	Share premium	Merger reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2018	**189**	**6**	**5,169**	**9,605**	**6,409**	**21,378**
Total comprehensive income for the period						
Profit for the period	-	-	-	-	1,285	1,285
Transactions with owners, recorded directly in equity						
Exercise of share options	-	-	-	-	14	14
Equity dividends paid	-	-	-	-	(740)	(740)
At 30 September 2018	**189**	**6**	**5,169**	**9,605**	**6,968**	**21,937**
At 1 April 2018	**189**	**6**	**5,159**	**9,605**	**6,409**	**21,378**
Total comprehensive income for the year						
Profit for the year	-	-	-	-	2,591	2,591
Transactions with owners, recorded directly in equity						
Exercise of share options	-	-	-	-	17	17
Equity dividends paid	-	-	-	-	(740)	(740)
At 31 March 2019	**189**	**6**	**5,169**	**9,605**	**8,277**	**23,246**
At 1 April 2019	**189**	**6**	**5,169**	**9,605**	**8,277**	**23,246**
Total comprehensive income for the period						
Profit for the period	-	-	-	-	998	998
Transactions with owners, recorded directly in equity						
Equity dividends paid	-	-	-	-	(741)	(741)
Other items						
Cumulative effect of IFRS16 initial application	-	-	-	-	(18)	(18)
At 30 September 2019	**189**	**6**	**5,169**	**9,605**	**8,516**	**23,485**

Consolidated balance sheet
at 30 September 2019

	30 September 2019	30 September 2018	31 March 2019
	Unaudited	Unaudited	Audited
	£'000	£'000	£'000
Assets			
Property, plant and equipment	**3,145**	3,122	3,033
Right of use asset	**1,084**	-	-
Intangible assets	**20,399**	20,552	20,476
Trade and other receivables	**1,025**	1,420	1,057
Total non-current assets	**25,653**	25,094	24,566
Inventories	**805**	724	652
Trade and other receivables	**9,906**	9,224	8,450
Prepayments	**606**	536	259
Cash and cash equivalents	**1,300**	1,746	3,038
Total current assets	**12,617**	12,230	12,399
Total assets	**38,270**	37,324	36,965
Equity			
Share capital	**189**	189	189
Capital redemption reserve	**6**	6	6
Share premium	**5,169**	5,169	5,169
Merger reserve	**9,605**	9,605	9,605
Retained earnings	**8,516**	6,968	8,277
Total equity attributable to equity holders of the Company	**23,485**	21,937	23,246
Liabilities			
Loans and borrowings	**230**	2,173	1,236
Deferred consideration	**-**	206	217
Lease liabilities	**814**	-	-
Deferred tax liabilities	**295**	316	295
Total non-current liabilities	**1,339**	2,695	1,748
Loans and borrowings	**2,236**	194	232
Deferred consideration	**229**	417	97
Trade and other payables	**10,075**	11,181	11,152
Lease liabilities	**292**	-	-
Current tax payable	**614**	900	490
Total current liabilities	**13,446**	12,692	11,971
Total liabilities	**14,785**	15,387	13,719
Total equity and liabilities	**38,270**	37,324	36,965

Consolidated statement of cash flows

for the six month period ended 30 September 2019

	6 months ended 30 September 2019 Unaudited	6 months ended 30 September 2018 Unaudited	Year ended 31 March 2019 Audited
	£'000	£'000	£'000
Cash flows from operating activities			
Operating profit for the period	**1,330**	1,690	3,328
Adjustments for:			
Depreciation of property, plant and equipment	**265**	264	538
Depreciation of lease asset	**152**	-	-
Amortisation	**77**	76	152
Loss/(profit) on sale of property, plant and equipment	**5**	14	17
Deferred consideration adjustments	**(36)**	(23)	(265)
	1,793	2,021	3,770
Change in inventories	**(153)**	228	163
Change in trade and other receivables	**(1,424)**	(811)	326
Change in prepayments	**(347)**	(271)	6
Change in trade and other payables	**(1,077)**	846	819
Cash generated from operations	**(1,208)**	2,013	5,084
Interest paid	**(82)**	(65)	(127)
Tax paid	**(111)**	-	(669)
Net cash flow from operating activities	**(1,401)**	1,948	4,288
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	**141**	119	518
Acquisition of property, plant and equipment	**(405)**	(333)	(581)
Acquisition of subsidiary (net of cash acquired)	**(64)**	(327)	(426)
Net cash from investing activities	**(328)**	(541)	(489)
Cash flows from financing activities			
Issue / (repayment) of borrowings	**1,007**	(498)	(1,498)
Repayment of finance lease liabilities	**(127)**	(168)	(271)
Repayment of lease liabilities	**(148)**	-	-
Proceeds from the exercise of share options	**-**	14	17
Equity dividends paid	**(741)**	(740)	(740)
Net cash from financing activities	**(9)**	(1,392)	(2,492)
Net (decrease)/increase in cash and cash equivalents	**(1,738)**	15	1,307
Cash and cash equivalents at start of period	**3,038**	1,731	1,731
Cash and cash equivalents at end of period	**1,300**	1,746	3,038

