WRITTLE HOLDINGS LIMITED

CHAIRMAN'S STATEMENT AND UNAUDITED 2019 GROUP ACCOUNTS

WRITTLE

I am pleased to present Writtle's unaudited 2019 results in summary format.

It is a shorter report than usual because we are focussing on our response to the business threat posed by the Covid-19 pandemic which I also report on in this statement.

Full audited results will be sent to shareholders later in the year.

2019 RESULTS

Writtle had a very strong second half of the year which gave us a full year turnover of £78.41m (2018: £70.92m) and profit before tax of £5.39m (2018: £6.73m)

Our **Innovation** businesses had an excellent year, increasing both turnover and profits, led again by Epoch and Seymourpowell.

Our **Implementation** businesses increased turnover as a result of the acquisition of Showcard in April, although exceptional costs of restructuring led to a decrease in profits.

Our **Instore** business, Arken was again the group's most profitable business despite a decline in turnover and profit as a major retail client did not undertake a large cosmetics roll-out in the year.

Further analysis of our business groups is in the notes which follow.

CASH AND DIVIDENDS

Writtle finished the year with net cash of £8.28m (2018: £12.24m), a most satisfactory position considering the payment of ordinary and special dividends in the year of £4.83m and the cost of acquiring and restructuring Showcard.

With this level of cash, we would normally consider a further special dividend, but retention of cash in light of the Covid-19 threat is now a priority so we will not be paying one this year.

For the same reason the directors are currently suspending payment of a final dividend but will reconsider this later in the year. I know our dividend stream is very important to our shareholders and this decision has not been taken lightly. I can assure you that we will resume dividend payments as soon as we feel it prudent to do so.

CORPORATE ACTIVITY

We had two substantial transactions under consideration in the first quarter of 2020, one of which was midway through a due diligence process, but both transactions have been suspended because of the Covid-19 crisis.

The annual Writtle share trading opportunity will not be offered this year because we consider it would be inappropriate during the current economic uncertainty.

CURRENT TRADING

We had made a strong start to 2020 and were ahead of budget with good profits for January and February. March has seen the first impact of Covid-19 but has been profitable nonetheless. The economic environment for the rest of the year is unclear at this stage.

THE BUSINESS THREAT FROM COVID-19

Our immediate priority is the health and wellbeing of all our employees.

We are observing government guidelines rigorously and most of our employees are already working from home. Where working from home is not possible, social distancing rules are in place and the strictest hygiene procedures are being followed. If there is any doubt as to whether an employee might be showing symptoms of the virus, employees are self-isolating at home.

The economic impact of Covid-19 across the world's business community has been well documented and Writtle is not alone in seeing a drop off in demand for our businesses' goods and services. The rate of decline in demand varies across our businesses but we have taken immediate action to address the potential effects of further deterioration. We are fortunate to have good cash reserves, and these must be preserved to fund those of our businesses that may need financial support if the crisis lasts for some time. The overriding aim of all Writtle's businesses is to support our client base for the duration of this crisis and be in the best possible condition to meet the return of demand and business as usual.

The specific policies our businesses are adopting are very much tailored to their individual circumstances, although voluntary pay cuts, shorter working weeks and accessing Government support where appropriate are commonplace amongst our businesses. With the diverse nature of Writtle's portfolio, one policy is not appropriate for all. For example, some of our **Innovation** agencies have seen little drop off in demand and indeed some are helping their clients design policies or products fit to meet the new world order that is likely to emerge when the crisis is over. Our **Implementation** businesses have their largest clients in food retail where demand is still strong. At the other end of the spectrum we have two manufacturing businesses, Arken and Showcard, where future demand is more uncertain. With a high fixed overhead in site costs and large workforces these businesses are potentially the most affected and the Government's Coronavirus Job Retention Scheme has been extremely helpful in allowing us to furlough employees who might otherwise have been laid off. We are determined to keep these companies open for business and support our clients throughout the current crisis and retain all employees for the future.

