

Brand Architekts Group plc
(“Brand Architekts” or the “Group”)
Interim results

Brand Architekts Group plc, a market leader in the development and supply of beauty and personal care brands, announces its interim results for the 28 weeks ended 11 January 2020

Business highlights

- Disposal of the manufacturing business completed on the 23 August 2019
- Quentin Higham appointed as Chief Executive Officer, he will join the Company and the Board on 4 May 2020
- Operational transition to a stand-alone branded business now complete
- New ERP system successfully implemented
- A number of key ‘drive’ brands continue positive growth trend
- Further growth in e-commerce sales
- 2 major brands relaunched, 99 new product lines launched

Financial highlights

Continuing Operations

- Revenues declined by 15% to £10.6m significantly impacted by a strong decline in international sales (-23% vs prior year) resulting from currency devaluation in a key market and tariff pressures
- UK sales declined by 13% vs prior year impacted by a challenging retail environment
- Gross profit margin improved to 37.6% (FY19: 35.1%) helped by focus on higher margin brands and channels
- Underlying operating profit (before central costs) of £1.6m (FY19: £2.5m)
- Underlying operating profit margin (before central costs) is at 15% (FY19: 20%)

Group

- PBT of £6.6m (FY19: £0.7m) heavily impacted by profit on disposal of the manufacturing business (£8.8m) offset by a loss on discontinued operations (including exceptional costs) of £2.5m
- Underlying PBT (continuing operations) declined 33% to £1.2m (FY19: £1.7m)
- £15.1m net cash positions us well for future growth
- Interim dividend proposed at 0.9p per share

£m unless otherwise stated	2020	2019
Reported results from continuing operations ¹		
Revenue	£10.6m	£12.5m
Underlying operating profit ¹	£1.2m	£1.7m
Adjusted basic earnings per share ¹	3.9p	7.0p
Statutory results for the whole group including discontinued operations		
Revenue	£18.0m	£41.4m
Operating profit before exceptional items	£0.1m	£1.4m
Profit on disposal of manufacturing business	£8.8m	-
Basic earnings per share	37.7p	3.1p
Total dividend per share	0.9p	2.15p
Net cash / (debt)	£15.1m	£(6.8)m

¹ Underlying operating profit is calculated before LTIP, amortisation of acquisition related intangibles, exceptional items and net borrowing costs. Adjusted earnings per share is calculated using operating profit before exceptional items and amortisation of acquisition related intangibles.

Brendan Hynes, Executive Chairman, commented: “The business is now through a challenging calendar year where the difficult market conditions, the distraction of the sale of the manufacturing business and significant management changes have all had an impact on results. Having now completed the operational transition to a fully focused branded business with a very strong balance sheet and appointment of a CEO with deep industry experience, the business is well positioned to build scale and deliver further profitable growth.”

<u>For further information please contact:</u>		
Brand Architekts Group plc		
Chris How	Chief Executive Officer (Interim)	0208 614 4474
Brendan Hynes	Executive Chairman	Via Alma PR
Shaun Dobson / George Tzimas	N+1 Singer	0207 496 3000
Josh Royston / Sam Modlin	Alma PR	0203 405 0206

Note: This announcement contains information that was previously inside information for the purposes of Article 7 of regulation 596/2014 (MAR).

Business Review (Continuing Operations)

Having disposed of the manufacturing business in August 2019, the business is now fully focussed on further developing its profitable branded business and has the necessary financial resources to invest and grow further. The appointment of Quentin Higham as CEO will bring renewed focus and energy to executing the growth strategy.

It has been a challenging period for the business with a number of factors contributing to an overall decline in revenue of 15% to £10.6m.

International sales declined by 23%, heavily impacted by currency devaluation in a key market and the effect of increased tariffs on cosmetic goods shipped from China to USA. We believe that we are well placed to recover a large proportion of the affected USA business should the tariffs be reversed.

Sales to UK customers declined by 13% despite encouraging volume growth across 3 'drive' brands, 2 of which were re-launched within the period. The decline was largely due to one significant customer, however, overall low consumer confidence and pressure within the retail environment has resulted in a reduction of both category space and the effectiveness of promotional activity.

Pleasingly, direct to consumer e-commerce sales recorded another period of strong growth reflecting a continued commitment to develop this particularly profitable channel by building engaging and precisely targeted marketing content.

Gross margins improved slightly as sales mix was steered towards higher margin brands within the portfolio and more profitable trade channels. Furthermore, strong management of our supply base also ensured control over our input costs, which further supported the resilience of the gross margin.

In line with our long-term confidence in the growth potential of our brands, advertising and promotional investment increased as we look to ensure that major brand relaunches in the period achieve sustained success.

Operational overheads were managed tightly through the transition period although some exceptional costs (£0.16m) have been recognised in relation to the implementation of a new ERP system and the establishment of new operational, finance, admin and HR functions at our Teddington office. Whilst its implementation utilised a significant amount of management time, the new ERP system is of an appropriate design for the scale and nature of our business and will enable efficiencies and an improved control environment going forward.

The result of all the above was a reduction in underlying operating profit for continuing operations (excluding central costs) to £1.6m (prior year £2.5m). This represents a ratio of 15% to sales.