Notes

1. Basis of preparation

These interim consolidated financial statements have been prepared using accounting policies based on International Financial Reporting Standards (IFRS and IFRIC Interpretations) issued by the International Accounting Standards Board ("IASB") as adopted for use in the EU. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the 31 March 2019 Annual Report and Financial Statements. The financial information for the half years ended 30 September 2019 and 30 September 2018 does not constitute statutory accounts within the meaning of Section 434 (3) of the Companies Act 2006 and both periods are unaudited. The financial information has not been prepared (and is not required to be prepared) in accordance with IAS 34 *Interim Financial Reporting*.

The annual consolidated financial statements of Northern Bear plc (the "Company", or, together with its subsidiaries, the "Group") are prepared in accordance with IFRS as adopted by the European Union. The comparative financial information for the year ended 31 March 2019 included within this report does not constitute the full statutory Annual Report for that period. The statutory Annual Report and Financial Statements for the year ended 31 March 2019 have been filed with the Registrar of Companies. The Independent Auditors' Report on the Annual Report and Financial Statements for the year ended 31 March 2019 was i) unqualified, ii) did not draw attention to any matters by way of emphasis, and iii) did not contain a statement under 498(2) - (3) of the Companies Act 2006.

2. Accounting policies

The Group has applied the same accounting policies and methods of computation in its interim consolidated financial statements as in its 2019 annual financial statements, as set out in Notes 2 and 3 of that document, except for those that relate to new standards and interpretations effective for the first time for periods beginning on (or after) 1 April 2019, and will be adopted in the 2020 financial statements. The accounting policies applied are based on the recognition and measurement principles of IFRS in issue as adopted by the European Union (EU) and are effective at 31 March 2020 or are expected to be adopted and effective at 31 March 2020.

The Group has adopted IFRS 16 'Leases' from 1 April 2019. IFRS 16 requires lessees to record all leases on the balance sheet by recognising right of use assets relating to leased assets, and lease liabilities representing future lease payment obligations. The Group's leases previously recognised as operating leases under IAS 17 'Leases' include land and buildings and motor vehicles. Right of use assets and lease liabilities in relation to these leases have both been presented separately on the face of the consolidated balance sheet in these interim financial statements.

The Group has adopted IFRS 16 using the modified retrospective approach under which the cumulative effect of initial application is recognised as an opening reserves adjustment of £18,000 at 1 April 2019. The Group's comparative information for prior periods has not been restated under this approach.

Under IFRS 16 the Group now recognises a right of use asset and a lease liability at the lease commencement date.

The lease liability is measured initially at the present value of future lease payments from the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate under its current bank facilities, with appropriate adjustments if required for residual value guarantees, the exercise price of purchase options, and termination penalties. The Group has predominantly used the incremental borrowing rate as the discount rate for this purpose.

The right of use asset is measured based on the initial lease liability with adjustments as required for initial direct costs, the costs of removal and restoring, payments made at or prior to commencement, and lease incentives received.

2. Accounting policies (continued)

Following initial adoption of IFRS 16 the Group recognised £902,000 of right of use assets and £920,000 of lease liabilities, both in relation to leases formerly classed as operating leases under IAS 17, on the consolidated balance sheet at 1 April 2019. The Group recognised £152,000 depreciation of right of use assets and £20,000 of interest payments in finance costs in the consolidated statement of comprehensive income during the period.

Other new and amended standards and interpretations issued by the IASB that will apply for the first time in the next annual financial statements are not expected to have a material impact on the Group's financial statements.

3. Taxation

The taxation charge for the six months ended 30 September 2019 is calculated by applying the Directors' best estimate of the annual effective tax rate to the profit for the period.

