



CHURCHiLL



INTERIM REPORT 2022

Chairman's Statement

Introduction

We are pleased to report a sound revenue and profit performance in the first half of the year. Sales revenues increased by 73% overall, with an 87% increase in our target Hospitality market. We believe we have continued to build long term market share, principally in our core markets of Europe and the UK, but we have also made progress in other markets worldwide. In common with many other manufacturers, our margins have been affected by labour, material and energy cost growth, but our strong position in what remains an attractive market in the long term has allowed us to raise prices to offset some of these increases.

Increased production costs have constrained the benefit we would normally expect to gain from the substantial increase in revenue achieved. Whilst our percentage margins have reduced as a result of the cost pressures outlined above, our absolute margin generation is in line with our plans. We have initiated several projects designed to recover previous efficiency levels in the medium and long term. We are also investing to secure additional capacity for the longer term.

We continue to benefit from high levels of demand. Our order book is the strongest we have experienced and reflects Churchill's reputation for providing an innovative, technically advanced product alongside market leading service levels. We expect revenue to grow for the foreseeable future despite increasing economic headwinds in the wider economy. The ability to deliver a good performance in a difficult trading environment confirms the strength of Churchill's market position, strategy and operations and emphasises the benefit of our long term approach to business.

Financial Review

Total revenues rose by 73% to £41.4m (2021 H1: £23.9m, FY2021: £60.8m). Revenues increased both as a result of market share gain and in comparison to a year where the first quarter was affected by COVID restrictions. Average selling prices also increased to help offset additional material and energy costs, although the increase implemented on 1 May 2022 will not materially benefit our pricing until the second half of the year.

| Revenue (£m) | 2022 H1 | 2021 H1 | Change | 2021 FY |
|--------------|---------|---------|--------|---------|
| Ceramics | 37.7 | 21.5 | 76% | 55.6 |
| Materials | 3.7 | 2.4 | 48% | 5.2 |
| Total | 41.4 | 23.9 | 73% | 60.8 |

| | | | | |
|--------|------|------|-----|------|
| UK | 16.0 | 8.9 | 81% | 24.4 |
| Export | 25.4 | 15.0 | 68% | 36.4 |
| Total | 41.4 | 23.9 | 73% | 60.8 |

Overall gross margins were lower than in previous periods. As experienced in H2 2021 factory output and efficiency levels were affected by labour availability and lower than normal levels of experience within our workforce. Input prices for materials and energy also rose. We expect to make progress in the resolution of these issues over the medium term. The effect on our margins has been mitigated in part by the successful implementation of two price rises and we retain the ability to adjust our pricing to reflect further changes in our operating environment.

Operating profit before exceptional items rose by £2.4m to £3.5m (2021 H1: £1.1m, FY2021: £6.1m). Overhead cost levels continued to be carefully managed, supporting business development and maintaining our forward capability. Operating profit margins before exceptional items were 8.5% (2021 H1: 4.4%, FY2021: 10.1%).

Profit before exceptional items and income tax was £3.4m (2021 H1: £1.0m, FY2021: £6.0m) with the increase entirely reflecting improved operating profit.

Exceptional income: During the first half of the year we received £0.5m as an on account payment in relation to the disposal of assets of an industry trade body of which we were a member. We do not currently expect any further receipts or costs in relation to this disposal. This has been treated as exceptional given its size and nature.

Adjusted earnings per share before exceptional income was 24.7p (2021 H1: 4.5p, FY2021: 37.8p).

Reported profit after exceptional items but before income tax was £3.9m (2021 H1: £1.0m, FY2021: £6.0m).

Basic earnings per share, after exceptional income, was 28.9p (2021 H1: 4.5p, FY2021: 37.8p)

We have continued to generate cash at a satisfactory level with operating cash generation of £2.0m (2021 H1: £0.9m, FY2021: £10.6m). As expected there was a substantial working capital requirement associated with the strong growth in revenue experienced in the first six months of the year, although this was partially offset by a smaller than expected increase in inventory. Capital expenditure increased to £2.7m (2021 H1: £1.3m, FY2021: £3.7m) further details of which are set out below. After a dividend payment of £1.9m, cash and deposits at 30 June 2022 were £15.7m (June 2021: £13.4m, December 2021: £19.0m).

