Swallowfield plc
(“Swallowfield” or the “Group”)
Interim results

Swallowfield plc, a market leader in the development, formulation, and supply of personal care and beauty products, including its own portfolio of brands, announces its interim results for the 28 weeks ended 6 January 2018

£m unless otherwise stated	2018	2017
Reported results [1]		
Revenue	£40.0m	£39.7m
Underlying operating profit [1]	£3.40m	£3.07m
Adjusted basic earnings per share [1]	13.7p	11.8p
Statutory results		
Revenue	£40.0m	£39.7m
Operating profit	£3.00m	£2.20m
Basic earnings per share	13.1p	9.7p
Total dividend per share	2.0p	1.7p
Net debt	£7.0m	£5.5m

[1] Underlying operating profit is calculated before exceptional items, amortisation of acquisition related intangibles and LTIP charges. Adjusted earnings per share is calculated using adjusted operating profit, which is underlying operating profit less LTIP charges.

Financial highlights

- Group revenues increased to £40.0m (2017: £39.7m), as expected and against a strong comparative period, driven by strong growth (+25%) in owned brands.
- Owned brands now representing 31% of Group revenues.
- Manufacturing sales decreased by 6% against strong prior year comparators as prior year launch volumes normalised as previously signalled.
- Contribution margin % improved, primarily due to increased owned brand sales.
- Underlying operating profit increased by 11% year on year to £3.40m (2017: £3.07m).
- Adjusted EPS increased by 16% year on year to 13.7 pence (2017: 11.8 pence).
- Net Debt of £7.0m (2017: £5.5m), after final payment of £1.85m deferred consideration on The Brand Architekts (“Brand Architekts”) acquisition.
- Interim dividend increased by 18% to 2.0 pence (2017: 1.7 pence).

CEO Succession and Acquisition

- A well-planned CEO succession process has been put in place following Chris How’s decision to step down from the Board to pursue a non-executive portfolio career later in the year. His successor, Tim Perman (currently group Brand Director, PZ Cussons plc), will become Chief Executive on 1 July 2018. Chris will continue full time until the end of the current financial year during which he will assist and support the Company and Tim through the handover process.
- Acquisition of men’s grooming brand ‘Fish’, a well-established and successful style-led brand with distribution in many UK retailers, financed via a new term loan.

Brendan Hynes, Non-executive Chairman, commented: “The first half year has seen further, positive progress which continues to make Swallowfield plc a stronger, more profitable business and provides a solid platform for a well-planned CEO succession. Strong momentum in our branded business, which will be enhanced by the acquisition of the Fish brand and the steady underlying performance in our manufacturing business, means Swallowfield is well positioned to maintain its positive momentum.”

Chris How, Chief Executive, commented: “We are pleased with the continuing strong performance of the Group. Brand Architekts is performing positively and combining well with the supply chain expertise of Swallowfield to deliver, at pace, a stream of consumer relevant new products to market which has translated into improved profit margins for the Group. The exciting acquisition of the Fish brand will further accelerate this positive momentum. The capability within the manufacturing business to satisfy the innovation, service and quality requirements of our customer base has enabled us to secure a number of new contracts in the period. This positions the manufacturing business to quickly return to growth following the well signalled normalisation in sales for this six-month period against strong prior year comparatives.”

Operational highlights

- Strong growth momentum continued in our portfolio of owned-brands, boosted by strong Christmas gifting performance, further retail distribution gains in the UK and Western Europe, and several successful new product launches.
- Manufacturing business maintained % contribution margins as cost optimisation programmes and drive category focus offset materials and labour inflationary pressure.
- A number of significant new manufacturing contracts have been secured and work progressed in the period in readiness for launches in the second half.
- Increase in working capital driven by stock build to support new launches and later Christmas deliveries.
- Further increase in Brand Architekts products produced in Swallowfield sites.
- Further investment in brand marketing support (particularly digital), organisational capability and operating efficiencies that positions the business for sustained future growth.
- E-commerce sales continued to grow significantly, albeit from a relatively modest base.

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Business review

Group revenue growth in the period was 1% at £40.0m (2017: £39.7m). This was driven by 25% growth in our owned brands business offset by a 6% revenue decline in our manufacturing business.

Branded sales growth was driven in particular by UK growth of key brands Dirty Works, Dr.Salts and SuperFacialist and another very successful Christmas gifting period. Internationally, good growth in Western Europe was offset by softer sales in North America. Increased focus on supply chain efficiency and an improved mix resulting from a clearer brand portfolio prioritisation strategy, supported an increase in contribution margin.

Sales in our manufacturing business reflect the well signalled normalisation of volumes on a number of major new product launches for global brand owners that peaked in the first half of the prior year. Outside of this normalisation effect we were pleased to see solid growth across the remainder of the customer base and a good performance at the contribution margin level being maintained as continued focus on our drive product categories and a series of cost optimisation projects were able to offset broader inflationary pressures on materials.

We are very pleased that during the period a number of significant new contracts and product launches have been confirmed and we have either commenced production or received purchase orders in the weeks since the period end.

The net effect is that the Group made an underlying operating profit of £3.40m, an 11% increase on the comparable period (2017: £3.07m). Adjusted profit before tax increased by 19% to £2.84m (2017: £2.38m).

