

Interim Results

Released : 16.03.2016

RNS Number : 2016S
Finsbury Food Group PLC
16 March 2016

Date: 16 March 2016
On behalf of: Finsbury Food Group Plc ('Finsbury', 'the Company' or 'the Group')
Embargoed until: 0700hrs

Finsbury Food Group Plc Interim Results

Finsbury Food Group Plc (AIM: FIF), a leading UK speciality bakery manufacturer of cake, bread and morning goods for the retail and foodservice channels, is pleased to announce its unaudited interim results for the 26 weeks ended 26 December 2015.

Summary

- Group revenue of £156.6m up 46% (H1 2014: £107.6m) and up 7.4% on a like-for-like*¹ basis
- Operating profit of £8.0m up 78% (H1 2014: £4.5m) and up 21% on a like-for-like basis
- Group operating profit margin of 5.1% (H1 2014: 4.2%)
- Profit before tax of £7.5m up 84% (H1 2014: £4.1m) and up 22% on a like-for-like basis
- Increase in operating gross margin and profit margin following ongoing capital investment of £3.7m (H1 2014: £1.7m) and operational initiatives
- Strong growth in adjusted*² diluted EPS, up 38% to 4.4p per share (H1 2014: 3.2p per share)
- Interim dividend per share increased 12% to 0.93p (H1 2014: 0.83p per share)
- Net debt of £21.1m equates to 0.9 (H1 2014: 1.3) times pro forma annualised EBITDA of the Group

Strategic highlights

- The prior year acquisitions of Fletchers in October 2014 and Johnstone's in June 2015 are fully integrated and providing a broader spread of customers across food retail and foodservice channels
- The Group is now one of the largest speciality bakery groups in the UK with annualised revenues exceeding £300m
- Ongoing successful efficiency led capital investment strategy and continuous improvement programmes

Operational highlights

- Organic sales growth of 7.4% versus prior year, driven by market share growth across the Group
- New cake innovation centre fully operational
- Successful diversification into foodservice from existing Cake sites
- Launch of artisan breads into foodservice sector
- Winner of Bakery Manufacturer of the year for 2015 at the Bakery Industry Awards in September 2015
- Finalist in Food Manufacturers' Bakery Manufacturer of the year for 2015 in November 2015

*¹ like for like growth is calculated using financial data only where there are comparative trading figures for the first half of the prior year.

*² adjusted diluted EPS has been calculated using earnings excluding the impact of amortisation of intangibles and significant non-recurring and other items as shown on the face of the Statement of Comprehensive Income. The adjusted diluted EPS has been given as in the opinion of the Board this will allow shareholders to gain a clearer understanding of the trading performance of the Group.

Commenting on the results, John Duffy, Chief Executive of Finsbury Food Group Plc, said:

"We are very pleased to once again be reporting a strong first half performance, with our organic growth being supplemented by the acquisition of Fletchers and Johnstone's. Alongside this growth, our capital investment strategy, together with our continued efficiency programme has resulted in improved operating margins.

"Despite operating in a challenging market, we have created a Group that is well positioned to flourish in an improving environment and we look forward to benefitting from increased consumer confidence. Having built solid foundations and implemented a robust growth strategy that aims to create sustainable value for our stakeholders, we look forward to driving further growth both organically and through strategic M&A."

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STRATEGY

Our strategic objective is to create sustainable value for our shareholders, customers and other stakeholders, through our vision to build the leading speciality bakery group in the UK. We produce a broad range of high-quality bread, cake and bakery snacking products targeted at growing channels and market niches. These deliver growth and differentiation for our major customers and fulfil the needs of end consumers.

Our strategy to achieve our vision is as follows:

- Invest in our people and our manufacturing sites to form a strong foundation for us to deliver our strategy

- Create innovative, high-quality bakery products that anticipate key market trends
- Ensure customer and consumer needs are at the heart of our decision making
- Develop a strong licensed brand portfolio to complement our core retailer brand relationships
- Aim to succeed in both the retail grocery and out-of-home channels
- Grow through a combination of organic growth and targeted acquisitions.

Our growth strategy will continue to be delivered through a combination of organic growth and targeted acquisitions. Future acquisitions will typically consolidate our market share in existing product areas or introduce further diversification into additional specialist product areas, customers and channels.

The acquisitions of Fletchers Bakeries in October 2014 and Johnstone's Food Service in June 2015 have been successfully integrated into the Group, reflecting the Board's acquisition experience and capabilities. The acquisition of Fletchers Bakeries brings opportunities in new foodservice channels, retail customer diversification and complementary product ranges. Johnstone's manufactures bite style cake products such as caramel shortcake with a customer base in the coffee shop sector, which the Group previously had little exposure to.