Board Succession

Following an extensive search, the Board is pleased to confirm the appointment of Quentin Higham as CEO effective 4 May 2020. Quentin is currently Managing Director of Yardley of London Ltd. Previously he has been Marketing Director at Coty, with responsibility for the Rimmel cosmetics brand and Head of Marketing at global cosmetics company Revlon. In addition, he has in-depth knowledge of our brands having been Commercial Director at KMI brands with responsibility for the Fish brand.

Chris How, who has held the position of Interim CEO since October, will remain with the business to assist and support the Company and Quentin through the handover process.

The search for a new Chief Financial Officer is well advanced and we expect to be able to confirm appointment of an appropriate candidate in due course.

Central Costs

Following the sale of the manufacturing business, the Company segments its central corporate costs to enable shareholders to have clear visibility of the financial performance of the operating business. This segment includes all board costs (executive and non-executive), plc costs and costs (including PPF levy) related to the Swallowfield Defined Benefit pension scheme.

Clearly, these central costs could become more proportionate in the event the Board decides to utilise the Company's strong cash reserves to make further acquisitions.

On a pre-exceptional basis these costs reduced versus prior year reflecting an intent to acknowledge the reduced scale of the Group following the sale of the manufacturing business and the fact that both the CEO and CFO positions have been vacant during part of the reporting period.

Within central costs, an exceptional cost of £0.3m is recognised in relation to the departure in September of the former Chief Executive Officer.

Strategic Report

Fundamental transformation – 100% focus on brands

Over the last 4 years our stated strategy has been to develop, both organically and through acquisitions, a portfolio of brands which are owned and managed by the Group.

Following the disposal of the manufacturing business in August 2019, we have accelerated our strategic realignment and are now solely focused on brands that we own and control. The disposal has also eliminated group debt and strengthened the balance sheet through a significant cash position.

The Board believe that we are now well-positioned to drive further value by focusing solely on our Owned Brands business with its higher margins, minimal capital investment requirements and superior financial returns.

Strategic Priorities

The strategic priorities for the Group are:

- Build Scale: Accelerate sales and profit growth organically and via accretive acquisitions
- New Product Development (NPD): Continue to execute consumer relevant NPD at pace
- International Expansion: Develop new customers in new geographies
- On-line expansion: Accelerate E-commerce and digital presence
- Build organisational capability: Continue to invest in people and skills

Progress against our strategic priorities

Notwithstanding that it has been a challenging trading period, we are pleased to have made meaningful progress across a number of strategic priorities.

- Build Scale

The Board has continued to review acquisition opportunities through the reporting period against strict strategic and financial criteria. No opportunity has been sufficiently compelling to pursue meaningfully and the Board has also been mindful of the impending CEO appointment. We remain open to acquisition opportunities and will continue to apply our strict strategic and financial criteria in reviewing these opportunities.

- New Product Development (NPD)

In late Autumn we completed and began shipping a complete range refresh (design update and new lines) across 2 of our drive brands Dirty Works and Fish. These were well received by our retail customers and these brands started to rebuild growth momentum in the reporting period.

We were also pleased to launch a new skincare range and a new male bath and body range in our Kind Natured brand.

SuperFacialist, our fastest growing brand over the last 2 years, built on the trend for concentrated skincare ingredients by launching 2 'intense booster' serums in Retinol and Vitamin C and also further extending the successful Retinol anti-ageing sub-range into tonics and cleansers.

In total, 99 new individual product lines were introduced or refreshed in the reporting period.

- International Expansion

It was a difficult period for our International business. A key market was effectively lost due to a currency devaluation rendering it commercially unviable. Additionally, our important gift and accessories business in the USA was impacted by the introduction of prohibitive tariffs on Chinese produced imports.

Notwithstanding these setbacks caused by external factors outside the control of the business, we were pleased that we made good progress in extending our gifting ranges into a number of new European geographies and overall saw growth in Australia, South Africa, the Netherlands, Ireland, Switzerland and Chile.

International continues to be an area where we firmly believe there is significant growth potential for our brands and we continue to be active in identifying and progressing opportunities.

- On-line expansion

We are pleased that our growth momentum in this area has continued and the focus of investment over the last 3 years continues to deliver tangible benefits.

We saw growth across our own direct to consumer e-commerce sites as well as good growth through major global and regional e-retailers. This has been driven by further development of our in-house resource and expertise and a more active digital engagement and advertising programme including a step up in the use of relevant influencers on key social platforms.

Additionally, we made significant upgrades to our Dirty Works and Fish brand websites to coincide with the product range relaunches which we expect to have a positive impact on brand image and further boost e-commerce sales.

- Build Organisational Capability

Having previously been supported by the Swallowfield Group system, we are pleased to have successfully implemented a new stand-alone ERP system for the business within a relatively short timeframe following the transaction.

Similarly, a number of functions that were previously housed within the Swallowfield Group organisation in Somerset have been established at our Teddington office. These include Finance, Supply Chain, IT, HR and other administrative functions. Whilst we recognise that the reorganisation has caused some operational disruption in the transition period, we are pleased with the successful outcome of this re-organisation which positions us well for the future. Going forward we now have the solid foundation of a modern, appropriately supported ERP system and support functions located on the same site as the sales and customer facing commercial team.

