RNS Number : 9589Y
Mountfield Group plc
15 September 2020

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Mountfield Group Plc ("Group")

and its subsidiary Connaught Access Flooring Limited ("CAF") and Mountfield Building Group Limited ("MBG")

Final Results for the Year Ended 31 December 2019

The Directors of Mountfield Group Plc announce its Final Results for the year ended 31 December 2019 ("Final Results").

The Group also announces that its Annual General Meeting will be held at 11 a.m. on 7 October 2020 at the offices of DAC Beachcroft LLP at 25 Walbrook, London EC4N 8AF.

In accordance with Government legislation and related restrictions in response to COVID-19, and to minimise public health risks, the 2020 Annual General Meeting is to be held as a closed meeting and members and their proxies will not be able to attend the meeting in person.

Updates in relation to the 2020 Annual General Meeting will be provided on Group's website and, where appropriate, announced via a Regulatory Information Service.

The Annual Report and Accounts for the year ended 31 December 2019, together with the Notice of Annual General Meeting will shortly be posted to shareholders and uploaded to the Group's website on: www.mountfieldgroupplc.com .

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014.

For further information, please contact:

Mountfield Group plc **01268 561 516**
Peter Jay, Chairman
Andy Collins, Chief Executive Officer

Cairn Financial Advisers LLP **020 7213 0880**
Jo Turner / Sandy Jamieson

CHAIRMAN'S REPORT

The Board of Mountfield Group Plc ("the Group") presents its report on the accounts for the year ended 31 December 2019.

Key Features

- **Profit before tax decreases to £840,740** (2018: £1,109,332).
- **Turnover** : £21.0m (2018: £16.2m)
- **Operating profit** : £850,851 (2018: £1,129,173)
- **Earnings per share** : 0.262p (2018: 0.268p)
- **Net cash position** : £802,885 (2018: £677,747)
- **Gross Margin** : 10.4% (2018: 15.5%)
- **Operating Margin** : 4.1% (2018: 7.0%)

Financial Performance

This was a disappointing year for the Group because despite producing its highest annual turnover since its listing in 2008, it also recorded lower profits than in the previous year.

The fall in profits arose in part from a reduction in margin on some of the larger contracts (something that the Board had anticipated) but was primarily caused by the substantial loss that was incurred on a contract that was completed in 2020. An amount of £291,568 is included in the accounts for the year to 31 December 2019 in accordance with the provisions of IAS37 Provisions, Contingent Assets and Contingent Liabilities. Without this onerous contract the profits would have been similar to those achieved in the previous year.

Overheads continue to be tightly controlled and the additional turnover was achieved without these being increased. However, the Board does not feel that last year's level of turnover could be achieved again without the resources of the Group being substantially increased, particularly in terms of management resources.

The year resulted in a further improvement of the working capital position of the Group which places it in a satisfactory position for the current year.

The Group's current secured order book is £9.3m, most of which will be completed in 2020. This figure is materially lower than it was at the time that the 2018 Accounts were released (£16.4m). The Board does not expect that a substantial amount of new turnover will be won and delivered by this year end and that the result will be a significant drop in the Group's performance for 2020 as compared to that in 2019.

Based on the projections produced by the Board, Mountfield Group plc has had to write down its investment in MBG as it was impaired. However, this has had no impact on the accounts for the Group.

About the Group

The Mountfield group was formed in October 2008 following Group's acquisition of the shares of MBG and CAF. This was followed by the admission of Group's shares onto AIM in the same month.

The two subsidiaries both supply specialist construction services:

Connaught Access Flooring Limited ("CAF") is a top tier commercial flooring supplier and installer with considerable expertise and experience in the installation of the raised access flooring systems that are employed in data centres and also in the dealing floors of banks and other financial institutions. It also contracts to supply and install other commercial flooring systems.

In recent years CAF has successfully supplied and installed flooring for major banking and finance clients on some of the largest single-building developments undertaken in Central London. In addition, it has won contracts to supply and install flooring systems in data centres in the UK and Mainland Europe.

