CHURCHILL

INTERIM REPORT 2024

Highlights

Financial

	Six months to 30 June 2024	Six months to 30 June 2023 (restated*)	Six months to 30 June 2023	% change (to restated numbers)
Revenue	**£40.6m**	£44.0m	£44.0m	(7.8%)
Operating profit	**£4.5m**	£4.5m	£4.9m	0.2%
Profit before tax and exceptional items	**£4.8m**	£4.7m	£5.0m	2.5%
Profit after tax	**£3.6m**	£3.5m	£3.5m	3.1%
Adjusted+ earnings per share	**32.8p**	31.9p	34.3p	2.8%
Statutory earnings per share	**32.8p**	31.9p	31.9p	2.8%
Interim dividend per share	**11.5p**	11.0p	11.0p	4.5%
Net cash and deposits	**£7.8m**	£9.9m	£9.9m	(21.3)%

- Revenue in the period decreased by 7.8% to £40.6m (H1 2023: £44.0m, FY2023: £82.3m).
- Operating profit in line with restated prior year at £4.5m (H1 2023 (Restated): £4.5m, H1 2023: £4.9m, FY2023: £10.3m) despite lower revenue.
- Profit after tax for the period was £3.6m, an increase of 3.1% (H1 2023 (Restated): £3.5m, H1 2023: £3.5m, FY2023: £7.7m).
- Earnings per share were 32.8p (H1 2023 (Restated): 31.9p, H1 2023: 31.9p, FY2023: 70.2p).
- Interim dividend 4.5% higher at 11.5 pence per share (H1 2023: 11.0 pence per share, FY2023: 36.0 pence per share) demonstrating the Board's continued confidence in the Company.
- Net cash and deposits at 30 June 2024 of £7.8m (H1 2023: £9.9m, FY2023: £13.9m) reflecting planned increases in finished goods stocks and increased debtors driven by the seasonal working capital cycle.

Business

- Factory performance continues to improve due to improved staff training and additional automation.
- UK demand within Nationals sector strong.
- Investment strategy continues to focus on innovation, automation and energy efficiency to drive long-term, sustainable profit growth.

Robin GW Williams
Chairman of Churchill China, commented:

"Global hospitality markets continued their flat performance from the second half of 2023 and remained subdued for early 2024, however, Group revenues have been broadly in line with expectations. A strong operational performance helped maintain operating profit in line with prior year. We remain dependent on the stronger demand normally experienced in the final four months to meet our expectations for the year."

*A net exceptional cost of £359,000 was recognised in the Interim Accounts for the six months to 30 June 2023: a £393,000 cost in relation to employee restructuring costs and £34,000 of income in relation to the voluntary wind up of the British Pottery Manufacturers' Federation, of which the Company was a 23.5% shareholder. These items were both treated as non-exceptional in the Annual Report 2023 and so the comparative results have been restated accordingly.

+ Adjusted earnings per share is calculated after adjusting for the post tax effect of exceptional items.

Chairman's Statement

Whilst 2024 has seen a reduction in revenues compared with 2023, this should be seen in the context of the planned increases in stock to improve fulfilment of orders and consequent reduction in order book which took place during 2023. The Company started 2023 with a £7.2m order book, compared with £2.8m in 2024, such that order intake between the two periods was broadly flat. Factory cost of production was broadly static during the period with increased input costs from labour and raw materials being offset by the reducing costs for energy. The focus on improving efficiency and yields continues and as a result the overall profit margin slightly increased.

Sales mix and market sentiment has weighed on profitability in H1 but, overall, the continued solid performance, despite difficult trading conditions, continues to highlight the resilience of the Company's long-term strategy and the strength of the Churchill brand globally.

Financial Review

Total revenues decreased 7.8% from £44.0m to £40.6m (FY2023: £82.3m) in the period with the UK holding up well along with the Rest of the World ('ROW') and the USA, however Europe was weaker compared with expectations. UK sales value did however come under some pressure from mix effects with turnover coming in large part from the national sales. On a constant currency basis, the reduction in turnover was 6.4% in the period.

Gross margin continues to improve with a 2.3% increase in the period despite cost headwinds, such as wage inflation, being driven by factory productivity improvements. Yields within the factory have improved during the period benefiting from the ongoing focus on continuous improvement within its processes and improved skill levels. In addition to these performance improvements, the Company continued to see an increase in value-added product mix.

This improved operational performance and value-added mix helped mitigate the impact of lower revenues, leaving Operating profit in line with the restated prior year at £4.5m.

