Swallowfield plc
("Swallowfield" or the "Group")
Final results for the year-ended June 2018

Swallowfield plc, a market leader in the development, formulation, and supply of personal care and beauty products, including its own portfolio of brands, is pleased to announce its final results for the 53 weeks ended 30 June 2018.

Financial highlights

- Adjusted profit before taxation increased by 37% to £5.0m (2017: £3.6m).
- Underlying operating profit was broadly level year on year at £5.5m (2017: £5.6m).
- Adjusted EPS increased by 31% year on year to 23.2 pence (2017: 17.7 pence).
- Revenues for the 52 weeks were £71.6m (£73.9m on a statutory basis), a decline of 3.6% (2017: £74.3m). On a constant currency basis the decline would have been less (3.0%). The relative strength of sterling against the US dollar compared to prior year has reduced the reported top-line revenue.
- Brands represented 28% of revenues and 65% of underlying operational profits.
- Proposed final dividend of 4.2p per share (2017: 3.5p), in addition to the interim dividend of 2.0p already paid, to give a full year dividend of 6.2p (2017: 5.2p), an increase of 19%.
- Net Debt increased to £11.8m (2017: £3.6m), inclusive of £5.0m of acquisition related payments and LTIP award payments.

Operational highlights

- Owned Brand business performing strongly, with sales up 15%, driven by continued new product innovation, and increased distribution of 'Drive' brands, both in UK and International markets.
- Significant improvements in margin delivered by Owned Brands, achieved by New Product Development and by leveraging operational, technical and supply chain resources in the Swallowfield Group.
- The Manufacturing business was adversely impacted by material cost inflation and delays to 3 major new contract wins with global brand owners; mitigating actions underway.
- Fish brand acquired in February fully integrated with incremental new product lines developed for launch in Autumn 2018.
- Further investment in Manufacturing including automation for line efficiencies and an upgraded R&D facility.
- Continued development of digital marketing with increased focus on brand communication.

Brendan Hynes, Non-Executive Chairman commented:

"Swallowfield has delivered another year of continued progress against our strategic objectives with underlying profitability and EPS performing strongly. We continue to strengthen the fundamental capabilities of our business to deliver the innovation, quality and service demanded by our customers. This combined with the strong progress made on our Owned Brands, gives us confidence that our strategy is delivering a more diversified and sustainable business and we remain well positioned for the future."

Tim Perman, Chief Executive commented:

"Since taking over the role of CEO in July, I have been impressed by the demonstrated success of the Group's stated strategy leading to a securing of underlying profitability. Looking ahead, I see a continuing emphasis on developing the Owned Brands portfolio, supported by a more profitable performance from the Manufacturing business."

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Chairman's statement

I am pleased to report another year of continued progress for Swallowfield. Our growth strategy of developing and driving our Owned Brands portfolio has delivered increased profitability, earnings per share and shareholder value for the Group. The fact that this has been achieved against a more challenging backdrop for our Manufacturing business reflects the success of our strategy to build a more diversified and sustainable business.

Results

	2018	2017
Reported Results		
Revenue	£73.9m	£74.3m
Adjusted revenue (constant currency) [1]	£74.4m	£70.9m
Adjusted profit before taxation [2]	£5.0m	£3.6m
Reported operating profit	£4.7m	£3.3m
Profit before taxation	£4.5m	£3.1m
Adjusted earnings per share [2]	23.2p	17.7p
Basic earnings per share	20.9p	15.2p
Total Dividend per share	6.2p	5.2p
Net debt	£11.8m	£3.6m

[1] Revenue translated at 2017 exchange rates
[2] Adjusted PBT and adjusted earnings per share are calculated before exceptional items and amortisation of acquisition-related intangibles.

Over the last four years we have developed, both organically and through acquisition, a growing portfolio of brands that are owned and managed by the Group and which we control from formulation development through to distribution. The acquisition of Brand Architekts in June 2016 significantly accelerated this strategy and brought both additional critical mass and accretive margins to our Group portfolio. Owned Brands now represent 28% of Group revenues and 65% of Group underlying operating profits in the period.

Dividend

Further evidence of our confidence in the business can be seen in the Board's intention to propose a final dividend of 4.2 pence. Together with the interim dividend already paid of 2.0 pence, this represents a total dividend for the year of 6.2 pence, an improvement of 19% over the prior year (2017: 5.2p).

It remains the directors' intention to align future dividend payments to the underlying earnings and cash flow of the business, taking into account the gearing and the operational requirements of the business.

Board succession

After five successful years as Chief Executive Officer, Chris How decided to retire from his full-time executive career and stepped down from the Board at the end of the financial year. Chris played a significant role in helping the business grow and develop over his 5 year tenure and the Board and his colleagues are grateful for his contribution and wish him continued success in the future.

