CHURCHILL

INTERIM REPORT 2023

Highlights

Financial

	Six months to 30 June 2023	Six months to 30 June 2022	% change
Revenue	**£44.0m**	£41.4m	6.3%
Operating profit before exceptional items	**£4.9m**	£3.5m	39%
Profit before tax and exceptional items	**£5.0m**	£3.4m	47.1%
Adjusted* earnings per share	**34.3p**	24.7p	38.9%
Statutory earnings per share	**31.9p**	28.9p	10.4%
Interim dividend per share	**11.0p**	10.5p	4.8%
Net cash and deposits	**£9.9m**	£15.7m	(36.9)%

- Operating profit before exceptional items increased year-on-year by 39% to £4.9m (H1 2022: £3.5m, FY2022: £9.1m).
- Profit after exceptional items and before tax for the period was £4.7m, an increase of 20% (H1 2022: £3.9m, FY2022: £9.6m).
- Adjusted* earnings per share were 34.3p (H1 2022: 24.7p, FY2022: 66.9p).
- Interim dividend of 11.0 pence per share (H1 2022: 10.5 pence per share, FY2022: 31.5 pence per share).
- Net cash and deposits at 30 June 2023 of £9.9m (H1 2022: £15.7m, FY2022: £14.7m), reflecting planned increases in stocks and reduction of creditors.

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

Business

- Revenue in the period increased by 6% to £44.0m (H1 2022: £41.4m, FY2022: £82.5m).
- Hospitality revenue increased by 9.2%.
- Stocks successfully built to meet orderbook demand.
- Strong demand from customers in the period.
- Operating margins improved by 3% as labour efficiency improves.
- Price per piece sustained in line with 2022.
- 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:

"We are pleased to report a healthy increase in revenue and profit in the first half of the year and that despite some market headwinds, the Group is in a good position to meet the Board's profit expectations for the full year."

Chairman's Statement

We are pleased to report continued revenue, margin and profit improvement for the Group during the first half of the year.

Sales revenues increased by 6.3% overall and by 9.2% in our target hospitality market. Volumes were down year-on-year due to the general macro-economic climate and in particular the soft trading conditions within the UK. This is as a result of our strategic focus on value added product, which has increased its share of total revenue by 1% year-on-year and helped to improve the margin performance of the business.

Increased production costs, driven by both material and labour, have been mitigated by the price increases implemented last year, and improvements in labour efficiencies and efficient energy purchasing has meant that margin expectations should be met for the year.

The build of stock has continued in the first half of the year with the aim of returning to pre-pandemic levels of customer service. This task is almost complete and as a result, the order book has returned to normal levels, with much improved delivery times as a result. Our performance product is continuing to gain traction in our overseas markets, sales in which are up 12% on prior year.

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.

Financial Review

Total revenues increased 6.3% in the period from £41.4m to £44.0m (FY2022: £82.5m). Revenue increases were due in large part to the price increases implemented in 2022, which have helped with a softer volume requirement in the period.

Hospitality showed a 9.2% increase over H1 2022 and material sales performed strongly in the period.

Good progress has been made on gross margin improvement in the period. A 3% improvement was shown in H1 and this is expected to continue as agency staffing levels are reduced and energy prices, already forward purchased, feed through in H2. The Company expects gross margin to continue improving in the short-to-medium term.

Operating profit before exceptional expenses increased from £3.5m in H1 2022 to £5.0m in the current period, an increase of 47%. Operating profit was 12.5% ahead at £4.5m against £4.0m in H1 2022.

Adjusted earnings per share before exceptional expenses were 34.3p (H1 2022: 24.7p, FY2022: 66.9p).

Basic earnings per share were 31.9p (H1 2022: 28.9, FY2022: 71.7p).

Profit before taxation after exceptional items was £4.7m (H1 2022: £3.9m, FY2022: £9.6m).