Profit before taxation at £4.8m (H1 2023 (restated): £4.7m, FY2023: £10.8m) was 2.5% higher than prior year, with in-line operating profit benefiting from slightly higher interest income.

Basic earnings per share were 32.8p (H1 2023 (Restated): 31.9p, H1 2023: 31.9p, FY2023: 70.2p), an increase of 2.8%.

During the period trade receivables increased significantly. This has been in the main due to the low level of debtors at year end 2023 rather than a slowdown in payment. Nonetheless it has impacted the cash position at the half year with cash expected to be generated through the second half in line with normal seasonality.

Capital expenditure has been behind management budgets, and it is expected that this will continue in the second half as supply chains in capital equipment remain delayed.

Dividends

The Company has paid £2.8m as a final dividend payment for 2023 and is pleased to announce that an interim dividend of 11.5 pence per share (H1 2023: 11.0 pence per share, FY2023: 36.0 pence per share) will be paid, an increase of 4.5% on the previous year. The Company continues to have the aim to progressively increase its dividend, highlighting the Board's confidence in the business. This dividend will be payable on 11 October 2024 to shareholders on the register at 13 September 2024.

Ceramics

UK national accounts groups have reported strong trading over the period, with turnover up, albeit with margins at the lower end. Smaller hospitality outlets have been struggling and the corresponding revenue from these operations has been subdued. Market pressures from labour cost increases and food price inflation have disproportionately impacted the independent hospitality sector and so new openings and outlet refreshes have been reduced in the period.

Europe performed well in the first quarter but has seen a drop-off in performance in the second quarter ahead of an expected third quarter that is usually quiet.

The North American and ROW markets have tracked very much in line with expectations with the ROW in particular showing a healthy pipeline for new business. This market is particularly reliant on projects and new installations and there is evidence that this business is beginning to return.

New product launches have continued at pace with launches focusing on innovative products utilising the Company's improving capabilities. The new Tide collection, launched in March this year, has been the Company's best performing new introduction utilising the new ink jet production methods, delivering a marine feel with an abundance of white space for food presentation.

The new installation pipeline has continued to grow and whilst there has been a modest reduction in timing from enquiry to order, the overall timeline remains elongated although expected to improve as business confidence returns.

Total volumes have declined as expected in the first half compared with 2023, however, added value mix has increased slightly from 2024. In addition, margins have been under pressure in the period but this has been more than compensated for by the improved yields in the factory.

Materials

Furlong Mills' external sales in the period were 4% lower than prior year with intercompany sales down by 22% during the same period reflecting the approach of a more balanced, consistent production plan through the year. The Furlong business has a high proportion of fixed and semi-fixed costs and, therefore, profitability is particularly sensitive to levels of demand. The operation is also dependent on the expected uplift in demand from September.

Operations

The Company is pleased to report that the skill levels in the factory have recovered through training and the near elimination of agency workers, with low levels of staff turnover. This settled and better trained workforce has led to continued improvements in yields within the factory, which is now well placed to benefit from any recovery.

The Company continues to invest in its production processes and some significant assets are due to arrive in the second half of the year including a project to replace one of our core flat making machines with a more efficient and agile piece of equipment.

Environmental, Social and Governance ('ESG')

As an energy intensive industry, the Company is focused on reducing the energy consumption within our operations. As already mentioned, the Company has invested heavily in solar arrays but, in addition, the Company looks on energy as a strategic area for development as our customers, shareholders and employees expect an environmentally aware approach to our production techniques. As a result, the Company is investing in research to identify new processes and materials to reduce the energy required to produce our product. In addition to this, the Company is investigating the impact of our supply chain emissions as well as the potential for offering the recycling of the packaging of our products.

We have continued to improve our engagement with our workforce, particularly within the context of the wider macro-economic environment. We supply support to assist employees in managing their day-to-day finances through helplines and, for those who request it, we assist with language lessons to integrate employees into the workplace and to facilitate their interaction with colleagues. In addition, the Company continues to engage with local schools to promote the benefits of a career in manufacturing.

People

The Company has continued to support staff with an average uplift in salaries above inflation across the business. As previously stated, the workforce is now more settled and better trained meaning that delivery of quality on the factory floor is on a continuous path of improvement, resulting in reduced product loss and improved profitability.

As a larger employer, the Company also focuses on delivering high quality employment with the opportunity for advancement at all levels of the organisation. Colleagues are encouraged to cross-skill and all sections and levels of the business have succession planning as a core requirement.

Martin Payne joined the Board as Senior Independent Director and Audit Committee Chair during the period, with Brendan Hynes stepping down from the Board in June 2024.