Advanced notice of Chris's intentions allowed the Board to engage in a thorough and structured search for his successor and, as a result, we were delighted to appoint Tim Perman as Chief Executive. Tim has extensive experience in senior leadership roles within the consumer products industry, having held various General Management and Marketing positions at PZ Cussons, Seven Seas, Campbells Grocery Products and Clairol. In his last role at PZ Cussons, Tim was Group Category & Brand Director and Global Beauty Director.

Tim joined Swallowfield in May 2018, becoming CEO on 1 July 2018, following a smooth and thorough handover.

Outlook

We expect the strong momentum in our Owned Brands business to continue, supported by an exciting stream of new products, innovation and continued support from our retail customers.

The Manufacturing business is expected to remain challenging due to prevailing market conditions and ongoing cost inflation. Significant actions are being taken to mitigate these challenges and we expect the profitability in this segment of our business to improve in the second half of the new financial year.

Following the success of the Brand Architekts acquisition and the seamless integration of the recent Fish acquisition, we remain alert to further acquisition opportunities should they offer the potential to build incremental shareholder value.

We continue to strengthen the fundamental capabilities of our business to deliver the innovation, quality and service demanded by our customers. This combined with the strong progress made on our Owned Brands, gives us confidence that our strategy to build a more diversified and sustainable business is delivering results and we remain well positioned for the future.

Chief Executive's review

It has been my great pleasure to take over the role of Chief Executive from Chris How and I want to thank him for his leadership and contribution to the development of the Swallowfield Group.

This has been another year of continued progress. It is pleasing to report that our Owned Brands portfolio is working very successfully, with new product launches delivering double digit increases in revenue and underlying operating profits. All major brands and major customers are showing year on year growth and the Fish acquisition has been integrated successfully into the portfolio during the second half of the fiscal year.

The Manufacturing business has faced a more challenging year, against a set of strong prior year comparators, and our teams have worked hard to generate new sales opportunities. Despite a satisfactory first half business performance, Manufacturing was adversely affected by material cost inflation and this, combined with delays in the production of 3 major new contracts resulted in lower revenues and underlying profits for the full year. Actions have been taken to mitigate the inflationary headwinds and the new contracts will contribute to the business results in the new financial year. It is pleasing to note that our Manufacturing business has also continued to successfully support the development of our Owned Brands portfolio.

Looking Ahead

Since officially taking over the role of CEO in July, I have had the opportunity for a full in-depth and thorough induction to the Swallowfield Group. I have been impressed by the strength and capability of the team and appreciated the support and continuity of the Board and my executive colleagues.

Over the past 4 years, Swallowfield has successfully transitioned from being a Contract Manufacturer to a company that now generates 65% of its profits from its own portfolio of brands, a strategy that has delivered superior financial returns and gives the Group greater control over its own destiny.

Looking ahead, I see a continuing emphasis on developing the brand portfolio, a greater focus on marketing support for our 'Drive' brands, expansion of our International footprint and extending distribution across both retail and on-line channels. Our appetite for further earnings accretive acquisitions remains strong.

This will be supported by delivering a more profitable performance from the Manufacturing business, with a continued focus on a portfolio of added-value product categories and cost base optimisation.

In line with the rest of the industry the Group continues to be challenged by low consumer confidence, global inflationary pressures and the uncertainty of Brexit. That said, I am impressed with the extensive range of opportunities presented by the Swallowfield business and remain positive and confident in the future prospects for the Group.

I look forward to updating shareholders on our plans and progress over the course of the new financial year.

Executing our strategy

'Building a better Swallowfield'

Our business strategy is to leverage our Group expertise, resources and assets across two complementary and connected value streams, Owned Brands and Manufacturing. Each value stream has strategic pillars which we believe are the critical focus areas to ensure we continue to grow these businesses in the medium and long term.

Owned Brands

The strategic pillars that we are focusing on within our Owned Brands business are:

- New Product Development (NPD)

A passion to develop new products to excite and attract both retailers and consumers drives the Owned Brands business model and we are pleased that the pace of this continues. 89 new lines were launched over the 12 month period across 11 of our brands.

We continue to evaluate and develop the brand portfolio to ensure that we are focusing the appropriate level of resource and support to drive maximum performance and growth. Within the portfolio we have defined a number of 'Drive' brands where we are specifically focused on extending distribution, new product development, International growth and increasing support through both instore and digital promotion.

On 27th February 2018 we were pleased to announce the acquisition of the Fish brand, a range of male haircare and styling products. Fish is an authentic, contemporary brand with a 'born in Soho' positioning reflecting a close connection with London style trends. This heritage underpins a range of high-performance men's hair styling products and has a strong complementary fit to the rest of our Owned Brand portfolio.