The overall effective rate of Group taxation for the period was 19.0% (2017: 19.6%) of pre-tax profits. The current year tax charge reflects standard UK and the Czech Republic rates of taxation.

This resulted in adjusted earnings per share of 13.7p (2017: 11.8p). An increase of 16%.

Progress vs strategy

Our business strategy, which is now well established, is to drive growth by building two complementary value streams, Manufacturing and Owned Brands, that leverage the common capability platform of Group resources.

Our owned brands business develops and markets a portfolio of personal care and beauty brands that are distributed across major retailers in the UK and internationally. In this business we focus on three strategic pillars:

- New product development
- Leverage Swallowfield resources
- International expansion

Our manufacturing business formulates and manufactures personal care and beauty products for a customer base that includes many of the world's leading beauty brands. Within this business we also focus on three strategic pillars:

- Innovation, quality and service to global brand owners
- Drive category focus
- Cost base optimisation

The following is a review of progress against these strategic pillars in the period:

Owned brands

The performance of The Brand Architekts portfolio acquired in June 2016 continues to be very positive. The momentum is continuing with all key brands in growth. The sell through of Christmas gift ranges was particularly strong.

One of the key opportunities presented by the acquisition was the critical mass it provided through a proven brand management team. The original Swallowfield owned brands (Real Shaving Company, Bagsy, MR., Tru) have prospered under this brand and retailer focused environment and we are pleased to report strong combined revenue growth of c. 50% across this part of the portfolio

<u>New product development</u>
Fast paced new product development that quickly identifies and responds to market trends is a core element of the Brand Architekts business model. 47 new products were launched in the reporting period across 9 different brands. Particular successes include SuperFacialist Hyluronic and Retinol ranges, Dirty Works Foaming Sugar Scrub, which was one of only 3 winners in the Sainsbury's Beauty Awards, and Quick Fix Facials Black Peel Mask.

<u>Leverage Swallowfield resources</u>
Further products in the Brand Architekts range have been produced at Swallowfield Group sites in the period. A major initiative to take further products into in-house manufacture is already underway and will follow in the second half. On an annualised basis we expect to be producing in excess of 1.5m units of the acquired Brand Architekts brands at Swallowfield sites in the next financial year.

Further investment and improvements in relation to our e-commerce capability for key brands such as Dirty Works, SuperFacilaist, Dr.Salts, Kind Natured and Quick Fix, is in place with a dedicated team based in our new Exeter office driving strong sales growth and developing engaging digital marketing activities.

We continue to leverage our materials and packaging sourcing network (including our China purchasing office), our knowledge of best practice production processes, and our expertise in product design and formulation to drive cost improvements. Further, we have identified significant annual savings in freight and duty on shipments from China by combining our expertise and our buying power.

<u>International Expansion</u>
Highlights in the period include the launch of Dirty Works in France and Belgium and the extension of our Bagsy brand in France. This growth has been more than offset by some trading challenges in North America.

Following our participation in major trade shows in 2017 there are a number of new opportunities being progressed that we expect will bring new customers and geographies in the months ahead.

Manufacturing

Innovation

Our manufacturing business relies on our ability to bring a steady stream of innovative new products to our customer base. In the period, we again increased the number of Swallowfield developed new products introduced. Our innovation capability has been key in securing our first orders with a major US global consumer group who, like others, are extending their search for fast to market New Product Development by partnering with third parties such as Swallowfield.

Sales of plastic aerosol products continued to grow in the period and we are pleased that this technology will be extended to another brand in the second half of the financial year.

A significant refurbishment of our R&D laboratory in Wellington has been completed including investment in specialist equipment which will underpin future innovation activities.

Drive category focus

Personal Care Aerosols, Cosmetic Pencils, and hot pour products remain our key focus. Further contract wins within the period, supported by new product launches, will deliver ongoing growth. Following new business wins last year, capital investment to increase wood pencil capacity and cost efficiency at our Bideford site has been fully completed. Further investment to deliver improvements in capacity and cost competitiveness are scheduled, with particular focus on Personal Care Aerosols which, although recording a sales decrease in the period due to a peak period of launches last year, continue to offer strong growth opportunities based on our industry leading capabilities and reputation.

Cost base optimisation

Investment in line efficiency and automation programmes continue to contribute to margin improvement across all sites. Of particular note has been the introduction of robotics technology at our Tabor site to manage labour costs and increase reliability. The expertise of the supply chain has delivered real cost savings in the Company's logistic requirements which have assisted in offsetting ongoing material inflationary pressures. The agility within our Group sites has led to global brand leaders recognising the value of our established expertise and manufacturing capabilities which has led to a further strengthening of our established partnerships.

We have continued to steadily increase the number of Brand Architekts products produced in-house and expect this to gain further momentum in the second half.

Net debt and cash flow

Net debt increased from a year-end position of £3.6m to £7.0m (2017: £5.5m) following the final contingent payment (£1.85m) in relation to the 2016 acquisition of The Brand Architekts. Working capital increased as material and component inventory increased in the manufacturing business to support future launches and ensure optimum customer service. Within the branded business there was also an increase as finished goods stocks increased to support continued growth and debtors peaked in line with the timing of Christmas gifting deliveries.