Mountfield Building Group Limited ("MBG") is a recognised supplier of construction services to the telecoms and data centre sectors. A substantial proportion of its turnover is derived from providing construction services to data centre developers and operators. One of its largest clients, a world leading telecom company, regularly retains it to undertake construction work on its substantial property estate.

The Companies

Connaught Access Flooring

CAF's turnover in the year to 31 December 2019 was £7.9m (2018 - £8.2m) and its underlying profit before tax (after excluding inter company management charges) was £694,378 (2018 - £613,512). Whilst there was a small reduction in turnover based on the contracts undertaken in the year the net profit improved primarily due to a better than anticipated margin on a contract completed during the year. CAF's performance during the year took the form of a series of major contracts but also a significant number of contracts with a value of less than £100k. The latter again highlighted the importance of CAF's strategy of concentrating on building up its order book with contract of a lower value of £100k to provide a continuing revenue stream during the periods when it is not fully engaged on larger contracts.

Mountfield Building Group

MBG's turnover in the year to 31 December 2019 was £13.2m (2018 - £8.0m) and its underlying profit before tax was £417,318 (2018 - £283,015 after excluding the waiver of a debt from its subsidiary). A year that should have shown a substantial increase in net profits produced only a modest increase because of a loss on a single contract. Although the circumstances that came together to cause this loss are unlikely to re-occur the Company will in future concentrate on undertaking contracts that contain less onerous terms and conditions even though this is likely to lead to reduced levels of turnover.

Outlook for the Group

The Board believes that as regards future prospects, the changes resulting from the COVID-19 epidemic are of a fundamental nature and that these changes are likely to have a long term and materially negative impact on the markets in which the Group Companies operate.

The sharp recession that resulted from the steps taken to limit the spread of the virus has impacted the construction business generally, having had a significant, negative effect on the demand for construction services and in activity levels in the industry generally. The Group has also suffered because both Group Companies offer specialist services to small segments of their respective markets.

Whilst the current drop in the UK's GDP is expected to be reversible in the medium to long term the changes in working practices caused by the virus are likely to result in major changes in the overall demand for construction services and particularly for those services provided by the Group Companies. The increasing extent to which companies will rely upon home-based workers has and will continue to reduce demand for city centre located office space and in turn, for the flooring of large new or refurbished office premises within the City or in neighbouring areas.

In the light of the above, the Group Companies will take a cautious approach to securing their current and mid-term turnover targets and will concentrate on servicing the requirements of core clients on contracts which are neither onerous nor carry a significant risk element. The Board acknowledges that this policy will impact of turnover and net profit but believe that it is necessary and appropriate in order to protect the Group and the interests of shareholders in a period of unprecedented levels of uncertainty and risk.

The Board is continuing to monitor the changing market conditions and seek new contracts in the areas of construction that are relevant to the Group Companies.

Peter Jay

Non-Executive Chairman

CEO'S REPORT

The **Group Board** currently comprises:

Peter Jay - Non-Executive Chairman - in addition to being Group Chairman Peter also manages the Group's relationships with its nomad, brokers and professional advisers. Peter was formerly a corporate lawyer and a partner in DAC Beachcroft LLP.

Andrew Collins - Group Chief Executive - Andy is responsible for managing the business of the Group and also that of its subsidiary, CAF, a specialist supplier and installer of flooring for commercial properties whose business and reputation he has developed significantly since appointment in 2004. Before joining the Group, Andy was a Divisional Financial Director at ISG Plc.

Graham Read - Managing Director of MBG - Graham founded the business of MBG in 1986 and has had over 40 years' experience in the construction industry.

The Board is supported by **Andy May**, a partner in the firm of Barnes Roffe LLP. Andy attends meetings of the Group's Board in an advisory-only capacity and also assists the Board in overseeing the Group's accounting and finance functions in an advisory-only capacity.