Net debt of £21 million at half year, equating to 0.9 times annualised EBITDA, results in a healthy balance sheet and considerable scope to develop site capabilities and participate in industry consolidation and appropriate M&A.

Our core strategy is centred on generating returns for shareholders. Adjusted diluted earnings per share are 38% higher at 4.4p per share as a result of the growth in operating profit.

A final dividend for the year to 27 June 2015 of 1.67p per share was paid on 10 December 2015 to shareholders on the register at the close of business on 13 November 2015. This brought the total dividend for the year to 27 June 2015 to 2.50p per share.

The Board of Directors is announcing an interim dividend for the year ending 2 July 2016 of 0.93p per share (H1 2014: 0.83p per share), an increase of 12%. This increase is in line with good trading performance. The interim dividend will be paid on 22 April 2016 to shareholders on the register at the close of business on 1 April 2016. The election deadline for participants in the Company's Dividend Re-investment Plan will be 1 April 2016.

OUTLOOK

The Group delivered a strong performance over the first half, a result of our organic growth supplemented by the acquisitions of Fletchers and Johnstone's.

Whilst the UK grocery market continues to be challenging, the wider economic environment is slowly improving. The broader channel, customer and product diversification achieved recently within the Group will continue to benefit us given our access to higher growth opportunities such as the faster growing foodservice channel.

The Group has laid strong foundations and delivered a good first half performance. We expect this to continue into the second half of the financial year as we deliver the planned acquisition related scale and efficiency synergy benefits. Our balance sheet remains strong and we will continue to invest in our businesses to deliver our stated growth strategy.

OPERATING REVIEW

UK Bakery

	H1 2015 £m	H1 2014 £m	Growth	Like for Like*1 Growth
Revenue	143.2	96.3	49%	6.1%
Operating profit	7.2	3.8	91%	23%
Operating margin	5.0%	3.9%		

UK Bakery comprises the supply of cake, bread and morning goods in the Grocery and Foodservice channels. Revenue in the period has increased by 49% to £143.2 million and, on a like-for-like*1 basis, revenue growth is 6.1%. Operating profit in the period has increased by 91% to £7.2 million. Operating profit growth is 23% on a like-for-like*1 basis, revenue and operating profit growth has been experienced across all businesses.

The grocery cake market is mature with year on year volume decline of 1.9% and value increase of 0.5% (Source: IRI Infoscan w/e 02 January 2016). Revenue growth has been driven by a successful Christmas trading period as well as the success of the Minions licensed celebration cake and promotional activity on bites.

The bread and morning goods retail market is mature with year on year volume growth of 1.9% and value decline of -1.5% (source: Kantar bread and morning goods data w/e 03 January 2016). The acquisition of Fletchers bakeries in October 2014 has significantly expanded our existing bread and morning goods opportunities with the introduction of new retail and foodservice customers. Our focus is on more niche style bakery products as opposed to traditional bread and therefore revenue growth exceeds market performance.

Our foodservice sales are experiencing strong organic growth supplemented by new bread and morning goods products e.g. organic bread and the launch of 10 inch round cakes sold under our Kara foodservice brand. The acquisition of Johnstone's in June 2015 has brought opportunities for further cake and bread product diversification into the coffee shop Foodservice sector.

The UK Bakery Operating profit margin is 5% due to operational efficiencies within our factories and includes the benefit of significant capital expenditure over the last two years. The Group will continue to invest in automation and operational improvements to increase further product capabilities and margins.

Like for like*1 growth is calculated using financial data where there are comparative trading figures for the first half of the prior year.

Overseas

	H1 2015 £m	H1 2014 £m	Growth
Revenue	13.4	11.3	19%
Operating profit	0.8	0.6	29%
Operating margin	5.7%	5.3%	

The Overseas business comprises Lightbody Europe which trades primarily in France. The business specialises in the import and sale of premium UK manufactured food products. It is an important channel into Europe for UK manufactured licensed celebration cake and bite products.

The business is heavily exposed to the Euro and within this context we are pleased with the operating profit performance of Overseas business.

FINANCIAL REVIEW

Revenue and Operating Profit

Group revenue in H1 2015 was up 46% to £156.6 million (H1 2014: £107.6 million), on a like-for-like basis, organic growth was 7.4%, an increase of £8.0 million. Profit from operations before interest, tax and significant non-recurring and other items was up by 78% or £3.5 million to £8.0 million. On a like-for-like basis, profit from operations was up 21% to £5.5 million (H1 2014: £4.5 million).