Although the situation is evolving daily and our actions are under constant review, I have been struck by two things which have stood us in good stead:

Firstly, Writtle's conservative business model over the years has given us a strong asset backed balance sheet with substantial net cash balances and no earn-out obligations. This has put us in a robust position to face the challenges ahead and be prepared for the upturn when it comes.

Secondly, Writtle's model is based on equity involvement. This means that management typically own shares in the business in which they work and Writtle. This gives our management an owner's perspective on the actions required to steer each business through the Covid-19 crisis and I have been very impressed by the way our management teams have gone about this task.

Lastly, I would like to thank all Writtle's employees, many of whom are enduring personal financial hardship through furlough or reductions in pay, for the understanding, effort and resilience they are showing. It is an extraordinary time in all our lives, and I hope the urgent corrective actions we are taking now ensure the earliest possible return to full capacity and staffing.

CONCLUSION

We are taking the business threat posed by Covid-19 very seriously. Our businesses have reacted quickly and decisively to the threat and Writtle is therefore in the strongest possible position to weather the storm. There will be further challenges this year but, thanks to the calibre of our people and our underlying financial strength, I am confident that Writtle will go into 2021 renewed, restored and ready to face what is likely to be a very different economic landscape.

Robert Essex
Chairman

3 April 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Year ended 31 December 2019 Unaudited £000	Year ended 31 December 2018 Audited £000
Turnover	78,413	70,922
Cost of sales	(32,468)	(26,290)
Gross profit	45,945	44,632
Administrative expenses	(40,436)	(37,924)
Operating profit	5,509	6,708
Operating profit before the items listed below	7,376	7,935
Exceptional items	(953)	(508)
Amortisation	(914)	(719)
Operating profit	5,509	6,708
Interest (payable)/receivable	(123)	21
Profit before taxation	5,386	6,729
Tax on profit	(1,012)	(1,524)
Profit after taxation	4,374	5,205
Non-controlling interests	(652)	(975)
Profit for the financial year	3,722	4,230

There were no recognised gains and losses for 2019 or 2018 other than those included in the consolidated statement of comprehensive income.

Exceptional items comprise restructuring and integration costs at Showcard £578k, restructuring at other agencies £155k and loss on liquidation of an investment £220k.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Year ended 31 December 2019 Unaudited £000	Year ended 31 December 2018 Audited £000
Fixed assets		
Intangible assets	9,381	8,930
Tangible assets	6,330	3,937
Investments	–	220
	15,711	13,087
Current assets		
Stocks	1,952	2,532
Debtors	23,534	18,780
Cash at bank and in hand	8,942	12,236
	34,428	33,548
Creditors: Amounts falling due within one year	(18,279)	(14,719)
Net current assets	16,149	18,829
Total assets less current liabilities	31,860	31,916
Creditors: Amounts falling due after more than one year	(476)	–
Provisions for liabilities		
Deferred tax	(55)	(67)
Other provisions	(80)	(85)
Net assets	31,249	31,764
Capital and reserves		
Share capital	7,400	7,347
Share premium account	7,197	7,037
Other reserves	(1,283)	(1,102)
Retained earnings	14,878	15,970
Equity attributable to owners of the parent company	28,192	29,252
Non-controlling interests	3,057	2,512
	31,249	31,764

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Equity attributable to owners of parent company £000	Non-controlling interests £000	Total equity £000
At 1 January 2019	7,347	7,037	(1,102)	15,970	29,252	2,512	31,764
Comprehensive income for the year							
Profit for the year	–	–	–	3,722	3,722	652	4,374
Total comprehensive income for the year	–	–	–	3,722	3,722	652	4,374
Contributions by and distributions to owners							
Dividends	–	–	–	(4,826)	(4,826)	(338)	(5,164)
Shares issued during the year	53	160	–	–	213	–	213
Other movements	–	–	(181)	12	(169)	231	62
Total contributions by and distributions to owners	53	160	(181)	(4,814)	(4,782)	(107)	(4,889)
At 31 December 2019	7,400	7,197	(1,283)	14,878	28,192	3,057	31,249