The Board is also supported by **Chris Adlam**, a director of JDC Corporate Finance. Chris attends meetings of the Group's Board in an advisory-only capacity to provide advice on business finance and aspects of corporate finance.

Group Companies

The Group is comprised of two principal trading companies, Connaught Access Flooring Limited and Mountfield Building Group Limited.

CAF is one of the leading suppliers and installers of raised access flooring systems to main contractors and corporate end users for office and data centre installations.

It has established itself as one of the few recognised specialists for the flooring elements of fitting out contracts in new and refurbished commercial office space and for the Data Centre market. These projects are undertaken both direct with the end user and for leading Construction companies.

MBG comprises the construction division of the Group and in addition to its extensive experience of upgrading and refurbishing data centres it also undertakes specialist fit-out works for end user clients.

MBG continues to undertake building fabric repair and maintenance works on a nationwide basis for a large proportion of the property portfolio of a leading telecoms operator.

COVID-19 update and the construction market

CAF was relatively unaffected by the COVID-19 lockdown with the majority of its sites remaining open throughout and whilst MBG was affected by the closure of sites these are now all back up and running. Both companies have had to adapt to new working practices to deal with the risk of COVID-19.

The Group continues to experience good levels of activity in terms of enquiries and tenders however there are uncertainties in the construction market caused by the COVID-19 pandemic which is causing uncertainty regarding if and when secured projects or those that are being tendered for will commence.

There are also concerns about the longer-term effect on the economy and in particular the commercial office sector in which CAF operates.

Finance

The Group is financed from the cash it generates from its operations, with the support of a bank overdraft facility of £250,000 at a group level and £700,000 at an individual company level; the group also had a term loan however this was repaid during the year. Post year end the group also entered a supplier financing facility of up to £500,000.

Group's strategy

The Board strategy has been for the Group to become a highly profitable, mid-sized operation that provides specialist construction and flooring services in a number of diverse but related areas but with a particular focus on the fit-out sector. The Group's reputation has been built on its ability to undertake and to manage specialist construction services to a high level of quality and to deliver the completed project to the client on time.

This core strategy will remain in place but due to the diminished demand for construction services and the uncertainty affecting future activity levels the Board has decided that the Group will, for the foreseeable future, take a more cautious approach to the quality of new clients that it takes on and will instead give priority to servicing the requirements of its existing client base. For the foreseeable future the Group will not look to expand into new markets or areas of construction

Section 172(1) statement

The Board has a legal responsibility under section 172 of the Companies Act 2006 to act in the way we consider, in good faith, would be most likely to promote the company's success for the benefit of its members as a whole and to have regard to:

- the likely consequences of any decision in the long term,
- the interests of the company's employees,
- the need to foster the company's business relationships with suppliers, customers and others,
- the impact of the company's operations on the community and the environment,
- the desirability of the company maintaining a reputation for high standards of business conduct, and
- the need to act fairly as between members of the company.

Information on how the directors have regard to the requirements of section 172(1) can be found throughout the Strategic Report and as more specifically detailed below.

As disclosed in the Directors' report the Group complies the QCA Corporate Governance Code and based on its principals they develop and adapt the Group's strategy with the aim of promoting long-term value to shareholders.

As stated above this statement, post year end the strategy of the Group has been adapted to reflect uncertainties in the construction sector and wider economy primarily due to the COVID-19 pandemic. The strategy will be reviewed regularly by the board to ensure that it is appropriate to the Group and in the best interests of the key stakeholders.

The Board keeps the Company's shareholders updated about contract wins and developments relating to the Company through RNS announcements. It also issues trading statements to keep shareholders updated on the Company's performance and prospects

In addition to its shareholders the key stakeholders include employees, customers, suppliers and local communities in which our businesses reside.