Net Debt and Cash Flow

Following the sale of the manufacturing business in August 2019, the Group's net cash position has improved to £15.1m (2019: £6.8m net debt) primarily as a result of the net proceeds from the disposal of the manufacturing business in August 2019. A final tranche of £1.3m of the full consideration of £35.0m is due to be paid in the coming weeks. This amount is a retention sum held pending the finalisation of the completion accounts which is expected shortly.

Following the disposal, there was a significant challenge to establish new operational, finance and administrative functions at our Teddington head office simultaneously with the design and implementation of a new ERP system. Both of these complex tasks have now been successfully completed, however, it impacted the day to day management of working capital in the transition period which resulted in increased inventories and a slower collection of receivables. Going forward, we expect a return to tighter control over managing working capital.

Financing costs of £0.18m (2019: £0.22m) comprised interest expense of £0.08m (2019: £0.15m) and a pension scheme notional charge of £0.10m (2019: £0.07m).

Discontinued Operations

On 23 August 2019, the Group sold its 100% interest in Curzon Supplies Ltd for consideration of £35m, resulting in a complete disposal of its manufacturing business enabling the Group to become a solely brand focussed business.

The profit on disposal recognised was £8.8m representing a £10.2m profit on assets disposed less directly related deal costs of £1.4m. A further £1.5m of exceptional costs have been recognised, £1.1m of which relate to management bonuses directly related to the completion of the deal and the remainder to various stock write-offs and adjustments.

The accounts shown as 'Discontinued Operations' cover operational activities for the period from the last financial year end to the date of disposal (23 August 2019) and also include any impacts of the final completion accounts for the transaction. The operations over that period were affected by significant manufacturing inefficiencies and higher than planned labour costs. The overall result was an operating loss before exceptional items of £1.0m.

Defined Benefit Pension Plan

The Scheme is now closed to new members and to further accruals of benefits. The last scheme funding valuation of the Scheme was as at 5 April 2017 and revealed a funding deficit of £2.6m.

The Company pays contributions to the Scheme to cover the funding deficit of £0.3m per annum. The magnitude of such payments will be reviewed following the next scheme funding valuation as at April 2020. In addition, the Company meets the cost of administrative expenses and Pension Protection Fund insurance premiums for the Scheme.

We recognise that the Plan and the Trustee are key long-term stakeholders who hold an active interest in the Company's success. We continue to work closely with the Trustee and believe that our objectives over the long-term are aligned with those of the Trustee – to ensure a robust Company that is able to support and provide a strong covenant to the plan.

Dividend

Following the sale of the manufacturing business, the Company currently delivers less absolute profitability. Accordingly, the Board has approved an interim payment of 0.9p per share which represents a broadly similar dividend cover to the average over the last 3 years. This dividend will be paid on 29 May 2020 to shareholders on the register at the close of business on 11 May 2020. The ex-dividend date will be 7 May 2020.

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.

Coronavirus

The company sources most of its Christmas gift ranges and some beauty accessories from China. The majority of this volume is produced from June to August and shipped in September/October. We are in close contact with our Chinese suppliers to understand the level of supply risk and possible mitigation options related to the current Coronavirus outbreak. At this point we expect to be able to source all required goods, however, we continue to review the situation closely due to the growing uncertainty.

The business has taken the necessary steps to ensure appropriate arrangements are in place for all staff members to operate effectively with minimal disruption to the business.

Outlook

Over the last calendar year the business has had to deal with a number of internal and external challenges. Whilst this has had an impact on trading performance and, notwithstanding continued economic and consumer uncertainty, we do believe the business is now well positioned to move back towards a growth phase. We expect the second half to be challenging but to be broadly in line with the revenue generated in the comparative period last year and for that improved momentum to build into the next financial year.

However, the Board has reassessed its outlook for the rest of the financial year and based on the continuing challenging market conditions and the slower pace of sales in the first half, has reduced its revenue expectations.

In addition, given the level of competitive pricing and promotional pressure experienced in the market, the Board anticipates that the Group's operating profit will be impacted resulting in a significant decrease to previous market expectations.

Given the strength of our balance sheet, we also remain open to further acquisition opportunities which offer the potential to build scale and deliver incremental shareholder value.

We also look forward to welcoming, Quentin Higham, our new CEO and fully expect that his experience and energy will further enhance and accelerate our ability to drive growth opportunities.