Outlook

The Board believes that the Company is well positioned to take advantage of a return to confidence in our markets when that happens, but, continues to see subdued activity in our key European markets. As such, we remain dependent on the stronger demand normally experienced in the final four months of the year to meet our full-year expectations.

Robin GW Williams
Chairman
5 September 2024

Consolidated Income Statement

for the six months ended 30 June 2024

	Note	**Unaudited Six months to 30 June 2024 £'000**	Unaudited Six months to 30 June 2023 Restated (Note 2) £'000	Unaudited Six months to 30 June 2023 £'000	Audited Twelve months to 31 December 2023 £'000
Revenue	1	**40,587**	44,042	44,042	82,339
Operating profit before exceptional item	1	**4,521**	4,513	4,872	10,252
Exceptional items	2	**–**	–	(359)	–
Operating Profit	1	**4,521**	4,513	4,513	10,252
Finance income	3	**328**	207	207	611
Finance costs	3	**(46)**	(34)	(34)	(75)
Profit before exceptional item and income tax		**4,803**	4,686	5,045	10,788
Exceptional items	2	**–**	–	(359)	–
Profit before income tax		**4,803**	4,686	4,686	10,788
Income tax expense	4	**(1,193)**	(1,183)	(1,183)	(3,071)
Profit for the period		**3,610**	3,503	3,503	7,717

		Pence per share	Pence per share	Pence per share	Pence per share
Adjusted earnings per ordinary share	5	**32.8**	31.9	34.3	70.2
Basic earnings per ordinary share	5	**32.8**	31.9	31.9	70.2

Consolidated Statement of Comprehensive Income

for the six months ended 30 June 2024

	Unaudited Six months to 30 June 2024 £'000	Unaudited Six months to 30 June 2023 £'000	Audited Twelve months to 31 December 2023 £'000
Other comprehensive income			
Items that will not be reclassified to profit and loss:			
Remeasurements of post-employment benefit obligations net of tax	**–**	–	(900)
Items that may be reclassified subsequently to profit and loss			
Exchange differences	**–**	–	(25)
Other comprehensive income	**–**	–	(925)
Profit for the period	**3,610**	3,503	7,717
Total comprehensive income for the period	**3,610**	3,503	6,792

All above figures relate to continuing operations.

Consolidated Balance Sheet

as at 30 June 2024

	Unaudited 30 June 2024 £'000	Unaudited 30 June 2023 £'000	Audited 31 December 2023 £'000
Assets			
Non-current assets			
Property, plant and equipment	**24,532**	24,056	25,085
Intangible assets	**601**	760	663
Deferred income tax assets	**82**	130	82
Retirement benefit assets	**8,918**	7,889	7,855
	34,133	32,835	33,685
Current assets			
Inventories	**21,765**	19,154	21,896
Trade and other receivables	**14,000**	12,928	11,036
Other financial assets#	**–**	3,604	–
Cash and cash equivalents	**7,816**	6,332	13,933
	43,581	42,018	46,865
Total assets	**77,714**	74,853	80,550
Liabilities			
Current liabilities			
Trade and other payables	**(10,431)**	(11,566)	(14,355)
Total current liabilities	**(10,341)**	(11,566)	(14,355)
Non-current liabilities			
Lease liabilities payables	**(666)**	(554)	(677)
Deferred income tax liabilities	**(5,896)**	(4,794)	(5,577)
Total non-current liabilities	**(6,562)**	(5,348)	(6,254)
Total liabilities	**(16,993)**	(16,914)	(20,609)
Net assets	**60,721**	57,939	59,941
Equity			
Issued share capital	**1,103**	1,103	1,103
Share premium account	**2,348**	2,348	2,348
Treasury shares	**(431)**	(431)	(431)
Other reserves	**1,278**	1,431	1,363
Retained earnings	**56,423**	53,488	55,558
Total equity	**60,721**	57,939	59,941

Financial assets are deposit accounts with a redemption period exceeding 3 months.