Our record of cash generation and level of reserves allow us to accelerate investment where it is needed to address changes in our operations and to support the long term development of the business. We continue to enjoy a strong, ungeared, balance sheet with net assets of £43.6m.

Dividend

We are pleased to announce an interim dividend of 10.5p per share, a 57% increase on the 6.7p paid at this stage in 2021. This dividend will be payable on 7 October 2022 to shareholders on the register on 23 September 2022. The dividend is in line with our policy of growing returns to shareholders and reflects our confidence in the progress of the business.

Business

We are pleased to have delivered well against our performance objectives in the first half of the year. Once more, this has been achieved as a result of our focus on providing both a high quality product and a market leading service at an appropriate value to our customers. We have grown our revenue against a backdrop of uncertain economic conditions, cost inflation and supply chain difficulties. The increase in revenue will generate further returns in the longer term given the replacement nature of our markets. We have also been able to prosper because we serve a multiplicity of markets worldwide and, again in line with our strategic objectives, we have extended the reach of our export sales during the first half year.

Consolidated income statement

for the six months ended 30 June 2022

| | Note | Unaudited Six months to 30 June 2022 £'000 | Unaudited Six months to 30 June 2021 £'000 | Audited Twelve months to 31 December 2021 £'000 |
|--|------|--|--|--|
| Revenue | 1 | 41,375 | 23,922 | 60,839 |
| Operating profit before exceptional item | 1 | 3,508 | 1,055 | 6,122 |
| Exceptional items | 2 | 471 | – | – |
| Operating Profit | 1 | 3,979 | 1,055 | 6,122 |
| Finance income | 3 | 15 | 2 | 5 |
| Finance costs | 3 | (93) | (80) | (164) |
| Profit before exceptional item and income tax | 1 | 3,430 | 977 | 5,963 |
| Exceptional items | 2 | 471 | – | – |
| Profit before income tax | | 3,901 | 977 | 5,963 |
| Income tax expense | 4 | (713) | (480) | (1,797) |
| Profit for the period | | 3,188 | 497 | 4,166 |
| | | Pence per share | Pence per share | Pence per share |
| Adjusted earnings per ordinary share | 5 | 24.7 | 4.5 | 37.8 |
| Basic earnings per ordinary share | 5 | 28.9 | 4.5 | 37.8 |

Consolidated statement of comprehensive income

for the six months ended 30 June 2022

| | Unaudited Six months to 30 June 2022 £'000 | Unaudited Six months to 30 June 2021 £'000 | Audited Twelve months to 31 December 2021 £'000 |
|---|--|--|--|
| Other comprehensive income | | | |
| Items that will not be reclassified to profit and loss: | | | |
| Actuarial gain on retirement benefit obligations (net) | – | – | 1,499 |
| Items that may be reclassified subsequently to profit and loss | | | |
| Impact of change in UK tax rate on deferred tax | – | 558 | 557 |
| Exchange differences | – | 2 | 10 |
| Other comprehensive income | – | 560 | 2,066 |
| Profit for the period | 3,188 | 497 | 4,166 |
| Total comprehensive income for the period | 3,188 | 1,057 | 6,232 |
| Attributable to: | | | |
| Owners of the Company | 3,188 | 1,057 | 6,232 |

All above figures relate to continuing operations.