- Leverage Swallowfield resources

Strong progress has continued in leveraging the existing resources and capabilities within the Manufacturing part of the Group to further support the Owned Brand business. This is focused on both driving new product development opportunities alongside utilising our operational and supply chain knowledge and skills. Our supply chain team continue to drive cost savings opportunities, ensuring that we maximise all synergies and work has started on further consolidation within the logistics area.

We now have 8 of our brand websites with full e-commerce functionality and sales via these are being fulfilled from our internal distribution centre. We have put in place dedicated customer service resources to support this rapidly increasing source of revenue for the Group.

- International expansion

Our focus continues on developing sales in new International markets and building relationships with appropriate distribution and retail partners for our brand portfolio. Bi-lingual pack formats have been developed for specific brands, allowing us to maximise opportunity whilst carefully managing inventory levels. The launch of the Dirty Works brand into France and Belgium has been followed by new distribution in the Middle East. Our range of therapeutic bath solutions, Dr Salts, has launched successfully in South Africa; the Real Shaving Company has launched in New Zealand.

Manufacturing

Our focus has continued on our strategic pillars within the Manufacturing business:

- Innovation

Further establishing our position as a first-choice partner for global brands within the beauty and personal care categories remains a priority. We have continued to drive innovation and product development within our areas of core strength, particularly personal care aerosols, hot pour products and premium liquids and during the financial year we have launched over 470 new products. We have won significant volumes within the aerosol category, with 2 brand owners where we have been first choice supplier due to our global reputation for formulation, quality and service. We have also been successful in developing and producing a new lip care line for a major global brand; a significant win in our role as category innovation partner. All 3 contracts went into full production as we entered the new financial year.

We are very pleased to have completed a major refurbishment of our Research and Development laboratory at our Wellington site and this investment has significantly improved the facilities for the team ensuring they have the appropriate environment for formulating, developing and testing the highest quality products to excite our customer base and drive future sales.

- Drive category focus

Growth in the year has been in the product categories where we have the greatest expertise, particularly aerosols, hot pour products and fragrance & gifting. We continue to ensure that we focus a high percentage of our time, energy and investment within these specialist areas. This strategy is supported by our customer base who confirm their desire to work and partner with suppliers who have highly recognisable product proficiency. Our reputation and strength in formulating aerosol foaming gels in ‘bag-on-valve’ formats have also led to a significant new win, which has enabled us to make further investment in capacity to meet increased demand. We have increased our capacity to produce ‘compressed air’ propelled aerosols, an innovative format with increasing demand.

- Cost base optimisation

Due to the challenges of a volatile external environment, this has been a more challenging year with cost price inflation impacting the business. We continue to focus on driving cost savings and utilising Group capabilities to optimise our cost base. The transfer of appropriate products from the Owned Brands portfolio for manufacture in-house continues and is progressing well. We have invested in both new robotics to drive line efficiency and improved packing automation for hot pour products at our Tabor site in the Czech Republic. At the UK sites we have made specific investments to improve capacity and flexibility to support new customer requirements.

Financial review

Group statutory revenue at £73.9m was slightly down on last year. The Owned Brands business performed strongly, growing by 18%, driven by the continued momentum of our own ‘Drive and Build’ brands. In the Group’s Manufacturing business, revenues declined against strong prior year comparators given the ‘normalisation’ of launch volumes dispatched in the first half of 2017 and delays in the launch of three new contract wins originally scheduled for the second half of 2018.

On a comparable 52-week basis, revenue declined by 3.6% to £71.6m (2017: £74.3m), and by 4.3% excluding the acquisition of Fish brand which completed on 27th February 2018. The strength of Sterling against the US dollar has reduced sales revenue by £0.7m, whilst weakness against the Euro has increased sales revenue by £0.3m, giving an overall reduction of £0.4m. Revenue decline on a constant currency basis would have been 3.0%, and 3.7% excluding the Fish acquisition.

The adverse currency impact on revenue has been offset by an equivalent favourable currency impact on cost of goods, reflecting the Group's broadly natural hedge profile.

The overall re-shaping of the business towards stronger growth and margins through our Owned Brands business has enabled us to maintain underlying operating profit at £5.5m (2017: £5.6m), at a time when we have experienced significant inflationary material price pressures.

Underlying operating profit is shown before charges for share-based payments, with a provision made of £0.3m (2017: £1.76m). Share options are put in place in order to incentivise the Group's wider management team (including the executive directors of Swallowfield) and to ensure that their interests are aligned with shareholders.

The net effect is that the Group made an adjusted operating profit of £5.2m (2017: £3.9m). Adjusted profit before tax increased to £5.0m (2017: £3.6m).

The exceptional item of £0.28m in the current period is due to writing down the investment in Sterling Shave Club and "one off" costs incurred in the succession planning for the replacement of both the Group Finance Director and Chief Executive Officer. In 2017 there was an exceptional charge of £0.34m relating to the acquisition of The Brand Architekts Ltd.