Group Statement of Comprehensive Income

		28 weeks ended	28 weeks ended	52 weeks ended
		11 Jan 2020	12 Jan 2019	29 June 2019
		(unaudited)	(unaudited)	(audited)
		£'000	£'000	£'000
Continuing operations	Notes			
Revenue	3	10,568	12,451	19,676
Cost of sales		(6,597)	(8,078)	(12,680)
Gross profit		3,971	4,373	6,996
Commercial and administrative costs		(3,120)	(2,883)	(5,016)
Operating profit before exceptional items		851	1,490	1,980
Exceptional items	4	(472)	(269)	(48)
Operating profit		379	1,221	1,932
Finance income		46	1	-
Finance costs	5	(123)	(79)	(144)
Profit before taxation		302	1,143	1,788
Taxation		(57)	(216)	(198)
Profit after taxation		245	927	1,590
Profit / (loss) on Discontinued Operations after taxation	10	6,278	(337)	2,050
Profit after taxation		6,523	590	3,640
Other comprehensive (loss) / income for the period:				
Re-measurement of defined benefit liability		(1,040)	(1,617)	(4,011)
Items that will be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations		(48)	(50)	(35)
Gain / (loss) on available for sale financial assets		-	529	(6)
Other comprehensive loss for the period		(1,088)	(1,138)	(4,052)
Total comprehensive income / (loss) for the period		5,435	(548)	(412)
Profit attributable to:				
Equity shareholders		6,456	537	3,539
Non-controlling interests		67	53	101
Continuing Operations – Profit attributable to:				
Equity shareholders		178	874	1,489
Non-controlling interests		67	53	101
Total comprehensive income / (loss) attributable to:				
Equity shareholders		5,368	(601)	(513)
Non-controlling interests		67	53	101
Earnings per share				
- basic	6	37.7p	3.1p	20.7p
- diluted	6	37.5p	3.0p	20.0p
Dividend				
Paid in period (£'000)		745	720	1,088
Paid in period (pence per share)		4.35p	4.2p	6.35p
Proposed (£'000)		154	368	745
Proposed (pence per share)	7	0.9p	2.15p	4.35p

* 28 weeks ended 12 Jan 2019 comparatives have been restated for discontinued operations – see note 10 for further information.

Group Statement of Changes in Equity

	Share Capital	Share Premium	Revaluation of investment reserve	Exchange Reserve	Pension re-measurement reserve	Retained Earnings	Non-controlling interest	Total Equity
Group	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance as at June 2019	857	11,987	1,241	(147)	(6,502)	18,160	145	25,741
Dividends	-	-	-	-	-	(745)	(33)	(778)
Non-controlling interest	-	-	-	-	-	-	67	67
Realisation of exchange differences on sale of subsidiary	-	-	-	195	-	-	-	195
Realised profit on asset sold	-	-	(1,241)	-	-	1,241	-	-
Transactions with owners and reserve transfers	-	-	(1,241)	195	-	496	34	(516)
Profit for the period	-	-	-	-	-	6,456	-	6,456
<i>Other comprehensive income:</i>								
Re-measurement of defined benefit liability	-	-	-	-	(1,040)	-	-	(1,040)
Exchange difference on translating foreign operations	-	-	-	(48)	-	-	-	(48)
Total comprehensive income for the year	-	-	-	(48)	(1,040)	6,456	-	5,368
Balance as at 11 January 2020	857	11,987	-	-	(7,542)	25,112	179	30,593

	Share Capital	Share Premium	Revaluation of investment reserve	Exchange Reserve	Pension re-measurement reserve	Retained Earnings	Non-controlling interest	Total Equity
Group	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance as at June 2018	857	11,987	1,247	(112)	(2,491)	15,455	79	27,022
Dividends	-	-	-	-	-	(720)	-	(720)
Non-controlling interest	-	-	-	-	-	-	53	53
Share based payments	-	-	-	-	-	143	-	143
Transactions with owners	-	-	-	-	-	(577)	53	(524)
Profit for the period	-	-	-	-	-	537	-	537
<i>Other comprehensive income:</i>								
Re-measurement of defined benefit liability	-	-	-	-	(1,617)	-	-	(1,617)
Exchange difference on translating foreign operations	-	-	-	(50)	-	-	-	(50)
Gain on available for sale financial assets	-	-	529	-	-	-	-	529
Total comprehensive income for the year	-	-	529	(50)	(1,617)	537	-	(601)
Balance as at 12 January 2019	857	11,987	1,776	(162)	(4,108)	15,415	132	25,897

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 2018	857	11,987	1,247	(112)	(2,491)	15,455	79	27,022
Dividends	-	-	-	-	-	(1,088)	(35)	(1,123)
Non-controlling interest	-	-	-	-	-	-	101	101
Share based payments	-	-	-	-	-	254	-	254
Transactions with owners	-	-	-	-	-	(834)	66	(768)
Profit for the year	-	-	-	-	-	3,539	-	3,539
<i>Other comprehensive income:</i>								
Re-measurement of defined benefit liability	-	-	-	-	(4,011)	-	-	(4,011)
Exchange difference on translating foreign operations	-	-	-	(35)	-	-	-	(35)
Loss on available for sale financial assets	-	-	(6)	-	-	-	-	(6)
Total comprehensive income for the year	-	-	(6)	(35)	(4,011)	3,539	-	(513)
Balance as at June 2019	857	11,987	1,241	(147)	(6,502)	18,160	145	25,741