Being only a medium sized business in a sector that is dominated by large organisations the Group can only thrive by keeping particularly close links with its relatively small number of employees, clients and suppliers. Regular communication with these additional stakeholders, both formal and informal, provides the divisional directors with the input they require on a daily basis and allows them to respond to the feedback in similar manner. Engagement with the Group's customers, suppliers and employees is further considered below in the principal risks section of the report.

Principal risks

The principal risks and uncertainties facing the Group relate to:

COVID-19

COVID-19 brings with it many risks to the Group's business in terms of working practices and impact on the economy.

The Group has worked with its employees, suppliers and customers to introduce COVID-19 safe working practices on site and its offices.

Economic downturn and other macroeconomic factors

The Group's success is substantially dependent on the general level of economic activity and economic conditions in the United Kingdom.

Many of the Group's contracts, including renewals or extensions of previous contracts, are awarded through competitive bidding processes. Any downturn in the economy, or any other macroeconomic factor, either in the UK or globally, may reduce the number of contracts coming up for bidding.

The competitive bidding processes present a number of additional risks, including the incurrence of substantial cost and managerial time to prepare bids and proposals for contracts that the Group may not ultimately win. The Group may face additional competition in the bidding process either from existing competitors or new market entrants.

The Group is seeking to mitigate the risk by controlling costs carefully and working in its core areas with its core customers.

Reliance on key customers and clients

The business of the Group is dependent upon the continuing contracts that it has, and relationships that it has developed, with certain customers.

Whilst signed contracts are in place with key customers, the successful completion and timing of contracted projects are not guaranteed and are susceptible to external factors outside of the control of the Group. Similarly, contracted projects may in some circumstances be susceptible to delays or variation by customers or be affected by unforeseen changes in circumstances relating to the market, technology, legislation, economic or other business factors. This may affect the cash flow and subsequent performance of the Group.

The Group works with a well-established client base and the performance of individual projects is monitored on at least a monthly basis by board members to identify any issues with specific projects.

Reliance on subcontractors

The Group utilises subcontractors on a project-by-project basis to meet contractual obligations. Such projects will rely on the subcontractors performing their duties and obligations, not only in terms of timely delivery but also in terms of their performance obligations. Any such non-performance may result in time and cost over-runs on the Group's projects and reduce the value of its returns.

Subcontractors are vetted by senior management and are normally engaged to work on closely defined and managed aspects of individual contracts. Most subcontractors have a long-standing trading history with the Group.

Attraction and retention of key employees

The Group's future success is substantially dependent on the continued services and performance of its Directors, senior management and other key personnel and its ability to continue to attract and retain highly skilled and qualified personnel. The Group Companies have, therefore, suffered because the reduced activity levels and uncertainty in the economy is likely to lead to a reduction in the size of the Group's management resources once the Government's support scheme comes to an end.

The senior executive directors of the business all have significant shareholdings in the parent company and are all permanent employees.

Health and safety

The Group undertakes Construction activities, often working within difficult conditions and with heavy machinery which if improperly used could result in personal injury or in extreme cases, fatalities.

The Group takes the health and safety of its employees and clients very seriously and employs Health and Safety advisers on all significant contracts. It also has a firm of Health and Safety Advisers with whom it consults on a regular basis.

Key performance indicators

The Directors use a number of performance indicators which are used to manage the business but, as with most businesses the focus in the Statement of Comprehensive Income at the top level is on sales, margins, and profit before tax. In the Statement of Financial Position the focus is on managing working capital. The key performance indicators are disclosed in the Strategic Report.

Financial instruments

Details of the Group's financial risk management objectives and policies are included in note 21 to the financial statements.