During the period, the Company completed its planned increase in stock levels to facilitate improved customer service. The required level of inventory has now been achieved, with the result that cash has reduced in the period from £14.7m at year end to £9.9m at the end of June.

Capital expenditure has continued at the same level as previous year, with £2.7m spent in the period (H1 2022: £2.7m, FY2022: £4.9m).

Dividends

During the period the Company paid £2.3m in dividend payments and is pleased to announce that the Directors recommend an interim dividend of 11.0 pence per share (H1 2022: 10.5 pence per share, FY2022: 31.5 pence per share) an increase of approximately 5% on the previous year despite the increase in corporation tax in the current year to 25% (2022: 19%). This improvement in dividend is in keeping with the Company's aim of increasing returns to shareholders and our confidence in the ongoing performance of the business. This dividend will be payable on 13 October 2023 to shareholders on the register at 22 September 2023.

Business

The first half of the year has been very positive for the business, with the Company performing well against its objectives. A slight reduction in volume, driven by the wider global macro-economic environment highlights the importance of the Company's focus on defined market segments, quality product, customer service and the transitioning of customers into value-added offerings.

The Company continues to focus on export to countries where our market share is low and where opportunities abound for continued growth.

Ceramics

Hospitality revenue for the period was up 9.2% with Europe faring particularly well at 15% above 2022 levels. Volume for the period was however, down on H1 2022 by 7.8% with over 75% of this reduction coming from the UK, mirroring the slowdown in the UK market.

Our end-user hospitality venues appear to have maintained revenues whilst margins are being squeezed. This has had the effect of delaying purchasing decisions within the marketplace. There is a good level of enquiries which the Company expects will begin to convert to orders later in the year.

New product launch performance has been strong, with sales more than double those of 2022 and returning to levels seen pre-pandemic. The schedule for launches has returned to normal and the sales from last year's new products are well ahead of target.

The prospective pipeline on new installations remains healthy, particularly in overseas markets. Despite an increase in the lead time from enquiry to order, it is expected that a number of these orders will materialise as the general climate improves and as we enter the key end-of-year period.

Volume of added value products remained at similar percentage levels to 2022 however, the revenue value of this increased by 9.7%.

Materials

Furlong Mills external sales were up 24% year-on-year with intercompany sales to Churchill up by a broadly similar 26% during the period. Furlong is in a similar position to Churchill with efficiencies delivering an improvement to margin and maintaining the Company's expectations on bottom line profitability. The Company has forward purchased some of its volatile priced stock in order to protect against rising commodity pricing and therefore cost input rises will be kept to a minimum for the foreseeable future.

Operations

As we communicated last year, the Company was constrained by labour availability and lower levels of workforce experience. The normalisation of our stock position and the current volumes have allowed manufacturing to focus on yield improvements along with a reduction in agency staff. This, combined with the natural improvement in colleague experience, is starting to bear fruit through better efficiencies in manufacturing, along with lower levels of waste, and it is through these important value-added activities that the Company expects to improve margins in the immediate future.

During the period, the Company has continued the installation of 1MW of solar panel arrays that will deliver up to 33% of the factory electricity requirement in the peak summer months. In addition to this, our energy hedging strategy continues to be to forward purchase contracts when those prices are favourable and to de-risk future costs.

The Company continues to invest in its automated pressure cast operation with the addition of an additional 25% of capacity in this area and further capital spend approved to increase the flexibility and efficiency. Staff training has also been focused on this area to improve productivity and yields from the operation and additional work has been completed at Furlong Mills to improve the material flow to pressure cast production.

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 has commenced the journey to identify the impact of our supply chain emissions and to address the impact of our market offering through packaging recycling.

We have continued our journey 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 their colleagues. In addition, the Company continues to engage with local schools to promote the benefits of a career in manufacturing.

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.

The Company has always strived to adhere to good governance principles. In line with this, the Company is currently continuing with its succession activities with the recruitment of a new Audit Committee Chair and expects to be fully compliant with current guidance on Board Composition before the 2024 AGM.