Consolidated balance sheet

as at 30 June 2022

| | Unaudited 30 June 2022 £'000 | Unaudited 30 June 2021 £'000 | Audited 31 December 2021 £'000 |
|--------------------------------------|---------------------------------------|---------------------------------------|---|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | 22,318 | 20,074 | 21,021 |
| Intangible assets | 908 | 1,152 | 1,022 |
| Deferred income tax assets | 1,591 | 2,539 | 1,842 |
| | 24,817 | 23,765 | 23,885 |
| Current assets | | | |
| Inventories | 11,097 | 11,600 | 10,486 |
| Trade and other receivables | 14,651 | 10,908 | 10,877 |
| Other financial assets | 5,016 | 1,000 | 4,005 |
| Cash and cash equivalents | 10,650 | 12,437 | 15,046 |
| | 41,414 | 35,945 | 40,414 |
| Total assets | 66,231 | 59,710 | 64,299 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | (13,666) | (10,037) | (12,268) |
| Current income tax liabilities | – | (41) | – |
| Total current liabilities | (13,666) | (10,078) | (12,268) |
| Non-current liabilities | | | |
| Lease liabilities payables | (515) | (164) | (217) |
| Deferred income tax liabilities | (2,048) | (1,449) | (1,975) |
| Retirement benefit obligations | (6,353) | (9,812) | (7,156) |
| Total non-current liabilities | (8,916) | (11,425) | (9,348) |
| Total liabilities | (22,582) | (21,503) | (21,616) |
| Net assets | 43,649 | 38,207 | 42,683 |
| Equity | | | |
| Issued share capital | 1,103 | 1,103 | 1,103 |
| Share premium account | 2,348 | 2,348 | 2,348 |
| Treasury shares | (431) | (80) | (80) |
| Other reserves | 1,230 | 1,154 | 1,195 |
| Retained earnings | 39,399 | 33,682 | 38,117 |
| Total equity | 43,649 | 38,207 | 42,683 |

Consolidated statement of changes in equity

as at 30 June 2022

| | Retained earnings £'000 | Issued share capital £'000 | Share premium £'000 | Treasury shares £'000 | Other reserves £'000 | Total equity £'000 |
|---|-------------------------------|-------------------------------------|---------------------------|-----------------------------|----------------------------|--------------------------|
| Balance at 1 January 2021 | 32,555 | 1,103 | 2,348 | (80) | 1,215 | 37,141 |
| Comprehensive income | | | | | | |
| Profit for the period | 497 | – | – | – | – | 497 |
| Other comprehensive income | | | | | | |
| Depreciation transfer – gross | 6 | – | – | – | (6) | – |
| Depreciation transfer – tax | (2) | – | – | – | 2 | – |
| Deferred tax – change in rate | 623 | – | – | – | (65) | 558 |
| Currency translation | – | – | – | – | 2 | 2 |
| Total comprehensive income | 1,124 | – | – | – | (67) | 1,057 |
| Transactions with owners | | | | | | |
| Share based payment | – | – | – | – | 6 | 6 |
| Deferred tax – share based payment | 3 | – | – | – | – | 3 |
| Total transactions with owners | 3 | – | – | – | 6 | 9 |
| Balance at 30 June 2021 | 33,682 | 1,103 | 2,348 | (80) | 1,154 | 38,207 |
| Comprehensive income | | | | | | |
| Profit for the period | 3,669 | – | – | – | – | 3,669 |
| Other comprehensive income | | | | | | |
| Depreciation transfer – gross | 6 | – | – | – | (6) | – |
| Depreciation transfer – tax | (1) | – | – | – | 1 | – |
| Re-measurement of retirement benefit obligations – net of tax | 1,499 | – | – | – | – | 1,499 |
| Currency translation | – | – | – | – | 7 | 8 |
| Total comprehensive income | 5,173 | – | – | – | 2 | 5,175 |
| Transactions with owners | | | | | | |
| Dividends relating to 2021 | (739) | – | – | – | – | (739) |
| Share based payment | – | – | – | – | 39 | 39 |
| Deferred tax – share based payment | 1 | – | – | – | – | 1 |
| Total transactions with owners | (738) | – | – | – | 39 | (699) |
| Balance at 31 December 2021 | 38,117 | 1,103 | 2,348 | (80) | 1,195 | 42,683 |
| Comprehensive income | | | | | | |
| Profit for the period | 3,188 | – | – | – | – | 3,188 |
| Other comprehensive income | | | | | | |
| Depreciation transfer – gross | 6 | – | – | – | (6) | – |
| Depreciation transfer – tax | (2) | – | – | – | 2 | – |
| Total comprehensive income | 3,192 | – | – | – | (4) | 3,188 |
| Transactions with owners | | | | | | |
| Share based payment | – | – | – | – | 39 | 39 |
| Dividends | (1,907) | – | – | – | – | (1,907) |
| Treasury Shares | – | – | – | (351) | – | (351) |
| Deferred tax – share based payment | (3) | – | – | – | – | (3) |
| Total transactions with owners | (1,910) | – | – | (351) | 39 | (2,222) |
| Balance at 30 June 2022 | 39,399 | 1,103 | 2,348 | (431) | 1,230 | 43,649 |