Interest Payable

Interest payable and charges on related interest rate swaps on the group's bank debt in H1 2015 was £517,000 (H1 2014: £447,000), an increase of £70,000. The increase in charges is a consequence of the additional debt arising on the acquisition of Fletchers.

Taxation

The Group's effective tax rate in H1 2015 was 21.9%, which compares to 23.1% in H1 2014. The effective rates represents a blend of the UK and French corporation tax rates. The reduction in the effective rates when comparing half years arises from a 0.75% reduction in the annual hybrid UK corporation tax rates and from a lower proportion of profits charged at the higher French corporation tax rate.

Significant non-recurring and other items

The Group incurred costs in the first half of the prior year of £1,328,000 in connection with the acquisition of Fletchers Bakeries. Related taxation relief was £276,000.

Earnings per share

The Group considers adjusted diluted earnings per share to be the most appropriate EPS measure. The adjusted diluted earnings per share were 4.4p, which includes earnings for the full half year period from the acquired Fletchers and Johnstone's businesses and compares to 3.2p for H1 2014.

Cash flow and net debt

Cash inflow from operating profit before changes in working capital is £11.6 million, which compares with £5.3 million in H1 2014. The increase arises from the organic growth in revenue, the growth in operating margins as well as inclusion for the full financial period of the acquired businesses. Net debt at 26 December 2015 is £21.1 million which compares to £25.0 million at H1 2014, a decrease of £3.9 million. Capital expenditure of £3.7 million was incurred in H1 2015 which is £2.0 million higher than H1 2014.

Pensions

The group has one defined benefit pension scheme within its Memory Lane Cake business in Cardiff. All remaining group companies have defined contribution schemes. The Memory Lane Cake pension scheme has been closed to future accruals and new members since 31 May 2010. The net pension deficit (before related deferred tax) is £3,837,000 at 27 June 2015, the next valuation update will be carried out at 2 July 2016. Annual cash contributions (including the PPF levy) were £288,000 in the year to 26 December 2015.

Principal risks and uncertainties

A number of risks and uncertainties have been identified that could potentially have a material impact on the financial position of the Group. These are set out on pages 12 and 15 of the Annual Report for the year to 27 June 2015 and the Board considers these remain applicable.

The National Living Wage legislation presents a challenge that the Group is preparing for through a number of initiatives. Adjusting and mitigating the impact will take time and will require ever-greater focus on efficiency improvements and cost reduction programmes.

Forward looking statements

Throughout this report certain statements have been made which are forward looking. These statements have been made based on latest knowledge and expectations of the future. The Board considers the statements to be reasonable. Inevitably there are risks associated with these forward looking statements which are usually outside the control of the Group. Actual results or performance may therefore differ from the outcome implied by these forward looking statements.

Consolidated Statement of Comprehensive Income (unaudited)

		Unaudited 26 weeks ended 26 December 2015 £'000	Unaudited 26 weeks ended 27 December 2014 £'000	Audited 52 weeks ended 27 June 2015 £'000
	Note			
Continuing operations				
Revenue		156,586	107,565	256,166
Cost of sales		(106,461)	(75,126)	(177,276)
Gross profit		50,125	32,439	78,890
Administrative expenses		(42,123)	(27,934)	(66,474)
Results from operating activities		8,002	4,505	12,416
Finance expense	6	(517)	(447)	(1,023)
Share of losses of associates after tax		(10)	-	-
Profit before taxation		7,475	4,058	11,393
Taxation		(1,638)	(939)	(2,452)
Profit from continuing operations after tax before significant non-recurring and other items		5,837	3,119	8,941
Significant non-recurring and other items - finance income/(expense):				
Defined benefit pension scheme - net finance expense	6	-	-	(154)
Movement in fair value swaps	6	98	(94)	28
Fair value adjustments relating to acquisitions	6	-	77	105
Significant non-recurring and other items - net finance income/(expense)		98	(17)	(21)
Significant non-recurring and other items - other:				
Acquisition expenses		-	(1,328)	(3,181)
Share option charge	5	-	(11)	10
Movement in fair value foreign exchange contracts		(58)	61	181
Defined benefit pension scheme - administration costs		-	-	100
Taxation relating to above items		(8)	268	590
Significant non-recurring and other items - other		(66)	(1,010)	(2,300)
Total significant non-recurring and other items	4	32	(1,027)	(2,321)
Profit after taxation		5,869	2,092	6,620
Other comprehensive income				
Actuarial loss on defined benefit pension scheme net of deferred taxation		-	-	(122)
Foreign exchange translation differences		-	-	-
Other comprehensive income, net of income tax		-	-	(122)
Total comprehensive income		5,869	2,092	6,498
Profit attributable to:				
Equity holders of the parent		5,550	1,848	6,179
Non-controlling interest		319	244	441
Profit for the financial period		5,869	2,092	6,620
Total comprehensive income attributable to:				
Equity holders of the parent		5,550	1,848	6,057
Non-controlling interest		319	244	441
Total comprehensive income for the financial period		5,869	2,092	6,498