People

The Company continues to appreciate the high level of commitment and engagement of our colleagues and was pleased to be able award an above inflation pay rise in April, at a time when many are struggling in their home lives with rapidly rising costs. Churchill remains committed to offering the local community a long-term destination for employment.

Outlook

We believe that the Company is well placed to improve profitability and move towards the levels of efficiency and productivity that were evident prior to the pandemic and indeed the first half performance in 2023 illustrates further progress on this journey. This performance improvement is expected to continue into the second half of 2023, albeit against the backdrop of a potentially worsening macro-economic situation. The Company remains ungeared and in the current rising interest rate environment, this is a welcome position. Rising interest rates will naturally have an impact on consumer discretionary spend and therefore impact our markets. The Company will continue to closely monitor the situation and will respond proportionately. Overall, the Group is in a good position to meet the Board's profit expectations for the full year.

The Board remains positive that the Company is resilient and operating in the optimal market segments to deliver long-term growth such that, regardless of the short-term impacts of the economic environment, the Company will continue to deliver growth over the longer term.

Robin GW Williams
Chairman
13 September 2023

Consolidated income statement

for the six months ended 30 June 2023

	Note	**Unaudited Six months to 30 June 2023 £'000**	Unaudited Six months to 30 June 2022 £'000	Audited Twelve months to 31 December 2022 £'000
Revenue	1	**44,042**	41,375	85,528
Operating profit before exceptional item	1	**4,872**	3,508	9,142
Exceptional items	2	**(359)**	471	547
Operating profit	1	**4,513**	3,979	9,689
Finance income	3	**207**	15	60
Finance costs	3	**(34)**	(93)	(148)
Profit before exceptional item and income tax		**5,045**	3,430	9,054
Exceptional items	2	**(359)**	471	547
Profit before income tax		**4,686**	3,901	9,601
Income tax expense	4	**(1,183)**	(713)	(1,706)
Profit for the period		**3,503**	3,188	7,895
		Pence per share	Pence per share	Pence per share
Adjusted earnings per ordinary share	5	**34.3**	24.7	66.9
Basic earnings per ordinary share	5	**31.9**	28.9	71.7

Consolidated statement of comprehensive income

for the six months ended 30 June 2023

	Unaudited Six months to 30 June 2023 £'000	Unaudited Six months to 30 June 2022 £'000	Audited Twelve months to 31 December 2022 £'000
Other comprehensive income			
Items that will not be reclassified to profit and loss:			
Actuarial gain on retirement benefit obligations (net)	**–**	–	9,332
Items that may be reclassified subsequently to profit and loss			
Exchange differences	**–**	–	58
Other comprehensive income	**–**	–	9,390
Profit for the period	**3,503**	3,188	7,895
Total comprehensive income for the period	**3,503**	3,188	17,285

All above figures relate to continuing operations.

Consolidated balance sheet

as at 30 June 2023

	Unaudited 30 June 2023 £'000	Unaudited 30 June 2022 £'000	Audited 31 December 2022 £'000
Assets			
Non-current assets			
Property, plant and equipment	**24,056**	22,318	23,039
Intangible assets	**760**	908	849
Deferred income tax assets	**130**	1,591	132
Retirement benefit assets	**7,889**	–	6,924
	32,835	24,817	30,944
Current assets			
Inventories	**19,154**	11,097	15,889
Trade and other receivables	**12,928**	14,651	14,380
Other financial assets	**3,604**	5,016	5,057
Cash and cash equivalents	**6,332**	10,650	9,604
	42,018	41,414	44,930
Total assets	**74,853**	66,231	75,874
Liabilities			
Current liabilities			
Trade and other payables	**(11,566)**	(13,666)	(14,291)
Total current liabilities	**(11,566)**	(13,666)	(14,291)
Non-current liabilities			
Lease liabilities payables	**(554)**	(515)	(477)
Deferred income tax liabilities	**(4,794)**	(2,048)	(4,458)
Retirement benefit obligations	**–**	(6,353)	–
Total non-current liabilities	**(5,348)**	(8,916)	(4,935)
Total liabilities	**(16,914)**	(22,582)	(19,226)
Net assets	**57,939**	43,649	56,648
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	**1,431**	1,230	1,344
Retained earnings	**53,488**	39,399	52,284
Total equity	**57,939**	43,649	56,648