4. Earnings per share

Basic earnings per share is the profit or loss for the period divided by the weighted average number of ordinary shares outstanding, excluding those held in treasury, calculated as follows:

	6 months ended 30 September 2019 Unaudited	6 months ended 30 September 2018 Unaudited	Year ended 31 March 2019 Audited
Profit for the period (£'000)	**998**	1,285	2,591
Weighted average number of ordinary shares excluding shares held in treasury for the proportion of the year held in treasury ('000)	**18,519**	18,510	18,515
Basic earnings per share	**5.4p**	6.9p	14.0p

Notes *(continued)*

4. Earnings per share (continued)

The calculation of diluted earnings per share is the profit or loss for the period divided by the weighted average number of ordinary shares outstanding, after adjustment for the effects of all potential dilutive ordinary shares, excluding those in treasury, calculated as follows:

	6 months ended 30 September 2019 Unaudited	6 months ended 30 September 2018 Unaudited	Year ended 31 March 2019 Audited
Profit for the period (£'000)	**998**	1,285	2,591
Weighted average number of ordinary shares excluding shares held in treasury for the proportion of the year held in treasury ('000)	**18,519**	18,510	18,515
Effect of potential dilutive ordinary shares ('000)	**55**	64	63
Diluted weighted average number of ordinary shares excluding shares held in treasury for the proportion of the year held in treasury ('000)	**18,574**	18,574	18,578
Diluted earnings per share	**5.4p**	6.9p	13.9p

The following additional earnings per share figures are presented as the directors believe they provide a better understanding of the trading performance of the Group.

Adjusted basic and diluted earnings per share is the profit for the period, adjusted for acquisition related costs, divided by the weighted average number of ordinary shares outstanding as presented above.

Adjusted earnings per share is calculated as follows:

	6 months ended 30 September 2019 Unaudited	6 months ended 30 September 2018 Unaudited	Year ended 31 March 2019 Audited
Profit for the period (£'000)	**998**	1,285	2,591
Deferred consideration adjustments	**(36)**	(23)	(265)
Amortisation of intangible assets arising on acquisitions	**77**	76	152
Unwinding of discount on deferred consideration liabilities	**21**	38	70
Corporation tax effect of above items	**(18)**	-	(43)
Adjusted profit for the period (£'000)	**1,042**	1,376	2,505
Weighted average number of ordinary shares excluding shares held in treasury for the proportion of the year held in treasury ('000)	**18,519**	18,510	18,515
Adjusted basic earnings per share	**5.6p**	7.4p	13.5p
Adjusted diluted earnings per share	**5.6p**	7.4p	13.5p

Notes *(continued)*

4. Earnings per share (continued)

On 25 July 2017 the Group acquired the entire issued share capital of H Peel & Sons (Holdings) Limited and its subsidiary H. Peel & Sons Limited.

The consideration was satisfied through a combination of cash, equity instruments, and deferred and contingent consideration. The amount recognised on the Group's balance sheet for deferred and contingent consideration at the date of acquisition was based on the discounted present value of estimated future payments to be made.

Deferred consideration adjustments for the above periods relate to the difference between the amount provided for deferred and contingent consideration due in the period and the actual amount paid.

As deferred and contingent consideration is presented at discounted present value the unwinding of this discount is recorded in finance costs in the income statement.

5. Finance costs

	6 months ended 30 September 2019	6 months ended 30 September 2018	Year ended 31 March 2019
	Unaudited	Unaudited	Audited
On bank loans and overdrafts	**44**	60	106
Finance charges payable in respect of hire purchase contracts	**12**	5	21
Finance charges on lease liabilities	**20**	-	-
Unwinding of discount on deferred consideration liabilities	**21**	38	70
Total finance costs	**97**	103	197

6. Principal risks and uncertainties

The directors consider that the principal risks and uncertainties which could have a material impact on the Group's performance in the remaining six months of the financial year remain the same as those stated on page 9 to 12, and 64 to 67 of our Annual Report and Financial Statements for the year ended 31 March 2019, which are available on the Company's website, www.northernbearplc.com.

7. Half year report

The condensed financial statements were approved by the Board of Directors on 25 November 2019 and are available on the Company's website, www.northernbearplc.com. Copies will be sent to shareholders and are available on application to the Company's registered office.

For and on behalf of the Board of Directors

Thomas Hayes
Finance Director

25 November 2019