Consolidated Statement of Financial Position (unaudited)

		Unaudited 26 December 2015 £000	Unaudited 27 December 2014 £000	Audited 27 June 2015 £000
	Note			
Non-current assets				
Intangibles		79,830	78,679	80,071
Property, plant and equipment		46,377	43,046	46,038
Investments in equity accounted investees		215	-	225
Other financial assets		28	28	28
Deferred tax assets		4,426	5,926	4,446
		130,876	127,679	130,808

Current assets				
Deferred consideration receivable		-	2,973	-
Inventories		14,731	10,513	11,268
Trade and other receivables		50,263	47,956	48,381
Cash and cash equivalents	8	1,759	1,305	61
Current tax asset		-	-	40
Other financial assets - fair value of foreign exchange contracts		59	-	117
		66,812	62,747	59,867
Total assets		197,688	190,426	190,675
Current liabilities				
Other interest bearing loans and borrowings	8	(12,416)	(11,998)	(9,288)
Trade and other payables		(64,256)	(59,356)	(62,283)
Provisions		(252)	(974)	(252)
Deferred purchase consideration		(50)	-	(50)
Other financial liabilities - interest rate swaps/ fair value of foreign exchange contracts		(261)	(484)	(359)
Current tax liabilities		(845)	(301)	-
		(78,080)	(73,113)	(72,232)
Non-current liabilities				
Other interest-bearing loans and borrowings	8	(10,213)	(14,031)	(11,746)
Provisions and other liabilities		(153)	(189)	(161)
Deferred tax liabilities		(91)	(496)	(103)
Pension fund liability		(3,837)	(3,630)	(3,837)
		(14,294)	(18,346)	(15,847)
Total liabilities		(92,374)	(91,459)	(88,079)
Net assets		105,314	98,967	102,596
Equity attributable to equity holders of the parent				
Share capital	9	1,280	1,265	1,280
Share premium account		64,952	64,544	64,952
Capital redemption reserve		578	578	578
Retained earnings		36,979	31,209	34,580
Total shareholders' equity		103,789	97,596	101,390
Non-controlling interest		1,525	1,371	1,206
Total equity		105,314	98,967	102,596

Consolidated Statement of Changes in Equity (unaudited)

	Note	Share Capital £000	Share premium £000	Capital redemption reserve £000	Retained earnings £000	Non-controlling interest £000	Total equity £000
Balance at 29 June 2014		669	31,480	578	29,849	1,127	63,703
Profit for the 26 weeks ended 27 December 2014		-	-	-	1,848	244	2,092
Total other comprehensive expense		-	-	-	-	-	-
Total comprehensive income for the period		-	-	-	1,848	244	2,092
Transactions with owners, recorded directly in equity:							
Shares issued during the period	9	596	33,064	-	-	-	33,660
Impact of share based payments	5	-	-	-	11	-	11
Dividend paid		-	-	-	(499)	-	(499)
Balance at 27 December 2014		1,265	64,544	578	31,209	1,371	98,967
Balance at 27 December 2014		1,265	64,544	578	31,209	1,371	98,967
Profit for the 26 weeks ended 27 June 2015		-	-	-	4,331	197	4,528
Other comprehensive income/(expense):							
Actuarial loss on defined benefit pension plan		-	-	-	(153)	-	(153)
Deferred tax movement on pension scheme actuarial loss		-	-	-	31	-	31
Total other comprehensive expense		-	-	-	(122)	-	(122)
Total comprehensive income for the period		-	-	-	4,209	197	4,406
Transactions with owners, recorded directly in equity:							
Shares issued during the period	9	15	408	-	-	-	423
Impact of share based payments	5	-	-	-	(21)	-	(21)
Deferred tax on share options		-	-	-	243	-	243
Dividend paid		-	-	-	(1,060)	(362)	(1,422)
Balance at 27 June 2015		1,280	64,952	578	34,580	1,206	102,596
Balance at 27 June 2015		1,280	64,952	578	34,580	1,206	102,596
Profit for the 26 weeks ended 26 December 2015		-	-	-	5,550	319	5,869
Total other comprehensive expense		-	-	-	-	-	-
Total comprehensive income for the period		-	-	-	5,550	319	5,869
Transactions with owners, recorded directly in equity:							
Own shares acquired	9	-	-	-	(1,084)	-	(1,084)
Impact of share based payments	5	-	-	-	58	-	58
Dividend paid		-	-	-	(2,125)	-	(2,125)