Consolidated statement of changes in equity

as at 30 June 2023

	Retained earnings £'000	Issued share capital £'000	Share premium £'000	Treasury shares £'000	Other reserves £'000	Total equity £'000
Balance at 1 January 2022	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**
Comprehensive income						
Profit for the period	4,707	–	–	–	–	**4,707**
Other comprehensive income						
Depreciation transfer – gross	6	–	–	–	(6)	**–**
Depreciation transfer – tax	(1)	–	–	–	1	**–**
Re-measurement of retirement benefit obligations – net of tax	9,332	–	–	–	–	**9,332**
Currency translation	–	–	–	–	58	**58**
Total comprehensive income	14,044	–	–	–	53	**14,097**
Transactions with owners						
Dividends relating to 2022	(1,155)	–	–	–	–	**(1,155)**
Share-based payment	–	–	–	–	61	**61**
Deferred tax – share-based payment	(4)	–	–	–	–	**(4)**
Total transactions with owners	(1,159)	–	–	–	61	**(1,098)**
Balance at 31 December 2022	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**

Consolidated cash flow statement

for the six months ended 30 June 2023

	Unaudited Six months to 30 June 2023 £'000	Unaudited Six months to 30 June 2022 £'000	Audited Twelve months to 31 December 2022 £'000
Cash flows from operating activities			
Cash generated from operations (note 6)	**436**	2,008	4,939
Interest received	**117**	15	60
Interest paid	**(34)**	(21)	(35)
Income tax paid	**(90)**	(333)	(991)
Net cash generated from operating activities	**429**	1,669	3,973
Investing activities			
Purchases of property, plant and equipment	**(2,680)**	(2,644)	(4,618)
Proceeds on disposal of property, plant and equipment	**34**	5	15
Purchases of intangible assets	**(33)**	(25)	(86)
Net sale/(purchase) of other financial assets	**1,453**	(1,011)	(1,052)
Net cash used in investing activities	**(1,226)**	(3,675)	(5,741)
Financing activities			
Dividends paid	**(2,310)**	(1,907)	(3,062)
Treasury shares	**–**	(352)	(351)
Principal element of finance lease payments	**(165)**	(131)	(263)
Net cash generated by/(used in) financing activities	**(2,475)**	(2,390)	(3,676)
Net (decrease)/increase in cash and cash equivalents	**(3,272)**	(4,396)	(5,444)
Cash and cash equivalents at the beginning of the period	**9,604**	15,046	15,046
Exchange gain on cash and cash equivalents	**–**	–	2
Cash and cash equivalents at the end of the period	**6,332**	10,650	9,604

Notes to the financial statements

for the six months ended 30 June 2023

1. Segmental analysis

	Unaudited Six months to 30 June 2023 £'000	Unaudited Six months to 30 June 2022 £'000	Audited Twelve months to 31 December 2022 £'000
Revenue by class of business			
Ceramics	**40,101**	37,737	75,335
Materials	**8,002**	6,408	13,500
	48,103	44,145	88,835
Inter segment	**(4,061)**	(2,770)	(6,307)
	44,042	41,375	82,528
Revenue by destination			
United Kingdom	**15,668**	16,040	33,244
Rest of Europe	**19,970**	17,431	31,888
USA	**4,801**	3,926	8,715
Rest of the World	**3,603**	3,978	8,681
	44,042	41,375	82,528