The overall effective rate of Group taxation for the period was 19.7% (2017: 17.4%) of pre-tax profits. The current year tax charge reflects standard UK and the Czech Republic rates of taxation.

This results in adjusted earnings per share of 23.2p (2017: 17.7p).

A reconciliation of underlying operating profit to statutory profit before taxation is shown below:

	2018 Total £'000	2017 Total £'000
Underlying profit from operations	**5,470**	5,617
Charge for share-based payments	**(297)**	(1,755)
Adjusted operating profit	**5,173**	3,862
Net borrowing costs	**(173)**	(217)
Adjusted profit before taxation	**5,000**	3,645
Amortisation of acquisition-related intangibles	**(197)**	(187)
Exceptional costs	**(279)**	(343)
Profit before taxation	**4,524**	3,115

The Group's strategic investment of a 19% shareholding in Shanghai Colour Cosmetics Technology Company Limited (SCCTC) was further re-valued upwards by £0.16m during the period, to fair value based on SCCTC's June 2018 net assets. The initial cost of this investment was £0.14m and this is now valued at £1.39m. This improved valuation reflects a strong trading performance, supplying customers in Europe and the USA. In addition, a dividend of £0.19m was received in the year (2017: £0.10m).

Net debt and cash flow

Net debt increased to £11.8m (2017: £3.6m). This includes an additional £3.0m five-year term loan facility taken out to support the acquisition of the Fish brand. The Group maintains a broadly natural hedge position on the Euro and US Dollar, and manages timing differences through a multi-currency invoice finance facility. At the reporting date, the Group was maintaining a hedged position by holding Euro and US Dollar cash balances, whilst drawing on its GBP facility. In year payments included a deferred consideration for Brand Architekts (£1.85m) and an LTIP award (£1.7m). Note 10 provides an analysis of net debt.

The movement in the components of working capital reflect the impact of the introduction of the three new major account wins in our Manufacturing business that will benefit 2019. Timing of debtor payments have also impacted the total working capital invested at year end. These are expected to unwind during Q1 of FY19.

Financing costs of £0.36m (2017: £0.31m) comprised interest expense of £0.21m (2017: £0.16m) plus a pension scheme notional finance charge of £0.15m (2017: charge £0.15m). Finance income is the receipt of £0.19m (2017: £0.10m) dividend income from our investment holding in SCCTC.

Capital expenditure was £1.6m which was ahead of depreciation. We have made a number of investments to improve line efficiencies and support incremental new customer contracts and have an active capital investment programme planned for the new year.

Defined benefit pension scheme

The defined benefit pension scheme underwent its last triennial valuation on 5 April 2017. The deficit on a statutory funding basis was £2.6m and the Group entered into a revised deficit recovery plan and schedule of contributions in July 2018. The deficit reduction payment will be £318k per annum (previously £108k per annum) for seven years and £210k for a further three years.

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 marginally higher than they were at 24 June 2017. This has resulted in higher discount rates being adopted for accounting purposes compared to last year. The combination of these two factors have materially decreased the fair value of the scheme liabilities, combined with the anticipated investment return performance, has translated into a decreased liability under the IAS19 methodology. For accounting purposes at 30 June 2018, the Group recognised under IAS19 'employee benefits', a deficit of £4.5m (2017: £6.1m).

Dividends

The Board is pleased to announce that it will be proposing a final dividend of 4.2 pence. Together with the interim dividend already paid of 2.0 pence this represents a total dividend for the year of 6.2 pence, an improvement of 19% over the prior year (2017: 5.2p). If approved, the final dividend will be paid on 7 December 2018 to shareholders on the register on 16 November 2018. The shares will be marked as ex-dividend on 15 November 2018.

Prior Period Adjustment

The Group have chosen to recognise, as part of the Research & Development intangible asset, the intangible asset that is created in the development of new products. Historically expenditure of this nature was recognised as an expense within the Statement of Comprehensive Income as incurred. As expenditure of this nature should have been capitalised historically a material prior period error was considered to be present. As a result, a prior period adjustment has been processed in accordance with IAS 8: 'Accounting policies, changes in accounting estimates and errors'.

A restatement of £0.3m has been made to increase the opening Intangible Fixed Asset balance. An equal and opposite adjustment has been posted to brought forward reserves. The comparatives disclosed throughout this report are the restated amounts.

The intangible fixed asset in 2016 should have been £395,000. The adjustment to the 2016 Statement of comprehensive income and opening reserves has been made using the 2017 calculated intangible fixed asset adjustment of £345,000 as the movement that would have been recognised in 2017 of £50,000 is not considered to be material. As a result, there is no restatement to the 2017 Statement of Comprehensive Income.