Consolidated Cash Flow Statement (unaudited)

Note	Unaudited	Unaudited	Audited
	26 weeks ended 26 December 2015 £000	26 weeks ended 27 December 2014 £000	52 weeks ended 27 June 2015 £'000
Cash flows from operating activities			
Profit after taxation for the period	5,869	2,092	6,620
Adjustments for:			
Taxation	1,646	671	1,862
Finance expenses	6 419	464	1,044
Share of losses of associates after tax	10	-	-
Depreciation	3,372	2,136	5,433
Amortisation of intangibles	238	-	403
Movement in fair value foreign exchange contracts	58	(61)	(181)
Share options charge/(credit)	5 -	11	(10)
Contributions by employer to pension scheme	-	-	(100)
Operating profit before changes in working capital	11,612	5,313	15,071
Changes in working capital			
Increase in inventories	(3,419)	(619)	(1,004)
Increase in trade and other receivables	(2,283)	(6,544)	(7,259)
Increase in trade and other payables	1,888	8,781	10,510
Cash generated from operations	7,798	6,931	17,318
Interest paid	(524)	(346)	(923)
Corporation taxes paid	(757)	(387)	(1,164)
Net cash generated from operating activities	6,517	6,198	15,231
Cash flows from investing activities			
Purchase of property, plant & equipment	(3,708)	(1,734)	(7,354)
Purchase of subsidiary companies	2 -	(39,084)	(40,809)
Deferred consideration received	-	-	3,000
Settlement of acquired debt	2 -	(19,740)	(19,740)
Cash received with acquisition	2 -	4,990	4,990
Net cash used in investing activities	(3,708)	(55,568)	(59,913)
Cash flows from financing activities			
Drawdown of new facility	-	19,432	24,028
Repayment of bank loans	(1,468)	(154)	(3,622)
Drawdown/(repayment) of invoice discounting	3,198	(2,189)	(8,159)
Repayment of asset finance facilities	(166)	(194)	(380)
Issue of ordinary share capital	-	33,660	34,083
Purchase of shares by employee benefit trust	(505)	-	-
Non-controlling interest dividend paid	-	-	(362)
Dividend paid to shareholder	(2,125)	(499)	(1,559)
Net cash from financing activities	(1,066)	50,056	44,029
Net increase/(decrease) in cash and cash equivalents	1,743	686	(653)
Opening cash and cash equivalents	61	592	592
Effect of exchange rate fluctuation	(45)	27	122
Cash and cash equivalents at end of the period	1,759	1,305	61

NOTES TO THE FINANCIAL STATEMENTS

1) BASIS OF PREPARATION

This interim report, which is unaudited, does not constitute statutory accounts within the meaning of section 434(3) of the Companies Act 2006. The comparative figures for the financial year ended 27 June 2015 have been extracted from the statutory accounts for that year. Those accounts, which were prepared in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRSs"), have been reported on by the company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

It should be noted that current liabilities exceed current assets. Having reviewed the Group's short and medium term plans and available financial facilities, the Board has reasonable expectations that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group has stayed within its banking facilities during the year, meeting covenant requirements. The Group has the continued support of its banks with facilities of £50.9m. In addition, the Group has a strong asset backing and strong trade debtor book. Accordingly, the Board continues to adopt the going concern basis in preparing the Financial Statements.

2) PRIOR YEAR ACQUISITIONS

On 30 October 2014 the Group acquired the entire share capital of the Fletchers Group (Fletchers) for £56.4 million less £2.6 million working capital adjustment. Fletchers produces morning goods and specialist bread products for leading UK grocery retailers and foodservice customers. Strategic and financial benefits of the acquisition include: complementary product ranges and new foodservice channels, retail customer diversification, the benefits of significant capital investment within Fletchers manufacturing and a multi-channel platform for further acquisitions in due course.

On 16 June 2015 the Group acquired the business, production assets, stock and customer list of Johnstone's Just Desserts from administrators for a consideration of £1,550,000.

On 26 May 2015 the Group acquired 25% of the ordinary share capital of Dr Zak's Ltd for a consideration of £225,000 of which £50,000 has been deferred and is payable within one year of the acquisition date.