Group Statement of Financial Position

	Notes	As at 11 Jan 2020 (unaudited) £'000	As at 12 Jan 2019 Restated - Note 11 (unaudited) £'000	As at 29 June 2019 (audited) £'000
ASSETS				
Non-current assets				
Property, plant and equipment		195	11,257	21
Intangible assets		12,757	13,720	12,817
Deferred tax assets		1,926	1,138	1,714
Investments		-	1,920	-
Total non-current assets		14,878	28,035	14,552
Current assets				
Inventories		6,210	15,150	5,211
Trade and other receivables		8,277	14,792	3,475
Assets held for resale		-	-	22,700
Cash and cash equivalents		20,000	1,747	381
Current tax receivable		555	508	285
Total current assets		35,042	32,197	32,052
Total assets		49,920	60,232	46,604
LIABILITIES				
Current liabilities				
Trade and other payables		5,893	21,409	6,628
Interest-bearing loans and borrowings		1,075	1,140	1,139
Current tax payable		259	994	527
Total current liabilities		7,227	23,543	8,294
Non-current liabilities				
Interest-bearing loans and borrowings		1,548	2,623	2,091
Post-retirement benefit obligations	9	9,505	6,614	9,417
Deferred tax liabilities		1,047	1,555	1,061
Total non-current liabilities		12,100	10,792	12,569
Total liabilities		19,327	34,335	20,863
Net assets		30,593	25,897	25,741
EQUITY				
Share capital		857	857	857
Share premium		11,987	11,987	11,987
Revaluation of investment reserve		-	1,776	1,241
Exchange reserve		-	(162)	(147)
Re-measurement of defined benefit liability		(7,542)	(4,108)	(6,502)
Retained earnings		25,112	15,415	18,160
Total equity		30,414	25,765	25,596
Non-controlling interest		179	132	145
Total equity		30,593	25,897	25,741

Group Cash Flow Statement

	Notes	28 weeks ended 11 Jan 2020 (unaudited) £'000	28 weeks ended 12 Jan 2019 (unaudited) £'000	12 months ended 30 June 2019 (audited) £'000
Cash flow from operating activities				
Profit before taxation		6,580	728	4,093
Depreciation		12	667	1,262
Amortisation		142	154	944
Profit on disposal of manufacturing business	10	(8,762)	-	-
Increase in assets held for resale		(3,008)	-	-
Finance income		(46)	(386)	(1,146)
Finance cost		181	218	389
(Increase) in inventories		(999)	(1,325)	(2,129)
(Increase) / decrease in trade and other receivables		(3,512)	3,757	1,252
Increase in trade and other payables *		1,086	2,720	3,059
(Decrease) in share-based payments provision		(48)	(158)	(221)
Contributions to defined benefit plan		(159)	(175)	(282)
Cash generated from operations		(8,533)	6,200	7,221
Finance expense paid		(83)	(153)	(263)
Taxation paid		(595)	(202)	(593)
Net cash flow from operating activities		(9,211)	5,845	6,365
Cash flow from investing activities				
Dividend income received		-	386	1,146
Purchase of property, plant and equipment		(27)	(639)	(1,088)
Purchase of intangibles		(81)	(23)	(699)
Sale of property, plant and equipment		-	154	-
Proceeds from disposal of manufacturing business	10	32,274	-	-
Net cash flow from investing activities		32,166	(122)	(641)
Cash flow from financing activities				
Finance income received		46	-	-
Movements in invoice discounting facility		(1,997)	(3,596)	(4,027)
Repayment of loans		(607)	(594)	(1,127)
Dividends paid		(778)	(720)	(1,123)
Net cash flow from financing activities		(3,336)	(4,910)	(6,277)
Net increase / (decrease) in cash and cash equivalents		19,619	813	(553)
Cash and cash equivalents at beginning of period		381	934	934
Cash and cash equivalents at end of period		20,000	1,747	381

* Increase in trade and other payables of £1,086k in the cash flow statement is the movement on trade payables, social security and other taxes, and general accruals only. The £1,086k excludes the decrease in the commercial invoice discounting facility of £1,997k and the decrease in the share based payment accrual of £48k, which are both shown as separate lines in the cash flow statement in investing activities.

Notes to the Accounts

Note 1 Basis of preparation

The Group has prepared its interim results for the 28-week period ended 11 January 2020 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 09 March 2020.

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 2020.

The statutory accounts for the year ended June 2019, 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.

In August 2019, the Group sold its 100% interest in Curzon Supplies Ltd for consideration of £35m (completing the disposal of the Manufacturing segment) which is the only operation presented as discontinued operations. Curzon Supplies Ltd was incorporated in March 2019. The impact of the disposal is disclosed in Note 10.

Note 2 Changes to accounting policies

The Group has adopted IFRS 16 Leases from 30 June 2019, using the modified retrospective method. Applying this method, the comparative information for the 2019 fiscal year has not been restated. At 30 June 2019, the Group recognised right-of-use assets of £185k and lease liabilities of £185k. The Group has decided not to apply the new guidance to leases whose term will end within twelve months of the date of initial application and leases with a low value. In such cases, the leases will be accounted for as short-term leases and the lease payments associated with them will be recognised as an expense from short-term leases. The following reconciliation to the opening balance for the lease liabilities as at 30 June 2019 is based upon the operating lease obligations as at 29 June 2019:

	28 weeks ended 11 January 2020 (unaudited) £'000
Operating lease obligations at 29 June 2019	189
Relief option for short-term leases	(4)
Lease liabilities at 30 June 2019	185

Note 3 Segmental analysis

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

The reportable segments of the Group are aggregated as follows:

- Brands – since the disposal of the manufacturing business in August 2019 this has become the Group's sole focus and is referred elsewhere in these results as 'continuing operations'. The portfolio of brands consists primarily of brands acquired by the Group as part of the acquisition of The Brand Architekts in 2016 plus the acquisitions of Real Shaving Company (2015) and Fish (2018).