Group Statement of Comprehensive Income

For the 53 weeks ending 30 June 2018 and 52 weeks ending 24 June 2017

	Notes	2018 £'000	2017 £'000
Revenue	5	**73,945**	74,314
Cost of sales		**(60,253)**	(60,404)
Gross profit		**13,692**	13,910
Commercial and administrative costs		**(8,716)**	(10,235)
Operating profit before exceptional items		**4,976**	3,675
Exceptional items	6	**(279)**	(343)
Operating profit		**4,697**	3,332
Finance income		**191**	97
Finance costs		**(364)**	(314)
Profit before taxation	7	**4,524**	3,115
Taxation	8	**(891)**	(543)
Profit for the year		**3,633**	2,572
Other comprehensive income / (loss):			
Items that will not be reclassified subsequently to profit or loss:			
Re-measurement of defined benefit liability		**1,403**	(1,697)
Items that will be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**30**	148
Gain on available for sale financial assets		**156**	675
Other comprehensive income / (loss) for the year		**1,589**	(874)
Total comprehensive income for the year		**5,222**	1,698
Profit attributable to:			
Equity shareholders		**3,542**	2,554
Non-controlling interests		**91**	18
Total comprehensive income attributable to:			
Equity shareholders		**5,131**	1,680
Non-controlling interests		**91**	18
Earnings per share			
- basic	9	**20.9p**	15.2p
- diluted	9	**20.3p**	14.7p
Dividends			
Paid in year (£'000)		**933**	675
Paid in year (pence per share)		**5.5p**	4.0p
Proposed (£'000)		**720**	590
Proposed (pence per share)		**4.2p**	3.5p

Group Statement of Financial Position
For the 53 weeks ending 30 June 2018, and 52 weeks ending 24 June 2017 and 25 June 2016

	Notes	**2018**	2017	2016
		£'000	£'000	£'000
ASSETS			Restated	Restated
Non-current assets				
Property, plant and equipment		**11,438**	11,076	10,852
Intangible assets		**12,707**	9,490	1,512
Deferred tax assets		**803**	1,088	1,064
Investments		**1,391**	1,235	560
Total non-current assets		**26,339**	22,889	13,988
Current assets				
Inventories		**13,825**	11,430	9,043
Trade and other receivables		**19,283**	16,345	15,358
Cash and cash equivalents	10	**934**	4,057	798
Current tax receivable		**109**	88	104
Total current assets		**34,151**	31,920	25,303
Total assets		**60,490**	54,809	39,291
LIABILITIES				
Current liabilities				
Trade and other payables		**23,709**	23,524	20,540
Interest-bearing loans and borrowings		**1,127**	534	141
Current tax payable		**503**	243	122
Total current liabilities		**25,339**	24,301	20,803
Non-current liabilities				
Interest-bearing loans and borrowings		**3,230**	1,559	442
Post-retirement benefit obligations		**4,489**	6,132	4,495
Deferred tax liabilities		**410**	407	414
Total non-current liabilities		**8,129**	8,098	5,351
Total liabilities		**33,468**	32,399	26,154
Net assets		**27,022**	22,410	13,137
EQUITY				
Share capital		**857**	844	566
Share premium		**11,987**	11,744	3,830
Revaluation of investment reserve		**1,247**	1,091	416
Exchange reserve		**(112)**	(142)	(290)
Pension re-measurement reserve		**(2,491)**	(3,894)	(2,197)
Retained earnings		**15,455**	12,749	10,812
Equity attributable to holders of the parent		**26,943**	22,392	13,137
Non-controlling interest		**79**	18	-
Total equity		**27,022**	22,410	13,137

Group Statement of Changes in Equity
For the 53 weeks ending 30 June 2018 and 52 weeks ending 24 June 2017

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 as restated	**844**	**11,744**	**1,091**	**(142)**	**(3,894)**	**12,749**	**18**	**22,410**
Dividends	-	-	-	-	-	(933)	(30)	(963)
Issue of new shares	13	243	-	-	-	-	-	256
Non-controlling interest	-	-	-	-	-	-	91	91
Share based payments	-	-	-	-	-	97	-	97
Transactions with owners	13	243	-	-	-	(836)	61	(519)
Profit for the year	-	-	-	-	-	3,542	-	3,542
Other comprehensive income:								
Re-measurement of defined benefit liability	-	-	-	-	1,403	-	-	1,403
Exchange difference on translating foreign operations	-	-	-	30	-	-	-	30
Gain on available for sale financial assets	-	-	156	-	-	-	-	156
Total comprehensive income for the year	-	-	156	30	1,403	3,542	-	5,131
Balance as at June 2018	**857**	**11,987**	**1,247**	**(112)**	**(2,491)**	**15,455**	**79**	**27,022**