Andrew Collins

Chief Executive Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019	2018
	£	£
Revenue	**20,989,052**	16,220,768
Cost of sales	**(18,802,737)**	(13,713,296)
Gross profit	**2,186,315**	2,507,472
Administrative expenses	**(1,335,464)**	(1,378,299)
Operating profit	**850,851**	1,129,173
Net finance costs	**(10,111)**	(19,841)
Profit before income tax	**840,740**	1,109,332
Income tax expense	**(174,727)**	(426,758)
Profit for the year and total comprehensive income	**666,013**	682,574

Earnings per share

Basic earnings per share	**0.262p**	0.268p
Diluted earnings per share	**0.262p**	0.268p

There are no recognised gains and losses other than those passing through the Statement of Comprehensive Income.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	2019	2018
	£	£
ASSETS		

Non-current assets		
Intangible assets	**6,874,308**	6,874,308
Property, plant and equipment	**101,601**	102,655
Right-of-use assets	**18,083**	-
Deferred income tax assets	**-**	-
	6,993,992	6,976,963
Current assets		
Inventories	**147,033**	115,302
Trade and other receivables	**3,543,322**	2,411,068
Cash and cash equivalents	**802,885**	677,747
	4,493,240	3,204,117
TOTAL ASSETS	**11,487,232**	10,181,080
EQUITY AND LIABILITIES		
Issued share capital	**2,524,426**	2,524,426
Share premium	**1,490,682**	1,490,682
Capital redemption reserve	**7,500**	7,500
Merger reserve	**4,051,967**	4,051,967
Reverse acquisition reserve	**(2,856,756)**	(2,856,756)
Retained earnings	**1,483,645**	817,632
TOTAL EQUITY	**6,701,464**	6,035,451
Current liabilities		
Trade and other payables	**4,199,058**	3,305,728
Short-term borrowings	**297,199**	549,113
Lease liabilities	**18,083**	-
Corporation tax liability	**181,428**	229,782
	4,695,768	4,084,623
Non-current liabilities		
Loan notes	**90,000**	61,006
Bank loan	**-**	-
	4,785,768	4,145,629
TOTAL EQUITY AND LIABILITIES	**11,487,232**	10,181,080

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019	2018
	£	£
Cash flows from operating activities		
Operating profit	**850,851**	1,129,173
Adjusted for:		
Depreciation	**44,611**	12,556
Profit on Disposal	**-**	(4,400)
(Increase) in inventories	**(31,731)**	(27,001)

(Increase)/Decrease trade and other receivables	**(1,132,254)**	1,240,449
Increase/(Decrease) in trade and other payables	**777,976**	(1,374,996)
Cash generated in operations	**509,453**	975,781
Finance costs	**(10,111)**	(19,841)
Taxation paid	**(223,088)**	(121,696)
Net cash inflow from operating activities	**276,254**	834,244
Cash flows from investing activities		
Purchases of property, plant and equipment	**(12,557)**	(34,777)
Proceeds from sale of property, plant and equipment	**-**	4,400
Net cash (used in)/generated from investing activities	**(12,557)**	(30,377)
Cash flows from financing activities		
Lease payments	**(31,000)**	-
Repayment of non-convertible loan notes	**(36,001)**	(138,994)
Movement on supplier invoicing facility	**-**	(387,795)
Repayment of short-term loans	**(71,558)**	(119,632)
Net cash flows (used in)/generated from financing activities	**(138,559)**	(646,421)
Net cash increase in cash and cash equivalents	**125,138**	157,446
Cash and cash equivalents brought forward	**677,747**	520,301
Cash and cash equivalents carried forward	**802,885**	677,747

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital	Share premium	Capital redemption reserve	Merger reserve	Reverse acquisition reserve	Retained earnings	Total
At 1 January 2018	**2,524,426**	**1,490,682**	**7,500**	**4,051,967**	**(2,856,756)**	**135,058**	**5,352,877**

Total comprehensive income for the year	-	-	-	-	-	682,574	682,574
Conversion of loan notes	-	-	-	-	-	-	-
At 31 December 2018	**2,524,426**	**1,490,682**	**7,500**	**4,051,967**	**(2,856,756)**	**817,632**	**6,035,451**
Total comprehensive income for the year	-	-	-	-	-	666,013	666,013
At 31 December 2019	**2,524,426**	**1,490,682**	**7,500**	**4,051,967**	**(2,856,756)**	**1,483,645**	**6,701,464**

Merger Reserve

The merger reserve exists as a result of the acquisitions of Mountfield Building Group Limited, MBG Construction Limited, Connaught Access Flooring Holdings Limited and Mountfield Land Limited where the consideration included the issue of new shares by the Company, thereby attracting merger relief under the Companies Act 2006. The merger reserve represents the difference between the nominal value of the share capital issued by the Company and the fair value of those shares at the date of acquisition.