- Manufacturing – the development, formulation and production of quality products for many of the world's leading personal care and beauty brands. The manufacturing business was sold in August 2019 and its results in the period have been treated as discontinued operations. The impact of the disposal is disclosed in Note 10. The profit on disposal of the manufacturing business is included as an exceptional item in the segmental information.
- 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 chief operating decision maker (CODM) for the purposes of IFRS 8.

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

	28 weeks ended 11 January 2020				28 weeks ended 12 January 2019			
	Brands	Manufacturing	Eliminations and Central Costs	Total	Brands	Manufacturing	Eliminations and Central Costs	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
UK revenue	8,744	4,841	-	13,585	10,055	19,915	-	29,970
International revenue	1,819	2,639	-	4,458	2,360	9,111	-	11,471
Revenue – External	10,563	7,480	-	18,043	12,415	29,026	-	41,441
Revenue – Internal	5	990	(995)	-	36	2,214	(2,250)	-
Total revenue	10,568	8,470	(995)	18,043	12,451	31,240	(2,250)	41,441
Discontinued Operations	-	(8,470)	990	(7,480)	-	(31,240)	2,250	(28,990)
Total revenue	10,568	-	(5)	10,563	12,451	-	-	12,451
Underlying operating profit/(loss)	1,637	(969)	(483)	185	2,580	230	(1,182)	1,628
Charge for share based payments	-	-	(161)	(161)	-	-	(67)	(67)
Amortisation of acquisition-related intangibles	-	-	(142)	(142)	-	-	(133)	(133)
Net exceptional items	(132)	7,305	(340)	6,833	-	(600)	(269)	(869)
Net borrowing income / (costs)	(25)	(58)	(52)	(135)	(16)	248	(64)	168
Tax credit on discontinued operations	-	-	-	-	-	79	-	79
Segment (profit) / loss included in Discontinued Operations	-	(6,278)	-	(6,278)	-	43	294	337
Profit/(loss) before taxation	1,480	-	(1,178)	302	2,564	-	(1,421)	1,143
Tax charge	-	-	(57)	(57)	-	-	(216)	(216)
Profit/(loss) for the period from Continuing Operations	1,480	-	(1,235)	245	2,564	-	(1,637)	927

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.

Included in Net exceptional items in Manufacturing is profit on disposal of the manufacturing business of £8,762k offset with bonuses paid out on deal completion of £1,116k and stock provision adjustments of £341k.

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 11 January 2020	Brands	Manufacturing	Eliminations and Central Costs	Total
	£'000	£'000	£'000	£'000
Depreciation	12	-	-	12
Amortisation	-	-	142	142

28 weeks ended 12 January 2019	Brands	Manufacturing	Eliminations and Central Costs	Total
	£'000	£'000	£'000	£'000
Depreciation	6	661	-	667
Amortisation	-	21	133	154

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 11 Jan 2020 (unaudited) £'000	28 weeks ended 12 Jan 2019 (unaudited) £'000	52 weeks ended 29 June 2019 (audited) £'000
	UK	13,585	29,970
Other European Union countries	2,430	7,956	17,482
Rest of the World	2,028	3,515	7,712
	18,043	41,441	77,338

Geographical segments – Continuing Operations	28 weeks ended 11 Jan 2020 (unaudited) £'000	28 weeks ended 12 Jan 2019 (unaudited) £'000	52 weeks ended 29 June 2019 (audited) £'000
	UK	8,744	10,055
Other European Union countries	288	427	609
Rest of the World	1,531	1,933	2,611
	10,563	12,415	19,676

In the 28 weeks ended 11 January 2020, the Group had two customers that exceeded 10% of revenues from Continuing Operations, being 21.2% and 11.5% respectively. In the 28 weeks ended 12 January 2019, the Group had two customers that exceeded 10% of revenues from Continuing Operations, being 26.4% and 14.0% respectively.

Note 4 Exceptional items from continuing operations

In the period ended 11 January 2020 exceptional items charge represents £0.3m in relation to the departure in September of the former Chief Executive Officer and £0.2m exceptional consultancy fees.

The prior year exceptional items charge represents a provision of £0.3m made in respect to the GMP equalisation on the Group's DB Pension scheme.