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Equity attributable to owners of parent company £000	Non-controlling interests £000	Total equity £000
At 1 January 2018	7,326	6,984	(747)	14,625	28,188	2,077	30,265
Comprehensive income for the year							
Profit for the year	–	–	–	4,230	4,230	975	5,205
Total comprehensive income for the year	–	–	–	4,230	4,230	975	5,205
Contributions by and distributions to owners							
Dividends	–	–	–	(2,898)	(2,898)	(445)	(3,343)
Shares issued during the year	21	53	–	–	74	–	74
Other movements	–	–	(355)	13	(342)	(95)	(437)
Total contributions by and distributions to owners	21	53	(355)	(2,885)	(3,166)	(540)	(3,706)
At 31 December 2018	7,347	7,037	(1,102)	15,970	29,252	2,512	31,764

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Year ended 31 December 2019 Unaudited £000	Year ended 31 December 2018 Audited £000
Cash flows from operating activities		
Profit for the financial year	4,374	5,205
Adjustments for:		
Amortisation of intangible fixed assets	1,086	719
Depreciation of tangible fixed assets	1,407	1,093
Impairment of unlisted investments	220	331
Loss/(profit) on disposal of tangible fixed assets	7	(3)
Decrease/(increase) in stocks	664	(836)
Interest paid/(received)	123	(21)
Corporation tax charge	1,012	1,524
(Increase)/decrease in debtors	(123)	201
Decrease in creditors	(1,224)	(944)
Corporation tax paid	(1,136)	(1,298)
Net cash generated from operating activities	6,410	5,971
Cash flows from investing activities		
Purchase of tangible fixed assets	(1,247)	(932)
Investment in software development	(248)	–
Sale of tangible fixed assets	82	24
Purchase of subsidiaries	(100)	–
Cash acquired with subsidiaries	146	–
Purchase of equity in subsidiaries	(271)	(95)
Net cash used in investing activities	(1,638)	(1,003)
Cash flows from financing activities		
Issue of ordinary shares	214	73
Issue of ordinary shares by subsidiaries	1,191	–
Repayment of loans	(1,273)	–
Repayment of finance leases	(136)	–
Movements on invoice discounting	(2,268)	–
Equity dividends paid	(4,826)	(2,898)
Interest (paid)/received	(123)	21
Dividends paid to non-controlling interests	(675)	(445)
Purchase of shares by ESOT	(182)	(355)
Net cash used in financing activities	(8,078)	(3,604)
Net (decrease)/increase in cash and cash equivalents	(3,306)	1,364
Foreign exchange losses on cash and cash equivalents	12	–
Cash and cash equivalents at beginning of year	12,236	10,872
Cash and cash equivalents at the end of year	8,942	12,236
Cash at bank and in hand	8,942	12,236

ANALYSIS OF NET CASH/(DEBT)

FOR THE YEAR ENDED 31 DECEMBER 2019

	Year ended 31 December 2019 Unaudited £000	Year ended 31 December 2018 Audited £000
Cash at bank and in hand	8,942	12,236
Debt:		
Finance leases	(663)	–
Debts due within one year	–	–
Debts falling due after more than one year	–	–
Net cash	8,279	12,236

BUSINESS GROUP ANALYSIS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Innovation £000	Implementation £000	Instore £000	Group £000
For the year ended 31 December 2019				
Turnover	26,956	32,088	19,369	78,413
Headline operating profit	2,908	2,543	3,074	8,525
Central costs				(1,149)
Headline operating profit				7,376
Interest receivable and similar income				(123)
Headline profit before tax				7,253

	Innovation £000	Implementation £000	Instore £000	Group £000
For the year ended 31 December 2018				
Turnover	26,447	20,535	23,940	70,922
Headline operating profit	2,639	2,726	3,728	9,093
Central costs				(1,158)
Headline operating profit				7,935
Interest receivable and similar income				21
Headline profit before tax				7,956

Headline measures are defined as being before profit on sale of investments, exceptional items, amortisation and share-based payments.

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