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 2016 as reported	**566**	**3,830**	**416**	**(290)**	**(2,197)**	**10,467**	**-**	**12,792**
Prior Year Adjustment	**-**	**-**	**-**	**-**	**-**	**345**	**-**	**345**
As Revised	**566**	**3,830**	**416**	**(290)**	**(2,197)**	**10,812**	**-**	**13,137**
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 as restated	**844**	**11,744**	**1,091**	**(142)**	**(3,894)**	**12,749**	**18**	**22,410**

Cash Flow Statement

For the 53 weeks ending 30 June 2018 and 52 weeks ending 24 June 2017

	Group		Company	
	2018	2017	**2018**	2017
	£'000	£'000	**£'000**	£'000
Cash flow from operating activities				
Profit before taxation	**4,524**	3,115	**699**	1,621
Depreciation	**1,283**	1,249	**1,058**	990
Amortisation	**583**	239	**418**	74
Finance income	**(191)**	(97)	**(822)**	(1,100)
Finance cost	**364**	314	**363**	313
(Increase)/Decrease in inventories	**(2,395)**	(2,387)	**(1,279)**	456
(Increase)/Decrease in trade and other receivables	**(2,648)**	(995)	**71**	2,555
Increase/(Decrease) in trade and other payables	**944**	2,074	**2,563**	(4,534)
(Decrease)/Increase in share-based payments provision	**(1,666)**	1,755	**(1,666)**	1,755
Contributions to defined benefit plans	**(108)**	(108)	**(108)**	(108)
Cash generated from operations	**690**	5,159	**1,297**	2,022
Finance expense paid	**(209)**	(165)	**(208)**	(164)
Taxation paid	**(762)**	(1,142)	**(247)**	(94)
Net cash flow from operating activities	**(281)**	3,852	**842**	1,764
Cash flow from investing activities				
Dividend income received	**191**	97	**822**	1,097
Purchase of property, plant and equipment	**(1,631)**	(1,367)	**(1,486)**	(1,207)
Purchase of intangible assets	**(3,850)**	(8)	**(3,850)**	(8)
Purchase of subsidiary	**(1,850)**	(9,401)	**(1,850)**	(9,401)
Net cash flow from investing activities	**(7,140)**	(10,679)	**(6,364)**	(9,519)
Cash flow from financing activities				
Proceeds on invoice discounting facility	**2,741**	1,059	**1,701**	982
Proceeds from new loan	**3,000**	2,000	**3,000**	2,000
Issue of new share capital	**256**	8,192	**256**	8,192
Repayment of loans	**(736)**	(490)	**(736)**	(490)
Finance income received	**-**	-	**-**	3
Dividends paid	**(963)**	(675)	**(933)**	(675)
Net cash flow from financing activities	**4,298**	10,086	**3,288**	10,012
Net (decrease)/increase in cash and cash equivalents	**(3,123)**	3,259	**(2,234)**	2,257
Cash and cash equivalents at beginning of year	**4,057**	798	**2,971**	714
Cash and cash equivalents at end of year	**934**	4,057	**737**	2,971

1. Statutory Accounts

The financial information does not constitute statutory accounts as defined in section 435 of the Companies Act 2006, but has been extracted from the statutory accounts for the year ended June 2018 on which an unqualified audit report has been issued and which will be delivered to the Registrar following their adoption at the Annual General Meeting.

The statutory accounts for the financial year ended June 2017 have been delivered to the Registrar of Companies with an unqualified audit report and did not contain a statement under section 498 of the Companies Act 2006.

Copies of the 2018 Annual Report and Accounts will be posted to shareholders with the notice of the Annual General Meeting. Further copies may be obtained by contacting the Company Secretary at Swallowfield plc, Swallowfield House, Station Road, Wellington, Somerset, TA21 8NL. An electronic copy will be available on the Group's web site (www.swallowfield.com).

2. Basis of preparation

The Group has prepared its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and also in accordance with IFRS issued by the International Accounting Standards Board. These financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain non-current assets and financial instruments.

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 signing of these accounts. On this basis, they consider it appropriate to adopt the going concern basis in the preparation of these accounts.

The consolidated financial statements are presented in sterling and all values are rounded to the nearest thousand (£'000) except where otherwise indicated.

3. Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings. The results and net assets of undertakings acquired or disposed of during a financial year are included in the Group Statement of Comprehensive Income and Group Statement of Financial Position from the effective date of acquisition or to the effective date of disposal. Subsidiary undertakings have been consolidated using the purchase method of accounting. In accordance with the exemptions given by section 408 of the Companies Act 2006, the Company has not presented its own Statement of Comprehensive Income.

4. Accounting Policies

The principal accounting policies which apply in preparing the financial statements for the year ended 30 June 2018 are consistent with those disclosed in the Group's audited accounts for the year ended 24 June 2017.