Financing costs of £0.17m (2017: £0.16m) comprised interest expense of £0.09m (2017: £0.09m) plus a pension scheme notional finance charge of £0.08m (2017: charge £0.07m).

Capital expenditure was £1.1m which was £0.4m above depreciation. We expect capital expenditure to be higher than depreciation in this financial year as we have made a number of investments to improve line efficiencies and support incremental new customer contracts which will positively impact the second-half and beyond.

Defined benefit pension scheme

The defined benefit pension scheme underwent its last triennial valuation as of 5 April 2017. The deficit on a statutory funding basis was £2.6m and the Group is entering into a revised deficit recovery plan and schedule of contributions. The deficit reduction payment will continue to be £108k per annum for the current year. Whilst contributions are likely to increase next year, any increase is expected to be offset in part by the reduction in the PPF levy.

For accounting purposes at 6 January 2018, the Group recognised under IAS19 'employee benefits', a deficit of £5.7m (June 2017: £6.13m). The Accounting Standards require the discount rate to be based on yields on high quality (usually AA-rated) corporate bonds of appropriate currency, taking into account the term of the relevant pension scheme's liabilities. Corporate bond indices are used as a proxy to determine the discount rate. At the reporting date, the yields on bonds of all types were slightly higher than they were at 24 June 2017. This has resulted in marginally higher discount rates being adopted for accounting purposes compared to last year, which has been coupled with a small increase in expectations of long term inflation, the combined effect leaving the fair value of the scheme liabilities materially unchanged, with the strong investment return performance increasing the value of the schemes assets. This has translated into a decrease in liability under the IAS19 methodology.

Dividends

The Board is pleased to announce that it has approved an interim dividend of 2.0 pence per share (2017: 1.7 pence). This dividend will be paid on 26 May 2018 to shareholders on the register on 4 May 2018.

The Directors' intention is to have a progressive dividend policy that aligns future dividend payments to the underlying earnings and cash flow of the business, taking in to account the gearing and the operational requirements of the business.

Board succession

After five successful years leading Swallowfield, Chris How, Chief Executive Officer, has informed the Board of his intention to step down from his role in order to pursue a non-executive portfolio career subject to the company finding a suitable successor.

Advanced notice of Chris's intentions enabled the Board, including Chris, to engage in a thorough search for his successor and we are pleased to announce that Chris will be succeeded by Tim Perman.

Tim will be appointed Chief Executive Officer with effect from 1 July 2018. He is currently Group Category & Brand Director and Divisional Director, Global Beauty at PZ Cussons and has more than 30 years' experience in the consumer products industry. Previously, he has held senior leadership roles at Seven Seas Healthcare, Campbells Grocery Products and Bristol Myers Squibb. Tim will join the business on 2 May 2018 and work for 2 months alongside Chris to affect a smooth transition.

Chris How will continue full time until the end of the current financial year on 30 June 2018 and will be available to help and support the business in the following months.

Brendan Hynes, Non-Executive Chairman commented:
"Chris has been instrumental in the transformation of the Swallowfield Group into a successful and growing business with strong complimentary value streams in both owned brands and contract manufacturing. He has also built a strong team who have the skills and experience to scale the business further. I would like to thank him for his outstanding contribution to the development and growth of our Company during the last five years and wish him every success as he moves into a new phase in his career.

I am delighted that Tim Perman will succeed Chris. Tim's deep understanding of personal care and beauty brands, combined with first-hand experience of running high quality manufacturing operations, means that he is well positioned to drive our continued success, while ensuring a seamless transition."

Chris How, Chief Executive, commented:
"After five happy years with the Swallowfield Group, I have taken the difficult decision to leave a highly successful business and move onto the next stage of my career. The business has changed beyond all recognition over the last five years and it has been a real pleasure to have worked with a great team and to have played a part in building the strong, successful business that we are today. I am sure that Tim will continue to develop the business further with great success."

Acquisition Update

As separately announced today, the Group has completed the earnings enhancing acquisition of the men's grooming brand 'Fish'.

'Fish' is a well-established, authentic, contemporary brand with a 'born in Soho' positioning reflecting a close connection with London style trends through its link to the original Fish salon in D'Arblay Street. This heritage underpins a range of high performance men's hair styling products which were launched more than 15 years ago and currently retail in Boots, Superdrug, Tesco and Waitrose and therefore have a good complementary fit to the rest of our owned brand portfolio.

All related trademarks have been acquired from Fish London Limited and stock, website domains, and other marketing collateral has been acquired from KMI Brands Limited.

The consideration for the acquisition involves an upfront cash consideration of £2.7m, with a further £0.3m 12 month performance based earn out, and was financed via a new term loan. For the year to 31 December 2017, the 'Fish' brand generated net sales of £1.7m and achieved £0.4m EBITDA.

The brand will be managed by our team at Brand Architekts in Teddington who will seek to leverage our growing expertise in male grooming products where our portfolio of MR., The Real Shaving Company and Tru is seeing good growth. We see many opportunities to accelerate the growth of the brand in the UK and beyond both in terms of adding innovative new products to the brand and also broadening retail distribution.