The cash outflow under 'purchase of subsidiary companies' on the face of the Consolidated Cash Flow Statement relates to the following:

	For 26 weeks to 27 Dec 2014	For 52 weeks to 27 Jun 2015
	£000	£000
Initial consideration	39,084	40,809
Debt settled	19,740	19,740
Cash acquired	(4,990)	(4,990)
Cash consideration (excluding acquisition costs)	53,834	55,559
Working capital adjustment	2,598	2,638
Deferred consideration	-	50

The acquisitions had the following effect on the Group's assets and liabilities:	Pre fair value acquisition carrying amount at 27 December 2014 £000	Pre fair value acquisition carrying amount at 27 June 2015 £000
Acquiree's net assets at acquisition date:		
Property, plant and equipment	21,907	22,583
Stock	5,387	5,883
Trade and other receivables	16,851	16,874
Deferred tax asset	4,512	3,903
Trade and other payables	(20,535)	(21,365)
Working capital adjustment	2,598	2,638
Net identifiable assets	30,720	30,516
Intangibles*	8,770	8,770
Goodwill*	16,942	18,736
Investment in Associate	-	225
	56,432	58,247

*At 27 December 2014 the goodwill and intangibles were shown as one amount of £25,712,000 whilst the Group worked through an exercise to correctly identify and value any intangible assets acquired.

3) SEGMENT INFORMATION

Operating segments are identified on the basis of internal reporting and decision making. The Group's Chief Operating Decision Maker is considered to be the Board as it is primarily responsible for the allocation of resources to segments and the assessment of performance by segment.

The Board uses adjusted operating profit, reviewed on a regular basis, as the key measure of the segments' performance. Operating profit in this instance is defined as profit before the following:

- net financing expense
- share option charges
- significant non-recurring items
- fair value adjustments relating to acquisitions
- pension charges or credits in relation to the difference between the expected return on pension assets and interest cost on pension liabilities and
- revaluation of interest rate swaps and forward foreign currency contracts.

The UK Bakery segment manufactures and sells bakery products to the UK's multiple grocers and foodservice sectors. This segment primarily comprises the operations of Memory Lane Cakes Ltd, Lightbody Group Ltd, Campbells Cake Company Ltd, Johnstone's Food Service Ltd, Fletchers Bakeries Ltd and Nicholas & Harris Ltd. These subsidiaries are aggregated into a single segment after considering the following criteria:

- the nature of the products - products are similar in nature and are classed as manufactured bakery products
- the production process - the production processes have the same or similar characteristics
- the economic characteristics - the average gross margins are expected to be similar

The core operation of the Overseas segment is the distribution of the Group's UK manufactured products along with the sale of third party products primarily to Europe.

Costs of Group operations plus a 10% premium have been allocated across the segments on the basis of their operating profit. The premium has been charged to reflect the synergies achieved from obtaining resources centrally giving benefits across the operating segments. Operating profit levels have been chosen as the basis, as this reflects the underlying performance of the segment and is also the return the Group expects from those segments.

A purchasing premium of 2% is charged from Group operations, and is calculated on materials and packaging spends at segmental level. This charge is based on the rationale that Group operations, through Group buyers, optimise the Group's procurement spend through leveraging its purchasing power.

This has resulted in Group Operations Segment showing a break even result (H1 2014: £0.1 million).

The Group's finance income and costs cannot be meaningfully allocated to the individual operating segments.

26 week period ended 26 December 2015				
	UK Bakery £000	Overseas £000	Group Operations £000	Total Group £000
Revenue				
External	143,186	13,400	-	156,586
Total underlying operating profit	7,219	768	15	8,002
Significant non-recurring items				-
Fair value foreign exchange contracts				(58)
Share options charge				-
Results from operating activities				7,944
Net financing expense				(419)
Share of losses of associates after tax				(10)
Profit before taxation				7,515
Taxation				(1,646)
Profit after taxation				5,869
Segment assets	187,184	6,240	2,203	195,627
Unallocated assets				2,061
Consolidated total assets				197,688
Segment liabilities	(61,110)	(4,673)	(3,701)	(69,484)
Unallocated liabilities				(22,890)
Consolidated total liabilities				(92,374)
Other segment information				
Capital expenditure	3,702	6	-	3,708
Depreciation included in segment profit	3,359	13	-	3,372
Inter-segmental sale/(purchase)	3,976	(3,976)	-	-

Analysis of unallocated assets and liabilities:

	Assets £'000		Liabilities £'000
Investments	243	Loans and borrowings	(22,629)
Financial instruments	59	Financial instruments	(261)
Cash and cash equivalents	1,759	Cash and cash equivalents	-
Unallocated assets	2,061	Unallocated liabilities	(22,890)

Certain operating costs have been incurred centrally and have been allocated to the reporting segments on an appropriate basis.