Note 5 Finance costs

	28 weeks ended 11 Jan 2020 (unaudited) £'000	28 weeks ended 12 Jan 2019 (unaudited) £'000	52 weeks ended 29 June 2019 (audited) £'000
Total			
Bank loans and overdrafts	83	153	263
Notional pension scheme costs	98	65	126
	181	218	389
	28 weeks ended 11 Jan 2020 (unaudited) £'000	28 weeks ended 12 Jan 2019 (unaudited) £'000	52 weeks ended 29 June 2019 (audited) £'000
Continuing Operations			
Bank loans and overdrafts	25	15	18
Notional pension scheme costs	98	64	126
	123	79	144

Note 6 Earnings per share

	28 weeks ended 11 Jan 2020 (unaudited)	28 weeks ended 12 Jan 2019 (unaudited)	52 weeks ended 29 June 2019 (audited)
Basic and diluted			
Profit attributable to equity shareholders (£'000)	6,456	537	3,539
Profit attributable to equity shareholders Continuing Operations ('000)	178	874	1,489
Basic weighted average number of ordinary shares in issue during the period	17,135,542	17,135,542	17,135,542
Diluted number of shares	17,230,703	17,659,183	17,659,183
Basic earnings per share	37.7p	3.1p	20.7p
Diluted earnings per share	37.5p	3.0p	20.0p
Basic earnings per share Continuing Operations	1.0p	5.1p	8.7p
Diluted earnings per share Continuing Operations	1.0p	5.0p	8.4p

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.

Adjusted earnings per share	28 weeks ended 11 Jan 2020 (unaudited)	28 weeks ended 12 Jan 2019 (unaudited)	52 weeks ended 29 June 2019 (audited)
Profit attributable to equity shareholders (£'000)	6,456	537	3,539
Add back: Net exceptional items* (£'000)	(6,833)	869	717
Add back: Amortisation of Acquisition Related Intangibles (£'000)	142	133	260
Notional tax charge on above items (£'000)	(393)	(190)	(186)
Adjusted (loss) / profit before exceptional items (£'000)	(628)	1,349	4,330
Basic weighted average number of ordinary shares in issue during the period	17,135,542	17,135,542	17,135,542
Diluted number of shares	17,230,703	17,659,183	17,659,183
Adjusted basic earnings per share	(3.7)p	7.9p	25.3p
Adjusted diluted earnings per share	(3.6)p	7.6p	24.5p

Adjusted earnings per share – Continuing Operations	28 weeks ended	28 weeks ended	52 weeks ended
	11 Jan 2020 (unaudited)	12 Jan 2019 (unaudited)	29 June 2019 (audited)
Profit attributable to equity shareholders (£'000)	178	874	1,489
Add back: Net exceptional items* (£'000)	472	269	48
Add back: Amortisation of Acquisition Related Intangibles (£'000)	142	133	260
Notional tax charge on above items (£'000)	(117)	(76)	(59)
Adjusted profit before exceptional items (£'000)	675	1,200	1,738
Basic weighted average number of ordinary shares in issue during the period	17,135,542	17,135,542	17,135,542
Diluted number of shares	17,230,703	17,659,183	17,659,183
Adjusted basic earnings per share	3.9p	7.0p	10.1p
Adjusted diluted earnings per share	3.9p	6.8p	9.8p

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.

*Net exceptional items are calculated as follows:

	28 weeks ended 11 Jan 2020 (unaudited) (£'000)
Profit on disposal of manufacturing business	8,762
Bonuses paid out following disposal of manufacturing business	(1,116)
Stock provision adjustments	(341)
Departure of former Chief Executive Officer	(310)
Consultancy fees	(162)
Total	6,833

Note 7 Dividends

The Directors have declared an interim dividend payment of 0.9p per share (2019: Interim: 2.15p; Final: 4.35p). The interim dividend will be paid on 29 May 2020 to shareholders on the register at the close of business on 11 May 2020. The ex-dividend date will be 7 May 2020.

Note 8 Notes to Cash Flow Statement

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

	28 weeks ended 11 Jan 2020 (unaudited) £'000	28 weeks ended 12 Jan 2019 (unaudited) £'000	52 weeks ended 29 June 2019 (audited) £'000
Increase / (decrease) in cash and cash equivalents in the period	19,619	813	(553)
Net cash outflow from decrease in borrowings	2,604	4,190	5,154
Change in net debt resulting from cash flows	22,223	5,003	4,601
Net cash / (debt) at the beginning of the period	(7,168)	(11,769)	(11,769)
Net cash / (net debt) at the end of the period	15,055	(6,766)	(7,168)

(b) Analysis of net debt:

	Closing 29 June 2019 £'000	Cash flow £'000	Closing 11 Jan 2020 £'000
Cash at bank and in hand	381	19,619	20,000
CID facility	(4,319)	1,997	(2,322)
Borrowings due within one year	(1,139)	64	(1,075)
Borrowings due after one year	(2,091)	543	(1,548)
	(7,168)	22,223	15,055

Note 9 IAS 19 'Employee Benefits'Expected future cash flows to and from the Group's defined benefit pension scheme:

The Scheme is closed to new members and to further accruals of benefits. It 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 payments 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 4 September 2018, the Company is expected to pay contributions to the Scheme to make good shortfalls in funding identified in the 5 April 2017 funding valuation and has agreed to pay £0.3m per annum. 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 11 January 2020 £'000	28 weeks ended 12 January 2019 £'000	52 weeks ended 29 June 2019 £'000
Company pension contributions	-	-	-
Deficit recovery payments	159	175	282
Scheme administrative expenses	138	92	179
Pension Protection Fund premium	120	108	108
Total	417	375	569