As we work to deliver these growth opportunities we are delighted to confirm that we have engaged the founder of the brand, Paul Burfoot, to work with us as a consultant. Paul continues to own and operate the iconic 'Fish' salon in Soho and is renowned for his innovative creativity as a trend setter in hair styling. His expertise and passion for style and product will help us drive and develop credible, ongoing innovation as well as taking an active role in supporting the digital and social media brand communication.

The brand's product formulations and packaging formats have a strong fit with the technical and production expertise in our manufacturing business and therefore offer further value creation opportunities on the supply side.

Chris How, Chief Executive Officer, commented:
"Following the acquisitions of Real Shaving Company in 2015 and The Brand Architekts in 2016 we have been delighted to have seen strong growth momentum in our owned brand portfolio. This segment of our business showed sales growth of 25% in the first half of our current financial year and in that same period contributed 31% of Group sales. The addition of 'Fish' to this vibrant portfolio will add further strength and growth potential."

Outlook

The Board is pleased to report that trading since the end of the reporting period has been in line with expectations.

We expect the positive momentum seen in our owned brands business to continue, albeit without the boost from Christmas gifting experienced in the first half. Further new product launches and retail distribution gains have been secured in the UK and internationally which will contribute to growth in the second half and into the next financial year. The earnings enhancing acquisition of the 'Fish' brand will add further to this momentum,

In our manufacturing business, the second half will see the start-up of production on a number of significant new contract wins which will contribute positively to the second half of this year and next.

We are seeing upward pressure on material and operational costs but have put in place a range of projects to mitigate. This combined with strong trading momentum, leaves us well placed to achieve planned profits for the full year.

Group Statement of Comprehensive Income

Continuing operations	Notes	**28 weeks ended 6 Jan 2018 (unaudited) £'000**	28 weeks ended 7 Jan 2017 (unaudited) £'000	12 months ended 24 June 2017 (audited) £'000
Revenue	2	**39,962**	39,708	74,314
Cost of sales		**(32,012)**	(32,264)	(60,404)
Gross profit		**7,950**	7,444	13,910
Commercial and administrative costs		**(4,953)**	(4,905)	(10,235)
Operating profit before exceptional items		**2,997**	2,539	3,675
Exceptional items	3	**(25)**	(343)	(343)
Operating profit		**2,972**	2,196	3,332
Finance income		**-**	1	97
Finance costs	4	**(175)**	(163)	(314)
Profit before taxation		**2,797**	2,034	3,115
Taxation		**(532)**	(398)	(543)
Profit after taxation		**2,265**	1,636	2,572
Other comprehensive income / (loss) for the period:				
Re-measurement of defined benefit liability		**407**	(3,469)	(1,697)
Items that will be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations		**54**	79	148
Gain on available for sale financial assets		**158**	256	675
Other comprehensive income / (loss) for the period		**619**	(3,134)	(874)
Total comprehensive income / (loss) for the period		**2,884**	(1,498)	1,698
Profit attributable to:				
Equity shareholders		**2,205**	1,636	2,554
Non-controlling interests		**60**	-	18
Total comprehensive income / (loss) attributable to:				
Equity shareholders		**2,824**	(1,498)	1,680
Non-controlling interests		**60**	-	18
Earnings per share				
- basic	5	**13.1p**	9.7p	15.2p
- diluted	5	**12.7p**	9.5p	14.7p
Dividend				
Paid in period (£'000)		**590**	388	675
Paid in period (pence per share)		**3.5p**	2.3p	4.0p
Proposed (£'000)		**337**	287	590
Proposed (pence per share)	6	**2.0p**	1.7p	3.5p

Group Statement of Changes in Equity

Group	Share Capital £'000	Share Premium £'000	Revaluation of investment reserve £'000	Exchange Reserve £'000	Pension re-measurement reserve £'000	Retained Earnings £'000	Non-controlling interest £'000	Total Equity £'000
Balance as at June 2017	**844**	**11,744**	**1,091**	**(142)**	**(3,894)**	**12,404**	**18**	**22,065**
Dividends	-	-	-	-	-	(590)	-	(590)
Non-controlling interest	-	-	-	-	-	-	60	60
Share based payments	-	-	-	-	-	47	-	47
Transactions with owners	-	-	-	-	-	(543)	60	(483)
Profit for the period	-	-	-	-	-	2,205	-	2,205
Other comprehensive income:								
Re-measurement of defined benefit liability	-	-	-	-	407	-	-	407
Exchange difference on translating foreign operations	-	-	-	54	-	-	-	54
Gain on available for sale financial assets	-	-	158	-	-	-	-	158
Total comprehensive income for the year	-	-	158	54	407	2,205	-	2,824
Balance as at 6 January 2018	**844**	**11,744**	**1,249**	**(88)**	**(3,487)**	**14,066**	**78**	**24,406**
Balance as at June 2016	**566**	**3,830**	**416**	**(290)**	**(2,197)**	**10,467**	-	**12,792**
Dividends	-	-	-	-	-	(388)	-	(388)
Issue of new shares	278	7,914					-	8,192
Share based payments	-	-	-	-	-	28	-	28
Transactions with owners	278	7,914	-	-	-	(360)	-	7,832
Profit for the period	-	-	-	-	-	1,636	-	1,636
Other comprehensive income:								
Re-measurement of defined benefit liability	-	-	-	-	(3,469)	-	-	(3,469)
Exchange difference on translating foreign operations	-	-	-	79	-	-	-	79
Gain on available for sale financial assets	-	-	256	-	-	-	-	256
Total comprehensive income for the year	-	-	256	79	(3,469)	1,636	-	(1,498)
Balance as at 7 January 2017	**844**	**11,744**	**672**	**(211)**	**(5,666)**	**11,743**	**-**	**19,126**
Balance as at June 2016	**566**	**3,830**	**416**	**(290)**	**(2,197)**	**10,467**	-	**12,792**
Dividends	-	-	-	-	-	(675)	-	(675)
Issue of new shares	278	7,914	-	-	-	-	-	8,192
Non-controlling interest	-	-	-	-	-	-	18	18
Share based payments	-	-	-	-	-	58	-	58
Transactions with owners	278	7,914	-	-	-	(617)	18	7,593
Profit for the year	-	-	-	-	-	2,554	-	2,554
Other comprehensive income:								
Re-measurement of defined benefit liability	-	-	-	-	(1,697)	-	-	(1,697)
Exchange difference on translating foreign operations	-	-	-	148	-	-	-	148
Gain on available for sale financial assets	-	-	675	-	-	-	-	675
Total comprehensive income for the year	-	-	675	148	(1,697)	2,554	-	1,680
Balance as at June 2017	**844**	**11,744**	**1,091**	**(142)**	**(3,894)**	**12,404**	**18**	**22,065**