Consolidated cash flow statement

for the six months ended 30 June 2022

| | Unaudited Six months to 30 June 2022 £'000 | Unaudited Six months to 30 June 2021 £'000 | Audited Twelve months to 31 December 2021 £'000 |
|---|--|--|--|
| Cash flows from operating activities | | | |
| Cash generated from operations (note 6) | 2,008 | 884 | 10,627 |
| Interest received | 15 | 2 | 5 |
| Interest paid | (21) | (8) | (28) |
| Income tax paid | (333) | (30) | (854) |
| Net cash generated from operating activities | 1,669 | 848 | 9,750 |
| Investing activities | | | |
| Purchases of property, plant and equipment | (2,644) | (1,307) | (3,740) |
| Proceeds on disposal of property, plant and equipment | 5 | 31 | 43 |
| Purchases of intangible assets | (25) | (13) | (12) |
| Net cash used in investing activities | (2,664) | (1,289) | (3,709) |
| Financing activities | | | |
| Dividends paid | (1,907) | – | (739) |
| Treasury shares | (352) | – | – |
| Principal element of finance lease payments | (131) | (118) | (247) |
| Net (purchase)/sale of other financial assets | (1,011) | 2,258 | (747) |
| Net cash generated by/(used in) financing activities | 3,401 | 2,140 | (1,733) |
| Net (decrease)/increase in cash and cash equivalents | (4,396) | 1,699 | 4,308 |
| Cash and cash equivalents at the beginning of the period | 15,046 | 10,738 | 10,738 |
| Cash and cash equivalents at the end of the period | 10,650 | 12,437 | 15,046 |

Notes to the financial statements

for the six months ended 30 June 2022

1. Segmental analysis

| | Unaudited Six months to 30 June 2022 £'000 | Unaudited Six months to 30 June 2021 £'000 | Audited Twelve months to 31 December 2021 £'000 |
|--|--|--|--|
| Revenue by class of business | | | |
| Ceramics | 37,737 | 21,461 | 55,605 |
| Materials | 6,408 | 3,966 | 8,773 |
| | 44,145 | 25,427 | 64,378 |
| Inter segment | (2,770) | (1,505) | (3,539) |
| | 41,375 | 23,922 | 60,839 |
| Revenue by destination | | | |
| United Kingdom | 16,040 | 8,884 | 24,424 |
| Rest of Europe | 17,431 | 9,833 | 24,241 |
| USA | 3,926 | 2,651 | 6,388 |
| Rest of the World | 3,978 | 2,554 | 5,786 |
| | 41,375 | 23,922 | 60,839 |
| | | | |
| | Unaudited Six months to 30 June 2022 £'000 | Unaudited Six months to 30 June 2021 £'000 | Audited Twelve months to 31 December 2021 £'000 |
| Operating profit before exceptional items | | | |
| Ceramics | 2,985 | 825 | 5,628 |
| Materials | 523 | 230 | 494 |
| | 3,508 | 1,055 | 6,122 |
| Exceptional items | | | |
| Ceramics | 471 | – | – |
| Materials | – | – | – |
| | – | – | – |
| Operating profit after exceptional items | | | |
| Ceramics | 3,456 | 825 | 5,628 |
| Materials | 523 | 230 | 494 |
| | 3,979 | 1,055 | 6,122 |
| | | | |
| Unallocated items | | | |
| Finance income | 15 | 2 | 5 |
| Finance costs | (93) | (80) | (164) |
| Profit before income tax | 3,901 | 977 | 5,963 |

Notes to the financial statements continued

for the six months ended 30 June 2022

2. Exceptional items

During the six months to 30 June 2022, the Company received £471,000 as an on account payment in relation to the voluntary winding up of a ceramic industry trade body of which we were a member. Due to the size and nature of this income, the receipt has been treated as exceptional. This on account payment is subject to finalisation of the liquidation but at this time the Board does not expect any further significant cash receipt or payment.

