Adnams plc
Interim Accounts 2015

"Adnams continues to invest for the future – I'll drink to that."

Oli Watts, Hop Gatherer

CHAIRMAN'S STATEMENT

Results

We are pleased to announce a 12% increase to £962,000 in the Adnams operating profits for the six months to 30 June 2015, a strong result after a long cold spring. Turnover was down 3% at £29.1m, partly as a result of two of our large managed properties being closed for refurbishment, and own beer volumes were down by 5% after last year's 18% increase. The current year dip in beer volumes was notably in the volatile area of sales to the large managed pub companies. Property profits were £407,000, last year they were £107,000. Three properties were sold in the last six months. We will continue to keep a strong property portfolio, however the shape of our business is moving towards our becoming a modern branded drinks company.

Our 2015 full year accounts will be the first prepared under the new UK accounting standard FRS 102 and there are a number of resulting changes explained below.

Dividend

We are retaining our policy for the Company's interim dividend, which is that we pay 35% of the total dividend paid in the previous year. As we flagged in our 2014 accounts this means that we will be increasing the dividend on our 'B' shares by 3p and on our 'A' shares by 0.75p to 72p per share and 18p per share respectively, a 4.3% increase.

The Adnams Brewing & Brands Business

The beer market continues to evolve very rapidly as new products are launched, numbers of small producers continue to increase and consumer tastes change, inspired by the range of beers now available. This has created more challenging times for classic English beers like Adnams Bitter, however it has also created opportunities for our own new products. We believe that we have been successful in reading and reacting to industry trends. The rapid rise of Adnams Ghost Ship and the more recent success for some of our innovative products supports this view. Underlying market trends suggest that we are well placed to grow and it is with this background that we are pushing ahead with a substantial £7.0m investment in our brewery to achieve the capacity and flexibility that we will need.

Market data suggests that in the first six months of this year beer volumes have declined, by 3.6%, and the cask ale market has grown by 0.5%. Our volumes were behind this, however we have noted in previous reports that large managed house operators have become more important both to us and to the market as a whole. This creates some inevitable volatility in our volumes as these businesses rotate their offer.

Our directly delivered business in East Anglia saw volumes on a par with 2014, though London volumes were less strong as that market is becoming increasingly competitive with the rapid growth of local brewers, a phenomenon in which London has lagged most of the rest of the country. Our sales to supermarkets and other take home outlets were in line with those achieved in the same period last year. Our greater focus on export yielded good sales growth though volumes are still small.

The Adnams Copper House Distillery

Our spirits business has continued its strong growth helped by Adnams Longshore Vodka winning the International Wine & Spirits Competition's vodka trophy in the year after our Copper House Gin won the equivalent gin award. The strong demand that we have seen for gin has meant that our distillery has reached capacity as we have worked to meet this demand and also lay down whisky stocks for the future. We are investing half a million pounds in the distillery to roughly double the capacity and increase efficiency to realise our growth ambitions. This investment will be complete by the end of the year.

The Adnams Property Businesses

With the move of two of our key outlets, the White Horse at Blakeney, and the Ship at Levington, to managed houses and our shorter term management of some of our smaller tenancies we are treating our property business as an integrated whole where pubs and hotels may move between tenancy or leasehold or our own management as circumstances require. The Managed Inns part of this business, comprising the Swan and Crown in Southwold together with the White Horse and the Ship saw substantial investment in the first half of this year. Both the Swan and the White Horse were closed for several weeks whilst refurbishments took place. This had some inevitable impacts on trading, however we believe that we will start to see the returns from the investments coming through in the second half of the year. The leased and tenanted part of the business has seen the impact of having fewer pubs as we have sold a number of smaller outlets in recent years, however underlying trading has been good with like-for-like results ahead of last year and an overall result similar to a year ago. The three pubs sold in the first half of this year were: The Bull at Cavendish, the Fleece at Bungay and the Queen's Head at Long Stratton. Since the half year Adnams has sold the Ship at Burnham and the Cock at Clare and has three further pubs on the market.

The Adnams Stores

Our shops have continued their recent trend of improved trading with like-for-like revenue growth well ahead of the high street average. These shops are an integral part of the Adnams proposition. They have been instrumental in portraying our brand to a wider audience, particularly a female audience less familiar with Adnams. They have also helped us to launch new products and have been notably important in assisting the early growth of our spirits business.

We saw no new openings or closures in this half year however we will open a new shop in Bury St Edmunds in the second half. Our online shop continues its growth and we are investing in our proposition to significantly improve the customer experience and further grow this increasingly important channel.