Group Statement of Financial Position

	Notes	As at 6 Jan 2018 (unaudited) £'000	As at 7 Jan 2017 (unaudited) £'000	As at 24 June 2017 (audited) £'000
ASSETS				
Non-current assets				
Property, plant and equipment		**11,491**	10,754	11,076
Intangible assets		**9,042**	9,231	9,145
Deferred tax assets		**666**	1,472	1,088
Investments		**1,442**	816	1,235
Total non-current assets		**22,641**	22,273	22,544
Current assets				
Inventories		**13,537**	12,096	11,430
Trade and other receivables		**17,325**	15,892	16,345
Cash and cash equivalents		**425**	825	4,057
Current tax receivable		**70**	166	88
Total current assets		**31,357**	28,979	31,920
Total assets		**53,998**	51,252	54,464
LIABILITIES				
Current liabilities				
Trade and other payables		**21,521**	18,728	21,674
Deferred consideration		**-**	1,850	1,850
Interest-bearing loans and borrowings		**541**	529	534
Current tax payable		**552**	426	243
Total current liabilities		**22,614**	21,533	24,301
Non-current liabilities				
Interest-bearing loans and borrowings		**1,242**	1,783	1,559
Post-retirement benefit obligations	8	**5,665**	8,745	6,132
Deferred tax liabilities		**71**	65	407
Total non-current liabilities		**6,978**	10,593	8,098
Total liabilities		**29,592**	32,126	32,399
Net assets		**24,406**	19,126	22,065
EQUITY				
Share capital		**844**	844	844
Share premium		**11,744**	11,744	11,744
Revaluation of investment reserve		**1,249**	672	1,091
Exchange reserve		**(88)**	(211)	(142)
Re-measurement of defined benefit liability		**(3,487)**	(5,666)	(3,894)
Retained earnings		**14,066**	11,743	12,404
Total equity		**24,328**	19,126	22,047
Non-controlling interest		**78**	-	18
Total equity		**24,406**	19,126	22,065

Group Cash Flow Statement

	28 weeks ended 6 Jan 2018 (unaudited) £'000	28 weeks ended 7 Jan 2017 (unaudited) £'000	12 months ended 24 June 2017 (audited) £'000
Cash flow from operating activities			
Profit before taxation	**2,797**	2,034	3,115
Depreciation	**651**	661	1,249
Amortisation	**122**	123	239
Finance income	**-**	(1)	(97)
Finance cost	**175**	163	314
(Increase) in inventories	**(2,107)**	(637)	(2,387)
(Increase) / decrease in trade and other receivables	**(540)**	1,974	(995)
(Decrease) / increase in trade and other payables	**(310)**	(2,818)	2,074
(Decrease) / increase in share-based payments provision	**(48)**	246	1,755
Contributions to defined benefit plan	**(54)**	(54)	(108)
Cash generated from operations	**686**	1,691	5,159
Finance expense paid	**(97)**	(89)	(165)
Taxation (paid)	**(321)**	(724)	(1,142)
Net cash flow from operating activities	**268**	878	3,852
Cash flow from investing activities			
Dividend income received	**-**	1	97
Purchase of property, plant and equipment	**(1,067)**	(432)	(1,367)
Purchase of intangibles	**(18)**	-	(8)
Purchase of subsidiary	**(1,925)**	(9,378)	(9,401)
Net cash flow from investing activities	**(3,010)**	(9,809)	(10,679)
Cash flow from financing activities			
Proceeds / (repayment) of invoice discounting facility	**10**	(575)	1,059
Proceeds from new loan	**-**	2,000	2,000
Issue of new share capital	**-**	8,192	8,192
Repayment of loans	**(310)**	(271)	(490)
Dividends paid	**(590)**	(388)	(675)
Net cash flow from financing activities	**(890)**	8,958	10,086
Net (decrease) / increase in cash and cash equivalents	**(3,632)**	27	3,259
Cash and cash equivalents at beginning of period	**4,057**	798	798
Cash and cash equivalents at end of period	**425**	825	4,057

Notes to the Accounts

Note 1 Basis of preparation

The Group has prepared its interim results for the 28-week period ended 6 January 2018 in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRS) as adopted by the European Union and also in accordance with the recognition and measurement principles of IFRS issued by the International Accounting Standards Board.