	Unaudited Six months to 30 June 2023 £'000	Unaudited Six months to 30 June 2022 £'000	Audited Twelve months to 31 December 2022 £'000
Operating profit before exceptional items			
Ceramics	**4,208**	2,985	7,932
Materials	**664**	523	1,210
	4,872	3,508	9,142
Exceptional items			
Ceramics	**(359)**	471	484
Materials	**–**	–	63
	(359)	471	547
Operating profit after exceptional items			
Ceramics	**3,849**	3,456	8,416
Materials	**664**	523	1,273
	4,513	3,979	9,689
Unallocated items			
Finance income	**207**	15	60
Finance costs	**(34)**	(93)	(148)
Profit before income tax	**4,686**	3,901	9,601

Notes to the financial statements continued

for the six months ended 30 June 2023

2. Exceptional items

During the six months to 30 June 2023, Churchill China plc received a further £34,000 in relation to the voluntary wind up of the British Pottery Manufacturers' Federation, of which the Company was a 23.53% shareholder (in addition to the £471,000 received during 2022). Due to the nature of this income, the amount received has been treated as exceptional. A total exceptional cost was also recognised of £393,000 in relation to employee restructuring costs.

3. Finance income and costs

	Unaudited Six months to 30 June 2023 £'000	Unaudited Six months to 30 June 2022 £'000	Audited Twelve months to 31 December 2022 £'000
Finance income			
Other interest receivable	**117**	15	60
Interest on pension scheme	**90**	–	–
Finance income	**207**	15	60
Finance costs			
Interest paid	**(34)**	(21)	(35)
Interest on pension scheme	**–**	(72)	(113)
Finance costs	**(34)**	(93)	(148)

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

4. Income tax expense

	Unaudited Six months to 30 June 2023 £'000	Unaudited Six months to 30 June 2022 £'000	Audited Twelve months to 31 December 2022 £'000
Current taxation	**839**	392	631
Deferred taxation	**344**	321	1,075
Income tax expense	**1,183**	713	1,706

5. Earnings per ordinary share

Basic earnings per ordinary share is based on the profit after taxation attributable to owners of the Company of £3,503,000 (June 2022: £3,188,000; December 2022: £7,895,000) and on 10,997,835 (June 2022: 11,020,612; December 2022: 11,009,068) 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 2023 Pence per share	Unaudited Six months to 30 June 2022 Pence per share	Audited Twelve months to 31 December 2022 Pence per share
Basic earnings per share	**31.9**	28.9	71.7
Less exceptional items	**2.4**	(4.2)	(4.8)
Adjusted earnings per share	**34.3**	24.7	66.9

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

	Unaudited Six months to 30 June 2023 £'000	Unaudited Six months to 30 June 2022 £'000	Audited Twelve months to 31 December 2022 £'000
Cash flow from operations			
Operating profit	**4,872**	3,508	9,142
Exceptional income	**(360)**	471	547
Adjustments for:			
Depreciation and amortisation	**1,753**	1,481	2,983
Profit on disposal of property, plant and equipment	**(1)**	–	(4)
Charge for share-based payment	**91**	39	100
Decrease in retirement benefit obligations	**(875)**	(875)	(1,750)
Changes in working capital:			
Inventory	**(3,265)**	(611)	(5,403)
Trade and other receivables	**861**	(3,833)	(3,067)
Trade and other payables	**(2,640)**	1,828	2,391
Cash inflow from operations	**436**	2,008	4,939

Notes to the financial statements continued

for the six months ended 30 June 2023

7. Basis of preparation and accounting policies

The financial information included in the interim results announcement for the six months to 30 June 2023 was approved by the Board on 13 September 2023.

The interim financial information for the six months to 30 June 2023 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 2022, 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 2022.

Statutory accounts for the year ended 31 December 2022 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 2023 Annual General Meeting.

9. Publication

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

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