Consolidated Statement of Changes in Equity

as at 30 June 2024

	Retained earnings £'000	Issued share capital £'000	Share premium £'000	Treasury shares £'000	Other reserves £'000	Total equity £'000
Balance at 1 January 2023	52,284	1,103	2,348	(431)	1,344	**56,648**
Comprehensive income						
Profit for the period	3,503	–	–	–	–	**3,503**
Other comprehensive income						
Depreciation transfer – gross	7	–	–	–	(7)	**–**
Depreciation transfer – tax	(2)	–	–	–	2	**–**
Total comprehensive income	3,508	–	–	–	(5)	**3,503**
Transactions with owners						
Share based payment	–	–	–	–	92	**92**
Dividends	(2,310)	–	–	–	–	**(2,310)**
Deferred tax – share based payment	6	–	–	–	–	**6**
Total transactions with owners	(2,304)	–	–	–	92	**(2,212)**
Balance at 30 June 2023	53,488	1,103	2,348	(431)	1,431	**57,939**
Comprehensive income						
Profit for the period	4,214	–	–	–	–	**4,214**
Other comprehensive income						
Depreciation transfer – gross	5	–	–	–	(5)	**–**
Depreciation transfer – tax	(1)	–	–	–	1	**–**
Re-measurement of retirement benefit obligations – net of tax	(900)	–	–	–	–	**(900)**
Currency translation	–	–	–	–	(25)	**(25)**
Total comprehensive income	3,318	–	–	–	(29)	**3,289**
Transactions with owners						
Dividends	(1,209)	–	–	–	–	**(1,209)**
Share based payment	–	–	–	–	(39)	**(39)**
Deferred tax – share based payment	(39)	–	–	–	–	**(39)**
Total transactions with owners	(1,248)	–	–	–	(39)	**(1,287)**
Balance at 31 December 2023	55,558	1,103	2,348	(431)	1,363	**59,941**
Balance at 1 January 2024	55,558	1,103	2,348	(431)	1,363	**59,941**
Comprehensive income						
Profit for the period	3,610	–	–	–	–	**3,610**
Other comprehensive income:						
Depreciation transfer – gross	6	–	–	–	(6)	**–**
Depreciation transfer – tax	(2)	–	–	–	2	**–**
Total comprehensive income	3,614	–	–	–	(4)	**3,610**
Transactions with owners						
Share based payment	–	–	–	–	(81)	**(81)**
Dividends	(2,749)	–	–	–	–	**(2,749)**
Total transactions with owners	(2,749)	–	–	–	(81)	**(2,830)**
Balance at 30 June 2024	56,423	1,103	2,348	(431)	1,278	**60,721**

Consolidated Cash Flow Statement

for the six months ended 30 June 2024

	Unaudited Six months to 30 June 2024 £'000	Unaudited Six months to 30 June 2023 £'000	Audited Twelve months to 31 December 2023 £'000
Cash flows from operating activities			
Cash generated from operations (note 6)	**(1,004)**	436	8,321
Interest received	**139**	117	229
Interest paid	**(46)**	(34)	(75)
Income tax paid	**(1,026)**	(90)	–
Net cash generated by / (used in) operating activities	**(1,937)**	(429)	8,475
Investing activities			
Purchases of property, plant and equipment	**(1,209)**	(2,680)	(5,334)
Proceeds on disposal of property, plant and equipment	**10**	34	54
Purchases of intangible assets	**(46)**	(33)	(73)
Net sale/(purchase) of other financial assets	**–**	1,453	5,057
Net cash used in investing activities	**(1,245)**	(1,226)	(296)
Financing activities			
Dividends paid	**(2,749)**	(2,310)	(3,519)
Principal element of finance lease payments	**(186)**	(165)	(330)
Net cash generated by / (used in) financing activities	**(2,935)**	(2,475)	(3,849)
Net (decrease) / increase in cash and cash equivalents	**(6,117)**	(3,272)	(4,330)
Cash and cash equivalents at the beginning of the period	**13,933**	9,604	9,604
Exchange gain / (loss) on cash and cash equivalents	**–**	–	1
Cash and cash equivalents at the end of the period	**7,816**	6,332	13,933

Notes to the Financial Statements

for the six months ended 30 June 2024

1. Segmental analysis

	Unaudited Six months to 30 June 2024 £'000	Unaudited Six months to 30 June 2023 £'000	Audited Twelve months to 31 December 2023 £'000
Revenue by class of business			
Ceramics	**36,821**	40,101	74,159
Materials	**6,943**	8,002	14,687
	43,764	48,103	88,846
Inter segment	**(3,177)**	(4,061)	(6,507)
	40,587	44,042	82,339
Revenue by destination			
United Kingdom	**15,819**	15,668	34,004
Rest of Europe	**17,568**	19,970	32,949
USA	**3,708**	4,801	8,399
Rest of the World	**3,492**	3,603	6,987
	40,587	44,042	82,339