The Directors have considered trading and cash flow forecasts prepared for the Group, and based on these, and the confirmed banking facilities, are satisfied that the Group will continue to be able to meet its liabilities as they fall due for at least one year from the date of approval of the Interim Report. On this basis, they consider it appropriate to adopt the going concern basis in the preparation of these accounts.

As permitted, this interim report has been prepared in accordance with the AIM rules and not in accordance with IAS34 'Interim Financial Reporting'.

These interim financial statements do not constitute full statutory accounts within the meaning of section 434 of the Companies Act 2006 and are unaudited. The unaudited interim financial statements were approved by the Board of Directors on 21 February 2018.

The consolidated financial statements are prepared under the historical cost convention as modified to include the revaluation of certain non-current assets. The accounting policies used in the interim financial statements are consistent with IFRS and those which will be adopted in the preparation of the Group's Annual Report and Financial Statements for the year ended June 2018.

The statutory accounts for the year ended June 2017, which were prepared under IFRS, have been filed with the Registrar of Companies. These statutory accounts carried an unqualified Auditors Report and did not contain a statement under Section 498(2) or 498(3) of the Companies Act 2006.

Note 2 Segmental analysis

The Group is a market leader in the development, formulation, and supply of personal care and beauty products.

The reportable segments of the Group are aggregated as follows:

- Brands – we leverage our skilled resources to develop and market a growing portfolio of Swallowfield owned and managed brands. These include organically developed Bagsy, MR. and Tru, plus the acquisitions of The Real Shaving Company (in 2015) and the portfolio of brands included in The Brand Architekts acquisition (in 2016).

- Manufacturing – the development, formulation and production of quality products for many of the world's leading personal care and beauty brands.

- Eliminations and Central Costs - other Group-wide activities and expenses, including defined benefit pension costs (closed defined benefit scheme), LTIP expenses, amortisation of acquisition-related intangibles, interest, taxation and eliminations of intersegment items, are presented within 'Eliminations and central costs'.

This is the basis on which the Group presents its operating results to the Board of Directors, which is considered to be the CODM for the purposes of IFRS 8.

a) Principal measures of profit and loss – Income Statement segmental information:

	28 weeks ended 6 January 2018				28 weeks ended 7 January 2017			
	Brands	**Manufacturing**	**Eliminations and Central Costs**	**Total**	Brands	Manufacturing	Eliminations and Central Costs	Total
	£'000	£'000	£'000	**£'000**	£'000	£'000	£'000	£'000
UK revenue	10,111	17,734	-	**27,845**	7,543	17,283	-	24,826
International revenue	2,186	9,931	-	**12,117**	2,289	12,593	-	14,882
Revenue – External	12,297	27,665	-	**39,962**	9,832	29,876	-	39,708
Revenue – Internal	-	1,037	(1,037)	-	-	605	(605)	-
Total revenue	**12,297**	**28,702**	**(1,037)**	**39,962**	9,832	30,481	(605)	39,708
Underlying operating profit/(loss)	2,575	1,918	(1,089)	**3,404**	1,845	2,104	(882)	3,067
Charge for share based payments	-	-	(307)	**(307)**	-	-	(434)	(434)
Amortisation of acquisition-related intangibles	-	-	(100)	**(100)**	-	-	(94)	(94)
Exceptional costs	-	-	(25)	**(25)**	-	-	(343)	(343)
Net borrowing costs	-	-	(175)	**(175)**	-	-	(162)	(162)
Profit/(loss) before taxation	**2,575**	**1,918**	**(1,696)**	**2,797**	1,845	2,104	(1,915)	2,034
Tax charge	-	-	(532)	**(532)**	-	-	(398)	(398)
Profit/(loss) for the period	**2,575**	**1,918**	**(2,228)**	**2,265**	1,845	2,104	(2,313)	1,636

The segmental Income Statement disclosures are measured in accordance with the Group's accounting policies as set out in note 1.

Inter segment revenue earned by Manufacturing from sales to Brands is determined on normal commercial trading terms as if Brands were any other third party customer.