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

	28 weeks ended 11 January 2020 £'000	28 weeks ended 12 January 2019 £'000	52 weeks ended 29 June 2019 £'000
In Operating profit:			
Company pension contributions	-	-	-
Scheme administrative expenses	92	96	179
Pension Protection Fund premium	65	58	108
GMP Equalisation	-	288	290
	157	442	577
In Finance costs:			
Unwinding of notional discount factor	98	65	126
Total	255	507	703

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 11 January 2020 are:

	11 January 2020 £'000
Increase in net pension and other benefit obligations	247
Reduction in deferred tax	(25)
Decrease in equity	222

The key assumptions used were:

	As at 11 January 2020	As at 12 January 2019	As at 29 June 2019
Discount Rate	2.00%	3.05%	2.40%
Rate of inflation (RPI)	2.90%	3.20%	3.10%
Rate of inflation (CPI)	2.00%	2.10%	2.10%

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

	As at 11 January 2020 £'000	As at 12 January 2020 £'000	As at 29 June 2019 £'000
Present value of funded obligations	(34,367)	(29,065)	(33,562)
Fair value of scheme assets	24,862	22,451	24,145
(Deficit)	(9,505)	(6,614)	(9,417)

Note 10 Discontinued operations

In August 2019, the Group sold its 100% interest in Curzon Supplies Ltd for consideration of £35m (completing the disposal of the Manufacturing segment) which is the only operation presented as discontinued operations. Curzon Supplies Ltd was incorporated in March 2019.

	At Disposal 23 August 2019 £'000
Net book value	
Property, plant and equipment	11,338
Intangible fixed assets	695
Equity instruments held at fair value	1,753
Inventories	9,509
Trade and other receivables	13,196
Trade and other payables	(10,025)
Post-retirement pension obligations *	(1,103)
Deferred tax liability	(561)
	<u>24,802</u>
Deal costs	1,476
Profit on disposal	8,762
Satisfied by:	
Cash consideration	35,040

Of the cash consideration of £35,040k, £1,290k is deferred and is recognised in other receivables on the Balance Sheet.

* Post-retirement pension scheme obligations figure of £1,103k in this table relates to reassessment of annual uprating of pension liabilities.

Proceeds on disposal of manufacturing segment recognised in the Cash Flow Statement:	28 weeks ended 11 Jan 2020 £'000
Cash consideration	35,040
Less deferred consideration	(1,290)
Less deal costs	(1,476)
	<u>32,274</u>

Result of discontinued operations:	28 weeks ended 11 January 2020 £'000	28 weeks ended 12 January 2019 £'000	52 weeks ended 29 June 2019 £'000
Revenue	7,480	29,026	57,663
Expenses other than finance costs	(8,449)	(29,090)	(55,835)
(Finance costs) / investment income	(58)	248	1,146
Exceptional costs	(1,457)	(600)	(669)
Profit on disposal of manufacturing business	8,762		
Tax credit / (expense)	-	79	(255)
Profit / (Loss) for the year	6,278	(337)	2,050

Included in Exceptional costs in discontinued operations are bonuses paid out on deal completion of £1.1m and stock provision adjustments of £0.3m.

Earnings per share from discontinued operations:	28 weeks ended 11 January 2020	28 weeks ended 12 January 2019	52 weeks ended 29 June 2019
Basic earnings per share	36.6p	(2.0)p	12.0p
Diluted earnings per share	36.4p	(1.9)p	11.6p

Earnings per share from discontinued operations excluding profit on disposal of manufacturing business:	28 weeks ended 11 January 2020
Basic earnings per share	(14.5)p
Diluted earnings per share	(14.4)p

Cash flow in respect of discontinued operations:	28 weeks ended 11 January 2020 £'000	28 weeks ended 12 January 2019 £'000	52 weeks ended 29 June 2019 £'000
Operating cash flows	3,220	1,937	6,717
Investing cash flows	-	(122)	(602)
Financing cash flows	(3,592)	(2,904)	(3,637)
Total cash flows	(372)	(1,089)	2,478

Note 11 Prior Year Adjustment

A deferred tax liability was not recognised in respect of customer relationships and brands, which were assets that were separately identified in the acquisition of Brand Architekts Limited. This has historically resulted in an understatement of goodwill and the deferred tax liability of £1,145k. This has been restated in the comparative information. There has been no impact to the previously stated retained earnings, net assets and cash flows.

Note 12 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 8 Waldegrave Road, Teddington, TW11 8GT and on the Company's website.

Independent review report to Brand Architekts Group plc

Introduction

We have reviewed the accompanying Group Statement of Financial Position of Brand Architekts Group plc as of 11 January 2020 and the Group Statement of Comprehensive Income, Group Statement of Changes in Equity and Group Cash Flow Statement for the 28 week period then ended, and a summary of significant accounting policies and other explanatory notes.

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.

Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Accounting Standard 34 as adopted by the European Union. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, 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 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 accompanying interim financial information does not give a true and fair view of the financial position of the entity as at 11 January 2020 and of its financial performance and its cash flows for the 28 week period then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

PKF Francis Clark
Statutory Auditor
Centenary House
Peninsula Park
Rydon Lane
Exeter
EX2 7XE