5. 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), the portfolio of Brands included in The Brand Architekts acquisition (in 2016) and the Fish brand acquired during this financial year.

- Manufacturing – the contracted 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), share-based payment 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 Directors, which is considered to be the Chief Operating Decision Maker (CODM) for the purposes of IFRS 8. Comparative full year numbers have been presented on the same basis.

a) Principal measures of profit and loss – Income Statement segmental information for 53 weeks ending 30 June 2018 and 52 weeks ending 24 June 2017:

53 weeks ended 30 June 2018	**Brands** £'000	**Manufacturing** £'000	**Eliminations and Central Costs** £'000	**Total** **£'000**	2017 Total £'000
UK revenue	17,116	34,168	-	**51,284**	44,732
International revenue	3,968	18,693	-	**22,661**	29,582
Revenue – External	21,084	52,861	-	**73,945**	74,314
Revenue – Internal	-	1,940	(1,940)	-	-
Total revenue	**21,084**	**54,801**	**(1,940)**	**73,945**	74,314
Underlying profit from operations	**4,806**	**2,615**	**(1,951)**	**5,470**	5,617
Charge for share-based payments	-	-	(297)	**(297)**	(1,755)
Amortisation of acquisition-related intangibles	-	-	(197)	**(197)**	(187)
Exceptional costs	-	-	(279)	**(279)**	(343)
Net borrowing costs	-	-	(173)	**(173)**	(217)
Profit before taxation	**4,806**	**2,615**	**(2,897)**	**4,524**	3,115
Tax charge			(891)	**(891)**	(543)
Profit for the period	**4,806**	**2,615**	**(3,788)**	**3,633**	2,572

52 weeks ended 24 June 2017	**Brands** £'000	**Manufacturing** £'000	**Eliminations and Central Costs** £'000	**Total** **£'000**	2016 Total £'000
UK revenue	13,630	31,102	-	**44,732**	31,868
International revenue	4,276	25,306	-	**29,582**	22,587
Revenue – External	17,906	56,408	-	**74,314**	54,455
Revenue – Internal	-	1,572	(1,572)	-	-
Total revenue	**17,906**	**57,980**	**(1,572)**	**74,314**	54.455
Underlying profit from operations	**2,910**	**4,822**	**(2,115)**	**5,617**	2,015
Charge for share-based payments	-	-	(1,755)	**(1,755)**	(222)
Amortisation of acquisition-related intangibles	-	-	(187)	**(187)**	-
Exceptional costs	-	-	(343)	**(343)**	645
Net borrowing costs	-	-	(217)	**(217)**	(164)
Profit before taxation	**2,910**	**4,822**	**(4,617)**	**3,115**	2,274
Tax charge			(543)	**(543)**	(273)
Profit for the period	**2,910**	**4,822**	**(5,160)**	**2,572**	2,001

The segmental Income Statement disclosures are measured in accordance with the Group's accounting policies as set out in note 4.

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

All defined benefit pension costs and share-based payment 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 underlying profit and loss reported to the CODM and are included within (a) above:

53 weeks ended 30 June 2018	**Brands**	**Manufacturing**	**Eliminations and Central Costs**	**Total**
	£'000	£'000	£'000	£'000
Depreciation	13	1,270	-	1,283
Amortisation	-	386	197	583

52 weeks ended 24 June 2017	**Brands**	**Manufacturing**	**Eliminations and Central Costs**	**Total**
	£'000	£'000	£'000	£'000
Depreciation	22	1,191	-	1,213
Amortisation – as previously reported	-	52	-	52
Amortisation - correction of omission	-	1	187	188
Amortisation	-	53	187	240

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	**53 weeks ended 30 June 2018**	52 weeks ended 29 June 2017
	£'000	£'000
UK	**51,284**	44,732
Other European Union countries	**16,891**	23,012
Rest of the World	**5,770**	6,570
	73,945	74,314

In the 53 weeks ended 30 June 2018, the Group had two customers that exceeded 10% of total revenues, being 13% and 12% respectively. In the 52 weeks ended 29 June 2017, the Group had two customers that exceeded 10% of total revenues, this being 13% and 12% respectively.

6. Exceptional Items

Under exceptional Items we have recognised the costs of writing off the investment in Sterling Shave Club and also the additional costs of having certain posts duplicated to ensure a smooth transition in key management roles. The prior year exceptional item are the costs associated with the acquisition of The Brand Architekts.