All defined benefit pension costs and LTIP expenses are recognised for internal reporting to the CODM as part of Group-wide activities and are included within 'Eliminations and central costs' above. Other costs, such as Group insurance and auditors' remuneration which are incurred on a Group-wide basis are recharged by the head office to segments on a reasonable and consistent basis for all periods presented and are included within segment results above.

b) Other Income Statement segmental information

The following additional items are included in the measures of profit and loss reported to the CODM and are included within (a) above:

28 weeks ended 6 January 2018	**Brands**	**Manufacturing**	**Eliminations and Central Costs**	**Total**
	£'000	£'000	£'000	£'000
Depreciation	6	645	-	651
Amortisation	-	22	-	22

c) Principal measures of assets and liabilities

The Groups assets and liabilities are managed centrally by the CODM and consequently there is no reconciliation between the Group's assets per the statement of financial position and the segment assets.

d) Additional entity-wide disclosures

The distribution of the Group's external revenue by destination is shown below:

Geographical segments	**28 weeks ended 6 Jan 2018 (unaudited) £'000**	28 weeks ended 7 Jan 2017 (unaudited) £'000	12 months ended 24 June 2017 (audited) £'000
UK	**27,845**	24,826	44,732
Other European Union countries	**9,156**	11,619	23,012
Rest of the World	**2,961**	3,263	6,570
	39,962	39,708	74,314

In the 28 weeks ended 6 January 2018, the Group had two customers that exceeded 10% of total revenues, being 12.7% and 10.4% respectively. In the 28 weeks ended 7 January 2017, the Group had two customers that exceeded 10% of total revenues, being 11.8% and 11.2% respectively.

Note 3 Exceptional items

There was an exceptional item for the period ended 6 January 2018 of £25k. This is in relation to the applicable proportion of the first consolidated period of trading for Sterling Shave Club Limited which amounted to a loss of £25k**.**

The prior year exceptional items charge represents the costs associated with The Brand Architekts acquisition which completed on 27 June 2016.

Note 4 Finance costs

	28 weeks ended 6 Jan 2018 (unaudited) £'000	28 weeks ended 7 Jan 2017 (unaudited) £'000	12 months ended 24 June 2017 (audited) £'000
Finance costs			
Bank loans and overdrafts	**97**	89	165
Notional pension scheme costs	**78**	74	149
	175	163	314

Note 5 Earnings per share

	28 weeks ended 6 Jan 2018 (unaudited)	28 weeks ended 7 Jan 2017 (unaudited)	12 months ended 24 June 2017 (audited)
Basic and diluted			
Profit for the period (£'000)	**2,205**	1,636	2,554
Basic weighted average number of ordinary shares in issue during the period	**16,865,401**	16,865,401	16,834,773
Diluted number of shares	**17,413,330**	17,182,330	17,382,702
Basic earnings per share	**13.1p**	9.7p	15.2p
Diluted earnings per share	**12.7p**	9.5p	14.7p

Basic earnings per share has been calculated by dividing the profit for each financial period by the weighted average number of ordinary shares in issue in the period. There is a difference at 7 January 2017 between the basic net earnings per share and the diluted net earnings per share due to the LTIP share options awarded in July 2016, to give a total of 316,929 share options. The difference at 6 January 2018 includes the LTIP share options awarded in June 2017, to give a total of 547,929 share options that could be issued.

Adjusted earnings per share

Profit for the period (£'000)	**2,205**	1,636	2,554
Add back: Exceptional items	**25**	343	343
Add back: Amortisation of Acquisition Related Intangibles	**100**	94	187
Notional tax charge on above items	**(24)**	(83)	(105)
Adjusted profit before exceptional items	**2,306**	1,990	2,979
Basic weighted average number of ordinary shares in issue during the period	**16,865,401**	16,865,401	16,834,773
Diluted number of shares	**17,413,330**	17,182,330	17,382,702
Adjusted basic earnings per share	**13.7p**	11.8p	17.7p
Adjusted diluted earnings per share	**13.2p**	11.6p	17.1p

Adjusted earnings per share has been calculated by dividing the adjusted profit (after allowing for the notional tax charge on exceptional items) by the weighted average number of shares in issue in the period. There is a difference at 7 January 2017 between the basic net earnings per share and the diluted net earnings per share due to the LTIP share options awarded in July 2016, to give a total of 316,929 share options. The difference at 6 January 2018 includes the LTIP share options awarded in June 2017, to give a total of 547,929 share options that could be issued.

Note 6 Dividends

The Directors have declared an interim dividend payment of 2.0p per share (2017: Interim: 1.7p; Final: 3.5p).

Note 7 Reconciliation of cash and cash equivalents to movement in net debt

	28 weeks ended 6 Jan 2018 (unaudited) £000's	28 weeks ended 7 Jan 2017 (unaudited) £000's	12 months ended 24 June 2017 (audited) £000's
(Decrease) / increase in cash and cash equivalents in the period	**(3,632)**	27	3,259
Net cash outflow / (inflow) from decrease / (increase) in borrowings	**300**	(1,154)	(2,569)
Change in net debt resulting from cash flows	**(3,332)**	(1,127)	690
Net debt at the beginning of the period	**(3,641)**	(4,331)	(4,331)
Net debt at the end of the period	**(6,973)**	(5,458)	(3,641)

Note 8 IAS 19 'Employee Benefits'

Expected future cash flows to and from the Scheme:

The Scheme is subject to the scheme funding requirements outlined in UK legislation. The last scheme funding valuation of the Scheme was as at 5 April 2017 and revealed a funding deficit of £2.6m. The liabilities of the Scheme are based on the current value of expected benefit payment cash flows to members of the Scheme over the next 60 to 80 years. The average duration of the liabilities is approximately 20 years.