26 week period ended 27 December 2014				
	UK Bakery £000	Overseas £000	Group Operations £000	Total Group £000
Revenue				
External pre acquisition	80,258	11,279	-	91,537
Acquired	16,028	-	-	16,028
Total revenue	96,286	11,279	-	107,565
Profit pre acquisition	3,363	595	127	4,085
Profit from acquired business	420	-	-	420
Total underlying operating profit	3,783	595	127	4,505
Significant non-recurring items	-	-	-	(1,328)
Fair value foreign exchange contracts	-	-	-	61
Share options charge	-	-	-	(11)
Results from operating activities	-	-	-	3,227
Net financing expense	-	-	-	(464)
Profit before taxation	-	-	-	2,763
Taxation	-	-	-	(671)
Profit after taxation	-	-	-	2,092
Segment assets pre acquisition	105,312	5,141	3,958	114,411
Segment assets acquired business	74,571	-	-	74,571
Unallocated assets	-	-	-	1,444
Consolidated total assets	-	-	-	190,426
Segment liabilities pre acquisition	(36,644)	(3,668)	(2,200)	(42,512)
Segment liabilities acquired business	(22,265)	-	-	(22,265)
Unallocated liabilities	-	-	-	(26,682)
Consolidated total liabilities	-	-	-	(91,459)
Other segment information				
Capital expenditure	1,705	29	-	1,734
Depreciation included in segment profit	2,126	10	-	2,136
Inter-segmental sale/(purchase)	3,026	(3,026)	-	-

Analysis of unallocated assets and liabilities:

	Assets £'000		Liabilities £'000
Investments	28	Loans and borrowings	(26,029)
Financial instruments	-	Financial instruments	(484)
Cash and cash equivalents	1,305	Cash and cash equivalents	-
Taxation balances	111	Taxation balances	(169)
Unallocated assets	1,444	Unallocated liabilities	(26,682)

Certain operating costs have been incurred centrally and have been allocated to the reporting segments on an appropriate basis.

52 week period ended 27 June 2015				
	UK Bakery £000	Overseas £000	Group Operations £000	Total Group £000
Revenue				
External pre acquisition	164,255	22,186	-	186,441
External acquired	69,725	-	-	69,725
Total revenue	233,980	22,186	-	256,166
Profit pre acquisition	7,748	1,154	347	9,249
Profit from acquired businesses	3,167	-	-	3,167
Underlying operating profit	10,915	1,154	347	12,416
Significant non-recurring items	-	-	-	(3,181)
Fair value foreign exchange contracts	-	-	-	181
Share options charge	-	-	-	10
Defined benefit pension scheme	-	-	-	100
Results from operating activities	-	-	-	9,526
Net financing expense	-	-	-	(1,044)
Profit before taxation	-	-	-	8,482
Taxation	-	-	-	(1,862)
Profit after taxation	-	-	-	6,620
Segment assets	183,623	5,042	1,508	190,173
Unallocated assets	-	-	-	502
Consolidated total assets	-	-	-	190,675
Segment liabilities	(53,660)	(4,056)	(8,786)	(66,502)
Unallocated liabilities	-	-	-	(21,577)
Consolidated total liabilities	-	-	-	(88,079)

Other segment information				
Capital expenditure	7,320	34	-	7,354
Depreciation included in segment profit	5,414	19	-	5,433
Amortisation	403	-	-	403
Inter-segmental sale/(purchase)	6,072	(6,072)	-	-

Analysis of unallocated assets and liabilities:

	Assets £'000		Liabilities £'000	
Investments	253	Loans and borrowings	(21,034)	
Financial instruments	117	Financial instruments	(359)	
Cash and cash equivalents	61	Cash and cash equivalents	-	
Taxation balances	71	Taxation balances	(184)	
Unallocated assets	502	Unallocated liabilities	(21,577)	

Certain operating costs have been incurred centrally and have been allocated to the reporting segments on an appropriate basis.

4) SIGNIFICANT NON-RECURRING ITEMS

The Group presents certain items as non-recurring and significant. These relate to items which, in management's judgement, need to be disclosed by virtue of their size or incidence in order to obtain a more meaningful understanding of the financial information.

5) SHARE BASED PAYMENTS

The Group operates both approved and unapproved share option schemes. Following the adoption of IFRS2 'Share-based payments' charges have been made to the Income Statement to reflect the calculated fair value of employee share options. The cost is calculated at the date of grant and is charged equally over the vesting period. The fair value is based on the best available estimate of the number of options expected to vest. The corresponding adjustment is made to reserves.

During the 26 weeks to 26 December 2015 1,624,126 options were granted (H1 2014: 155,172). The estimated fair value of options based on the number of options expected to vest for those granted during the 26 weeks to 26 December 2015 was £709,000 (H1 2014: £13,000).

Significant non-recurring and other items include a charge in the first six months of the prior year of £11,000 in relation to the fair value of share options. Charges relating to annual awards are £58,000 for the period and are taken into administration costs.