A transfer has been made from the merger reserve to retained earnings to reflect amounts that have become realised through impairment write downs in previous accounting periods.

Reverse Acquisition Reserve

The reverse acquisition reserve exists as a result of the method of accounting for the acquisition of Mountfield Building Group Limited and MBG Construction Ltd (note 1.5).

Share Capital

Share capital represents the nominal value of shares that have been issued.

Share premium

Share premium represents the difference between the nominal value of shares issued and the total consideration received.

Capital redemption reserve

Capital redemption reserve represents amounts transferred following the purchase of own shares.

Retained earnings

Retained earnings represent cumulative profit or losses, net of dividends and other adjustments

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1 General information

Mountfield Group plc is a public company incorporated in England and Wales. The registered number of the Company is 06374598. The address of its registered office is 3C Sopwith Crescent, Wickford Business Park, Wickford, Essex SS11 8YU.

Above is an extract from the Final Results for the year ended 31 December 2018. The Final Results, which will shortly be posted to all shareholders and available on the Group's website, should be read in full.

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs), IFRIC Interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The adoption of these standards has not resulted in any changes to the Group's accounting policies and has not affected amounts reported in prior years. The financial statements have been prepared under the historical cost basis.

2 Going Concern

The financial statements have been prepared on a going concern basis. Based on the current working capital forecast, the Group is unlikely to need additional funds within twelve months of the date of approval of these financial statements in order to maintain its proposed work levels or expenditure providing contracts progress as planned, new contracts are secured, and the Group is able to continue successfully managing its cash resources. In preparing these forecasts the Group has taken the into account the effect that COVID-19 may have on the business and the strategy that has been adopted, as disclosed in the strategic report, to mitigate the risks associated with this. After making enquiries and considering the assumptions upon which the forecasts have been based, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Whilst there remain significant doubts over the impact that COVID-19 will have on the business and the economy in general, the board considers that Group is well placed to deal with any impact due its size, its tightly controlled cost base and its close relationship with a small number of key customers and suppliers.

3 Earnings per share

The basic earnings per share is calculated by dividing the earnings attributable to equity shareholders by the weighted average number of shares in issue. The diluted earnings per share is calculated by dividing the earnings attributable to equity shareholders by the weighted average number of shares in issue plus the number of warrants and share options. The share options are not considered dilutive as the shares would be issued for greater than the average market price of the ordinary shares in 2019 and 2018.

	2019	2018
Basic earnings per share	**£**	£
Profit for the financial year	**666,013**	682,574
Weighted average number of shares	**254,244,454**	254,244,454

	2019	2018
Diluted earnings per share	**£**	£
Profit for the financial year	**666,013**	682,574
Number of shares	**254,244,454**	254,244,454

4 Availability of Report and Accounts and Notice of Annual General Meeting

The Group will shortly post the Annual Report and Accounts for the year ended 31 December 2019 and Notice of Annual General Meeting to shareholders.

The Annual General Meeting will be held at the offices of DAC Beachcroft LLP, 25 Walbrook, London EC4N 8AF on 7 October 2020 at 11 a.m. A copy of the Annual Report and Accounts for the year ended 31 December 2019 and Notice of Annual General Meeting will be available to be downloaded from the Group's website at www.mountfieldgroupplc.com . **In accordance with Government legislation and related restrictions in response to COVID-19, and to minimise public health risks, the 2020 Annual General Meeting is to be held as a closed meeting and members and their proxies will not be able to attend the meeting in person.**