Treasury and Pensions

Our bank debt at 30 June was £9.4m (30 June 2014: £11.2m), an increase from our year end debt levels of £8.0m. The main reason for the increase is the investment programme that we have pursued in the brewery and distillery and at the Swan, Southwold and White Horse, Blakeney.

Our three year facility agreement with Barclays will expire in February 2016 and this autumn we will be assessing offers for a replacement facility. We have continued with our policy of paying interest at short term rates and not fixing the amount payable on the loan. This policy has continued to be beneficial whilst rates have remained low. Further details of our bank loan are in note 6 to the accounts.

Shareholders will be used to the way in which changes in market values can cause swings in the position of our closed defined benefit pension scheme. The £7.1m deficit at 30 June 2014, grew to £11.5m at 31 December and this has moved to £9.7m at 30 June 2015.

Movements in the Sterling:Euro exchange rate have generally favoured us in the first half of 2015 with stronger Sterling making wine imports cheaper. Purchases of Euros have on average been 12% cheaper this year.

FRS 102

FRS 102 accounting rules have been adopted by Adnams plc with effect from the start of 2015, including the restatement of comparative numbers. These interim results are produced in compliance with the rules of the ISDX stock market on which our 'B' shares are quoted. The detail required for an interim report is substantially less than that needed for the full year report, but nonetheless FRS 102 principles need to be adopted and note 5 to these accounts provides a reconciliation between previous GAAP (Generally Accepted Accounting Practice) and FRS 102. In the profit and loss account, the impact has been to substantially increase the charge (previously a credit) for 'Other finance income/(charge) on the pension scheme'. This is a notional calculation with no cash impact. Other changes are explained in note 5.

The Future

The underlying trends within our business have mainly been positive. Our newer beers have grown well in a fickle market and our spirits have continued their strong growth. We are making substantial investments in both our brewery and distillery to secure capacity and flexibility for the future. Our continuing pub estate has traded well and has maintained profitability despite its smaller size, and our managed properties have received investment to secure their trading. Our retail business has had a strong six months and is looking at further expansion and at continuing investment in its online presence.

Jonathan Adnams

Jonathan Adnams OBE
Chairman

PROFIT AND LOSS ACCOUNT

For six months to 30 June 2015

	Notes	Unaudited 6 months to 30 June 2015 £000	FRS 102 Unaudited 6 months to 30 June 2014 £000	FRS 102 Unaudited 12 months to 31 December 2014 £000
Turnover		29,139	30,055	66,032
Operating expenses		(28,177)	(29,193)	(62,217)
Operating profit		**962**	**862**	**3,815**
Profit on disposal of properties		407	107	626
Interest		(134)	(159)	(311)
Other finance charge on pension scheme		(195)	(127)	(240)
Profit on ordinary activities before taxation		**1,040**	**683**	**3,890**
Tax on profit on ordinary activities	2	(238)	(152)	(907)
Profit for the financial year		**802**	**531**	**2,983**
Earnings per share	4			
'A' Shares of 25p each, Inc. property disposals		42.5p	28.1p	158.1p
'B' Shares of £1 each, Inc. property disposals		169.9p	112.5p	632.2p
'A' Shares of 25p each, Exc. property disposals		25.2p	22.4p	127.1p
'B' Shares of £1 each, Exc. property disposals		100.8p	89.8p	508.4p

BALANCE SHEET

As at 30 June 2015

	Unaudited 30 June 2015 £000	FRS 102 Unaudited 30 June 2014 £000	FRS 102 Unaudited 31 December 2014 £000
Fixed assets			
Tangible assets	36,818	36,508	35,481
Investments	5	171	5
	36,823	**36,679**	**35,486**
Current assets			
Stocks	6,389	5,601	5,921
Debtors	6,960	7,678	8,461
Cash at bank and in hand	18	19	1,202
	13,367	**13,298**	**15,584**
Creditors: amounts falling due within one year	(17,694)	(11,233)	(10,085)
Net current (liabilities)/assets	**(4,327)**	**2,065**	**5,499**
Total assets less current liabilities	**32,496**	**38,744**	**40,985**
Creditors: amounts falling due after more than one year	(240)	(8,965)	(8,483)
Provision for liabilities	–	(292)	–
	(240)	**(9,257)**	**(8,483)**
Net assets excluding pension liability	**32,256**	**29,487**	**32,502**
Pension liability	(9,665)	(7,106)	(11,468)
Net assets including pension liability	**22,591**	**22,381**	**21,034**
Capital and reserves			
Called up share capital	472	472	472
Share premium	144	144	144
Profit and loss account	21,975	21,765	20,418
Equity shareholders' funds	**22,591**	**22,381**	**21,034**