3. Finance income and costs

| | Unaudited Six months to 30 June 2022 £'000 | Unaudited Six months to 30 June 2021 £'000 | Audited Twelve months to 31 December 2021 £'000 |
|----------------------------|--|--|--|
| Finance income | | | |
| Other interest receivable | 15 | 2 | 5 |
| Finance income | 15 | 2 | 5 |
| Finance costs | | | |
| Interest paid | (21) | (8) | (28) |
| Interest on pension scheme | (72) | (72) | (136) |
| Finance costs | (93) | (80) | (164) |

The interest cost arising from pension schemes is a non cash item.

4. Income tax expense

| | Unaudited Six months to 30 June 2022 £'000 | Unaudited Six months to 30 June 2021 £'000 | Audited Twelve months to 31 December 2021 £'000 |
|--------------------|--|--|--|
| Current taxation | 392 | 75 | 671 |
| Deferred taxation | 321 | 404 | 1,126 |
| Income tax expense | 713 | 479 | 1,797 |

5. Earnings per ordinary share

Basic earnings per ordinary share is based on the profit after taxation attributable to owners of the Company of £3,188,000 (June 2021: £497,000; December 2021: £4,166,000) and on 11,020,612 (June 2021: 11,022,835; December 2021: 11,022,835) ordinary shares, being the weighted average number of ordinary shares in issue during the period. Adjusted earnings per ordinary share is calculated after adjusting for the post tax effect of exceptional items (see note 2).

| | Unaudited Six months to 30 June 2022 Pence per share | Unaudited Six months to 30 June 2021 Pence per share | Audited Twelve months to 31 December 2021 Pence per share |
|-----------------------------|---|---|---|
| Basic earnings per share | 28.9 | 4.5 | 37.8 |
| Less: exceptional items | (4.2) | – | – |
| Adjusted earnings per share | 24.7 | 4.5 | 37.8 |

Notes to the financial statements continued

for the six months ended 30 June 2022

6. Reconciliation of operating profit to net cash inflow from continuing activities

| | Unaudited Six months to 30 June 2022 £'000 | Unaudited Six months to 30 June 2021 £'000 | Audited Twelve months to 31 December 2021 £'000 |
|---|--|--|--|
| Cash flow from operations | | | |
| Operating profit | 3,508 | 1,055 | 6,122 |
| Exceptional Income | 471 | – | – |
| Adjustments for | | | |
| Depreciation and amortisation | 1,481 | 1,464 | 2,838 |
| Profit on disposal of property, plant and equipment | – | (2) | (5) |
| Charge for share based payment | 39 | 6 | 45 |
| Decrease in retirement benefit obligations | (875) | (642) | (1,362) |
| Changes in working capital | | | |
| Inventory | (611) | 1,223 | 2,337 |
| Trade and other receivables | (3,833) | (6,597) | (6,396) |
| Trade and other payables | 1,828 | 4,377 | 7,048 |
| Cash inflow from operations | 2,008 | 884 | 10,627 |

7. Basis of preparation and accounting policies

The financial information included in the interim results announcement for the six months to 30 June 2022 was approved by the Board on 12 September 2022.

The interim financial information for the six months to 30 June 2022 has not been audited or reviewed and does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. The Company's statutory accounts for the year ended 31 December 2021, prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, have been delivered to the Registrar of Companies; the Report of the Auditors on these accounts was unqualified and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

The interim financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings and financial assets and liabilities (including derivative instruments) at fair value through the profit and loss account. The same accounting policies, presentation and methods of computation are followed in the interim financial statements as were applied in the Group's last audited financial statements for the year ended 31 December 2021.

8. Share buybacks

The Company purchased 25,000 of its own ordinary shares during the first six months of the year, and may consider making further ad hoc share buybacks going forward at the discretion of the Board and subject to the shareholder authorities approved at the 2022 Annual General Meeting.

9. Publication

The Interim Report and this announcement will be available shortly on the Company's website www.churchill1795.com