In accordance with the schedule of contributions dated 3 July 2015 the Company is expected to pay contributions to the Scheme to make good any shortfalls in funding and has agreed to pay £108k per annum for the current year. Contributions will subsequently increase from FY19 to a sufficient level to eliminate the deficit over the established 10 year recovery period. The magnitude of such payments will be reviewed following the next scheme funding valuation as at April 2020.

In addition, the Company has agreed to meet the cost of administrative expenses and Pension Protection Fund insurance premiums for the Scheme.

Payments made by the Company to the Scheme and in respect of Scheme liabilities were:

	28 weeks ended 6 January 2018 £000's	28 weeks ended 7 January 2017 £000's	12 months ended 24 June 2017 £000's
Company pension contributions	-	-	-
Deficit recovery payments	54	54	108
Scheme administrative expenses	51	71	144
Pension Protection Fund premium	222	240	240
Total	**327**	**365**	492

The amounts expensed in the Group Statement of Comprehensive Income were:

	28 weeks ended 6 January 2018 £000's	28 weeks ended 7 January 2017 £000's	12 months ended 24 June 2017 £000's
In Operating profit:			
Company pension contributions	-	-	-
Scheme administrative expenses	88	71	154
Pension Protection Fund premium	119	120	240
	207	191	394
In Finance costs:			
Unwinding of notional discount factor	78	74	149
Total	**285**	**265**	**543**

IAS 19 requires a separate valuation of the Scheme on a different basis to the funding valuation referred to above.

The effects of the application of IAS19 on the statement of financial position at 6 January 2018 are:

	6 January 2018 £000's
Reduction in net pension and other benefit obligations	467
Increase in deferred tax	(79)
Increase in equity	**388**

The Accounting Standards require the discount rate to be based on yields on high quality (usually AA-rated) corporate bonds of appropriate currency, taking into account the term of the relevant pension scheme's liabilities. Corporate bond indices are often used as a proxy to determine the discount rate. At the reporting date, the yields on bonds of all types were lower than they were at June 2017. This has resulted in lower discount rates being adopted for accounting purposes compared to last year, this was coupled by an increase in expectations of long term inflation, the combination of these two factors has translated into a marginally increased liability. The growth in the Fair Value of scheme assets has offset this to result in a reduction in net liability.

The key assumptions used were:

	As at 6 January 2018	As at 7 January 2017	As at 24 June 2017
Discount Rate	2.60%	2.80%	2.55%
Rate of inflation (RPI)	3.10%	3.45%	3.00%
Rate of inflation (CPI)	2.10%	2.45%	2.00%

The amounts recognised in the Group statement of financial position were:

	As at 6 January 2018	As at 7 January 2017	As at 24 June 2017
	£000's	£000's	£000's
Present value of funded obligations	(29,471)	(30,891)	(29,438)
Fair value of scheme assets	23,806	22,146	23,306
(Deficit)	**(5,665)**	**(8,745)**	**(6,132)**

Note 9 Announcement of results

The Interim Report will be sent to shareholders and is available to members of the public at the Company's Registered Office at Swallowfield House, Station Road, Wellington, Somerset, TA21 8NL and on the Company's website.

Regulatory disclosures

In accordance with Schedule 2(g) of the AIM Rules, Timothy James Perman (aged 55) holds or has held in the past 5 years the following directorships and partnerships:

Current	Past
PZ Cussons Beauty LLP	Beauty Source Spray Booths Ltd
St Tropez Acquisition Co Limited	St Tropez Associates Ltd
St Tropez Holdings Limited	
Thermocool Engineering Company Limited	
Beauty Source Limited	

Save for the disclosures above, there are no further disclosures to be made in accordance with Rule 17 and Schedule 2(g) of the AIM Rules.

Independent review report to Swallowfield plc

Introduction
We have been engaged by the company to review the financial information in the half-yearly financial report for the twenty-eight weeks ended 6 January 2018 which comprises the Group statement of comprehensive income, the Group statement of changes in equity, the Group statement of financial position, the Group cash flow statement and the related explanatory notes. We have read the other information contained in the half yearly financial report which comprises the Chief Executive’s Statement and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Group in accordance with guidance contained in ISRE (UK and Ireland) 2410, 'Review of Interim Financial Information performed by the Independent Auditor of the Entity'. Our review work has been undertaken so that we might state to the Group those matters we are required to state to it in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group for our review work, for this report, or for the conclusion we have formed.

Directors' responsibilities
The half-yearly financial report is the responsibility of, and has been approved by, the directors. The AIM rules of the London Stock Exchange require that the accounting policies and presentation applied to the financial information in the half-yearly financial report are consistent with those which will be adopted in the annual accounts having regard to the accounting standards applicable for such accounts.

As disclosed in Note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The financial information in the half-yearly financial report has been prepared in accordance with the basis of preparation in Note 1.

Our responsibility
Our responsibility is to express to the Group a conclusion on the financial information in the half-yearly financial report based on our review.

Scope of review
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the financial information in the half-yearly financial report for the twenty-eight weeks ended 6 January 2018 is not prepared, in all material respects, in accordance with the basis of accounting described in Note 1.

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Bristol
27 February 2018