	Unaudited Six months to 30 June 2024 £'000	Unaudited Six months to 30 June 2023 Restated (Note 2) £'000	Unaudited Six months to 30 June 2023 £'000	Audited Twelve months to 31 December 2023
Operating profit before exceptional items				
Ceramics	**3,571**	3,849	4,208	9,106
Materials	**950**	664	664	1,146
	4,521	4,513	4,872	10,252
Exceptional items				
Ceramics	**–**	–	(359)	–
Materials	**–**	–	–	–
	–	–	(359)	–
Operating profit after exceptional items				
Ceramics	**3,571**	3,849	3,849	9,106
Materials	**950**	664	664	1,146
	4,521	4,513	4,513	10,252
Unallocated items				
Finance income	**328**	207	207	611
Finance costs	**(46)**	(34)	(34)	(75)
Profit before income tax	**4,803**	4,686	4,686	10,788

Notes to the Financial Statements continued
for the six months ended 30 June 2024

2. Restated exceptional item

A net exceptional cost of £359,000 was recognised in the Interim Accounts for the six months to 30 June 2023; a £393,000 cost in relation to employee restructuring costs and £34,000 of income in relation to the voluntary wind up of the British Pottery Manufacturers' Federation, of which the Company was a 23.5% shareholder. These items were both treated as non-exceptional in the Annual Report 2023 and so the comparative results have been restated accordingly.

3. Finance income and costs

	Unaudited Six months to 30 June 2024 £'000	Unaudited Six months to 30 June 2023 £'000	Audited Twelve months to 31 December 2023 £'000
Finance income			
Other interest receivable	**139**	117	229
Interest on pension scheme	**189**	90	382
Finance income	**328**	207	611
Finance costs			
Interest paid	**(46)**	(34)	(75)
Finance costs	**(46)**	(34)	(75)

The interest income arising from pension schemes is a non-cash item. There is no impact from restatement on the presentation or value of the items presented within this note.

4. Income tax expense

	Unaudited Six months to 30 June 2024 £'000	Unaudited Six months to 30 June 2023 £'000	Audited Twelve months to 31 December 2023 £'000
Current taxation	**874**	839	1,635
Deferred taxation	**319**	344	1,436
Income tax expense	**1,193**	1,183	3,071

There is no impact from restatement on the presentation or value of the items presented within this note.

5. Earnings per ordinary share

Basic earnings per ordinary share is based on the profit after taxation attributable to owners of the Company of £3,610,000 (June 2023: £3,503,000; December 2023: £7,717,000) and on 10,997,835 (June 2023: 10,997,835; December 2023: 10,997,835) 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 2024 Pence per share	Unaudited Six months to 30 June 2023 Restated (Note 2) Pence per share	Unaudited Six months to 30 June 2023 Pence per share	Audited Twelve months to 31 December 2023 Pence per share
Basic earnings per share	**32.8**	31.9	31.9	70.2
Less exceptional items	**–**	–	2.4	–
Adjusted earnings per share	**32.8**	31.9	34.3	70.2

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

	Unaudited Six months to 30 June 2024 £'000	Unaudited Six months to 30 June 2023 Restated (Note 2) £'000	Unaudited Six months to 30 June 2023 £'000	Audited Twelve months to 31 December 2023 £'000
Cash flow from operations				
Operating profit	**4,521**	4,513	4,872	10,252
Exceptional income	**–**	–	(359)	–
Adjustments for:				
Depreciation and amortisation	**1,865**	1,753	1,753	3,510
Profit on disposal of property, plant and equipment	**(5)**	(1)	(1)	(16)
(Credit)/Charge for share based payment	**(81)**	91	91	53
Decrease in retirement benefit obligations	**(875)**	(875)	(875)	(1,750)
Changes in working capital				
Inventory	**131**	(3,265)	(3,265)	(6,007)
Trade and other receivables	**(2,964)**	861	861	2,346
Trade and other payables	**(3,596)**	(2,641)	(2,641)	(67)
Cash inflow from operations	**(1,004)**	436	436	8,321

Notes to the Financial Statements continued

for the six months ended 30 June 2024

7. Basis of preparation and accounting policies

The financial information included in the interim results announcement for the six months to 30 June 2024 was approved by the Board on 4 September 2024.

The interim financial information for the six months to 30 June 2024 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 2023 were prepared in accordance with international accounting standards in conformity with the requirements 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 2023.

Statutory accounts for the year ended 31 December 2023 have been delivered to the Registrar of Companies.

8. Share buybacks

The Company did not buy back any ordinary shares during the first six months of the year but 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 2024 Annual General Meeting.

The half-yearly report and this announcement will be available shortly on the Company's website www.churchill1795.com

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