7. Profit before taxation

	2018 £'000	2017 £'000
(a) This is stated after charging/ (crediting)		
Depreciation of property, plant and equipment of purchased assets	**1,283**	1,249
Amortisation of intangible assets	**583**	240
Research and development	**972**	1,049
Foreign exchange (gains) / losses	**(9)**	104
Operating leases:		
Hire of plant and machinery	**80**	58
Rent of buildings	**679**	646
(b) Auditors' remuneration		
Audit services:		
Audit of the Company financial statements	**42**	42
Audit of subsidiary undertakings	**20**	23
Audit related assurance services:		
Interim review	**9**	9
Taxation compliance services:		
Corporation tax compliance	**21**	20
Other non-audit services:		
iXBRL tagging	**-**	2
Merger and acquisition advice	**-**	5
Acquisition advice	**19**	55
(c) Earnings before interest, taxation, depreciation and amortisation ('EBITDA')		
Operating profit before exceptional items	**4,976**	3,675
Depreciation of property, plant and equipment	**1,283**	1,249
Amortisation of intangible assets	**386**	52
Amortisation of acquisition-related intangibles	**197**	187
Loss on disposal of property, plant, and equipment	**-**	104
EBITDA before exceptional operating items	**6,842**	5,163
Exceptional operating items	**(279)**	(343)
EBITDA after exceptional operating items	**6,563**	4,820

8. Taxation

	2018 £'000	2017 £'000
(a) Analysis of tax charge in the year		
UK corporation tax:		
- on profit for the year	**901**	718
- adjustment in respect of previous years	**-**	(69)
-foreign tax	**(11)**	10
Total current tax charge	**890**	659
Deferred tax:		
-current year (credit)	**(60)**	(37)
-prior year charge / (credit)	**61**	(102)
-effect of tax rate change on opening balance	**-**	23
Total deferred tax	**1**	(116)
Tax charge	**891**	543

(b) Factors affecting total tax charge for the year

The tax assessed on the profit before taxation for the year is higher (2017: lower) than the standard rate of UK corporation tax of 19.00% (2017: 19.75%). The differences are reconciled below:

	2018	2017
	£'000	£'000
Profit before taxation	4,524	3,115
Tax at the applicable rate of 19.00% (2017: 19.75%)	860	615
Effect of:		
Adjustment in respect of previous years	(60)	(149)
Adjustment to deferred tax	-	6
Differences between UK and foreign tax rates	-	12
Permanent differences and other	91	79
R&D tax credit	-	(20)
Actual tax charge	891	543

9. Earnings per share

	2018	2017
Basic and Diluted		
Profit for the year (£'000)	3,542	2,554
Basic weighted average number of ordinary shares in issue during the year	16,934,762	16,834,773
Diluted number of shares	17,454,505	17,382,702
Basic earnings per share	20.9p	15.2p
Diluted earnings per share	20.3p	14.7p

Basic earnings per share has been calculated by dividing the profit for each financial year by the weighted average number of ordinary shares in issue at 30 June 2018 and 24 June 2017 respectively. There is a difference at June 2018 between the basic net earnings per share and the diluted net earnings per share of 0.6p due to the 535,000 share options awarded.

	2018	2017
Adjusted earnings per share		
Adjusted Profit for the year (£'000)	3,928	2,979
Basic weighted average number of ordinary shares in issue during the year	16,934,762	16,834,773
Diluted number of shares	17,454,505	17,382,702
Basic earnings per share	23.2p	17.7p
Diluted earnings per share	22.5p	17.1p

Adjusted profit for the current year of £3.93m is shown after adding back Exceptional Items of £0.28m and Amortisation of Acquisition Related Intangibles of £0.20m, and then deducting a notional tax charge of £0.09m. Adjusted earnings per share has been calculated by dividing the adjusted profit of £3.93m by the weighted average number of ordinary shares in issue at 30 June 2018. The 2017 comparative figures have also been adjusted to a comparable basis.

10. Note to Cash Flow Statement

(a) Reconciliation of cash and cash equivalents to movement in net debt:

	2018	2017
	£'000	£'000
(Decrease) / Increase in cash and cash equivalents	(3,123)	3,259
Net cash (inflow) from (increase) in borrowings	(5,005)	(2,569)
Change in net debt	(8,128)	690
Opening net debt	(3,641)	(4,331)
Closing net debt	(11,769)	(3,641)

(b) Analysis of net debt:

	Closing 2017 £'000	Cash Flow £'000	Non-Cash Movement £'000	**Closing 2018 £'000**
Cash at bank and in hand	4,057	(3,105)	(18)	**934**
CID facility	(5,605)	(2,741)	-	**(8,346)**
Borrowings due within one year	(534)	(593)	-	**(1,127)**
Borrowings due after one year	(1,559)	(1,671)	-	**(3,230)**
	(3,641)	(8,110)	(18)	**(11,769)**

11. Annual General Meeting

The Annual General Meeting will be held on Thursday 15 November 2018 at the Company's Registered Office, at 12.00 noon.

12. Interim Report

This report will also be available from the Company's registered office and on the Company's website www.swallowfield.com.