RECONCILIATION OF PRIOR YEAR BALANCES

To FRS 102 Accounting Standard

	2014 GAAP £000	Transition impact £000	2014 FRS 102 £000
Period to 30 June 2014			
Profit & loss account			
Other finance income/(charge) on pension scheme	51	(178)	(127)
Profit on ordinary activities before tax	861	(178)	683
Tax on profit on ordinary activities	(188)	36	(152)
Profit for the financial period	673	(142)	531
Balance sheet			
Creditors: amounts falling due within one year	(11,033)	(200)	(11,233)
Provision for liabilities	(475)	183	(292)
Net assets excluding pension liability	29,504	(17)	29,487
Pension liability	(5,684)	(1,422)	(7,106)
Net assets including pension liability	23,820	(1,439)	22,381
Period to 31 December 2014			
Profit & loss account			
Other finance income/(charge) on pension scheme	2	(242)	(240)
Profit on ordinary activities before tax	4,132	(242)	3,890
Tax on profit on ordinary activities	(913)	6	(907)
Profit for the financial period	3,219	(236)	2,983
Balance sheet			
Creditors: amounts falling due within one year	(9,885)	(200)	(10,085)
Provision for liabilities	(415)	1,014	599
Deferred tax asset transferred to debtors			(599)
Revised provision for liabilities			–
Debtors	7,862	599	8,461
Net assets excluding pension liability	31,688	814	32,502
Pension liability	(9,174)	(2,294)	(11,468)
Net assets including pension liability	22,514	(1,480)	21,034

Notes

1 Basis of preparation

The interim accounts, which have not been audited, have been prepared under the new accounting standard, FRS 102. The 2014 full year accounts were audited, but the adjustments made to comply with FRS 102 have not been audited so the above statements show these results as being unaudited.

2 Taxation

The taxation charge is based on the estimated tax rate for the year. Property profits are assumed to be reinvested and the tax rolled-over.

3 Dividend

The interim dividend on ordinary shares will be £340,000 (72%) (2014: £326,000 (69%)) and will be paid on 1 October 2015 to those on the register at the close of business on 4 September 2015.

4 Earnings per share

Earnings per share is calculated by dividing the earnings available to ordinary shareholders by the issued ordinary share capital of £471,842. The earnings per share calculation is the same for basic and diluted earnings.

5. New accounting standard FRS 102

The above table shows the impact of the move to the new accounting standard, FRS 102, on figures disclosed in these interim accounts. The changes shown relate to the treatment of pensions, to the treatment of deferred tax on rolled-over capital gains and to accrual for holiday pay. In relation to pensions, two changes have been made. Firstly the calculation of interest on the scheme deficit is different under FRS 102 and this has increased the notional interest charge by £178,000 for the six months to 30 June 2014 and by £242,000 for the year to 31 December 2014. The second change is that the deferred tax asset relating to the pension deficit was, under previous UK GAAP, deducted from the pension deficit shown in the balance sheet. Under FRS 102 that deferred tax is shown in the deferred tax line (within Provision for liabilities) and the pension deficit is shown gross, before tax relief. This has the effect of increasing the pension deficit disclosed in the balance sheet by £1,422,000 as at 30 June 2014 and by £2,294,000 as at 31 December 2014. Corresponding reductions have been made to deferred tax. The second type of adjustment made has also been to change deferred tax. Under previous UK GAAP, tax deferred by being rolled over into new assets was noted in the full year accounts, but was not included on the balance sheet. FRS 102 requires provision for such rolled-over tax and this has increased the deferred tax provision at 30 June 2014 by £1,239,000 and at 31 December 2014 by £1,280,000. These numbers have been restated downwards by £198,000 following a review of the previously unrecognised deferred tax balance shown in the 2014 statutory accounts. Deferred tax assets are included within debtors. A £200,000 holiday pay accrual has been included in creditors: amounts falling due within one year, in each period end balance sheet.

6. Bank facilities

The Company took a three year £10 million loan facility from Barclays Bank in February 2013. This facility reduces by £250,000 per quarter over its second and third year to a value of £8 million at February 2016. At 30 June 2015 £8.75 million was outstanding, but as all of this is repayable within a year it is shown within Creditors: amounts falling due within one year. As at 30 June 2014 £1 million was repayable within one year and the balance of the £9.75 million then outstanding, was shown within Creditors: amounts falling due after more than one year.

Adnams plc
Sole Bay Brewery
Southwold
Suffolk
IP18 6JW

adnams.co.uk