6) FINANCE INCOME AND EXPENSES

	Unaudited 26 weeks ended 26 December 2015 £'000	Unaudited 26 weeks ended 27 December 2014 £'000	Audited 52 weeks ended 27 June 2015 £'000
Change in fair value of interest rate swaps	98	-	28
Bank interest receivable	-	-	1
Unwinding of discount of deferred consideration receivable	-	77	105
Finance income	98	77	134
Net interest on net pension position	-	-	(154)
Net bank interest payable	(383)	(305)	(748)
Charge on interest rate swaps	(134)	(142)	(276)
Change in fair value of interest rate swaps	-	(94)	-
Interest on deferred consideration	-	-	-
Finance expense	(517)	(541)	(1,178)
Net finance expense	(419)	(464)	(1,044)

The Group has entered into three interest rate swap arrangements to hedge its risks associated with interest rate fluctuations:

£5.0 million for five years from 1 July 2011 (fixed) at 3.6% maturing 30 June 2016

£3.0 million for four years from 22 May 2013 at 1.7% maturing 22 May 2017

£6.0 million for three years from 2 June 2014 at 1.9% maturing 1 June 2017

These arrangements do not meet the conditions necessary for hedge accounting to be applied and, therefore, changes in their fair value are recognised immediately in the income statement resulting in a credit of £98,000 (H1 2014: charge £94,000).

7) EARNINGS PER ORDINARY SHARE

Basic earnings per share for the period is calculated on the basis of profit for the period after tax, divided by the weighted average number of shares in issue of 127,090,000 (27 December 2014: 86,149,000).

Basic diluted earnings per share for the period is calculated by adjusting the weighted average number of shares in issue to assume conversion of all potential dilutive ordinary shares, which for 26 December 2015 is 132,285,000 (27 December 2014: 90,606,000).

An adjusted earnings per share has also been calculated as, in the opinion of the Board, this will allow shareholders to gain a clearer understanding of the trading performance of the Group.

The adjusted earnings per share exclude amounts shown under significant and non-recurring items in the Consolidated Statement of Comprehensive Income and exclude amortisation of intangibles.

		26 weeks to 26 Dec 2015	26 weeks to 27 Dec 2014		
Profit					
Profit attributable to equity holders of the Company (basic)	£000	5,550	1,848		
Significant non-recurring and other items	£000	(32)	1,027		
Amortisation of intangibles	£000	238	-		
Numerator for adjusted earnings per share calculation (adjusted basic)	£000	5,756	2,875		
Shares					
		Basic	Diluted	Basic	Diluted
Weighted average number of ordinary shares in issue during the period	'000	127,090	127,090	86,149	86,149
Dilutive effect of share options	'000	-	5,195	-	4,457
		127,090	132,285	86,149	90,606

Earnings per share						
Basic and diluted earnings per share	Pence	4.4	4.2	2.1	2.0	
Adjusted basic and adjusted diluted earnings per share	Pence	4.5	4.4	3.3	3.2	

8) ANALYSIS OF NET DEBT

	Unaudited 26 weeks ended 26 December 2015 £'000	Unaudited 26 weeks ended 27 December 2014 £'000	Audited 52 weeks ended 27 June 2015 £'000
Net cash at bank	1,759	1,305	61
Loans within one year	(5,672)	(10,938)	(5,672)
Loans after more than one year	(10,262)	(13,934)	(11,731)
Invoice discounting within one year	(6,595)	(770)	(3,397)
Asset finance within one year	(214)	(355)	(284)
Asset finance after more than one year	(94)	(305)	(190)
Net bank debt excluding unamortised transaction costs	(21,078)	(24,997)	(21,213)
Unamortised transaction costs:			
within one year	65	65	65
more than one year	143	208	175
Total unamortised transaction costs	208	273	240
Bank debt net of unamortised transaction costs within one year	(10,657)	(10,693)	(9,227)
Bank debt net of unamortised transaction costs more than one year	(10,213)	(14,031)	(11,746)
Bank debt net of unamortised transaction costs	(20,870)	(24,724)	(20,973)
Total net debt including deferred consideration			
Net bank debt	(21,078)	(24,997)	(21,213)
Discounted deferred consideration payable	(50)	-	(50)
	(21,128)	(24,997)	(21,263)

9) SHARE CAPITAL

No shares were issued during the period (H1 2014: 59,561,584 shares). The consideration paid during the first half of the prior year (excluding costs) of £53.8 million for the Fletchers acquisition was partially funded by the issue of 59,322,034 ordinary shares.

At 26 December 2015 1,275,817 shares were held by the Finsbury Food Group Plc Employee Benefit Trust.

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