



Northern Bear

Northern Bear plc

Interim Report
30 September 2018

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Chairman's statement

Introduction

I am pleased to report the unaudited interim results for the six months ended 30 September 2018 (the "Period") for Northern Bear plc (the "Company" and, together with its subsidiaries, the "Group").

In our preliminary results for the year to 31 March 2018, we stated that the Group continued to hold a high level of committed orders and that trading in the new financial year had started well. By September 2018, it was apparent that trading for the six month period to 30 September 2018 had been particularly strong and that results would be ahead of the prior period, and we issued a trading update to this effect on 20 September 2018.

Further to that update, I am pleased to confirm the Group has made further positive progress and produced excellent results for the Period, generating retained profits of £1.3 million (2017: £1.1 million) and basic earnings per share of 6.9p (2017: 5.9p).

Trading

Our Group companies produced outstanding results over the Period, with continuing high levels of committed orders secured. Performance was particularly strong in our Roofing and Specialist Building Services divisions.

Isoler Limited, our fire protection business, secured some major contracts and traded exceptionally well over the Period. Our materials handling business, A1 Industrial Trucks Limited, has found trading conditions more challenging, but we are hopeful that recent additions to the management team will improve performance over the second half of the year.

Revenue for the Period was £28.6 million (2017: £27.2 million) and gross margins improved to 19.7% (2017: 18.4%), principally through careful contract selection and execution.

Administrative expenses increased to £3.9 million (2017: £3.5 million) in order to support the higher activity levels in the Period. As with results for the prior period, we have presented transaction costs and amortisation separately within the income statement, as well as an adjusted earnings per share calculation (in the notes to this report), in order to provide an indication of underlying trading performance.

Overall profit before income tax for the Period increased to £1.6 million (2017: £1.3 million). We benefited from a full six months' trading from H. Peel & Sons Limited ("H Peel") in the Period, which accounted for £0.1 million of the increase, as H Peel was acquired on 25 July 2017 during the comparative period.

Cash flow

Net bank debt at 30 September 2018 was £0.3 million (30 September 2017: £0.6 million, 31 March 2018: £0.8 million). Cash generated from operations was £2.0 million in the period (2017: £0.9 million) although the overall cash movement was impacted by the payment of last year's final ordinary and special dividends, totalling £0.7 million (2017: £0.7 million), and the payment of deferred and earn out consideration on H Peel of £0.3 million.

The operating cash generation in the period was outstanding, although I would emphasise that this represents a snapshot at a particular point in time and our net cash/bank debt position can move by up to £1.5m in a matter of days given the nature, size and variety of contracts that we work on and the related working capital balances. For information, the lowest net bank debt position during the period was £nil, the highest was £1.8 million, and the average was £0.9 million.

Balance sheet

Details of new accounting standards which are being applied for the Group's current financial year are set out in Note 2 to this document. As a result of new standards, we have changed the presentation of trade and other receivables on the balance sheet at 30 September 2018 to split out contract retentions between current assets and non-current assets based on whether balances are due in less than or more than one year from the balance sheet date.

Contract retentions are an ongoing feature of the Group's businesses and the industry in which they operate and are something that we monitor closely. Retention periods are typically one year from completion where a Group company is the main contractor on a project and two years where it is a subcontractor.

Chairman's statement (*continued*)

Dividend

Our stated policy is to pay only a final dividend. Provided that the strong trading performance and operating environment continues for the remainder of the financial year, it is the current intention of the Board to continue with our progressive dividend policy.

Strategy

We continue to seek acquisitions of established specialist building services businesses, either in the same or complementary sectors to our current operations. Our main criteria are that a business is well-established in its sector, has a consistent track record of profitability and cash generation and has a strong management team who are committed to remaining with the business. Any potential acquisition would need to meet these criteria and, in addition, be earnings accretive and provide an acceptable return on investment.

Our continued preference is to source acquisitions through direct conversations with business owners or via our industry contacts rather than through intermediaries. We have generally found negotiations more productive with entrepreneurs whose priority is to secure the long-term future of their business and employees, in addition to realising significant equity value, rather than seeking to maximise sale value through an auction process. We are always happy to have such conversations with business owners and can assure complete confidentiality.

Outlook

The results for the Period were exceptionally strong and we continue to hold a high level of committed orders. The Board considers the outlook for trading in the second half of the year to be very good and we hope to report another strong set of results for the full financial year.

People

Succession planning remains an ongoing focus for us and a programme of succession planning is in place for all of our subsidiary businesses. We have recently included a news feed on our website, in order to provide updates on operational progress that would not need to be released via RNS, and any changes to subsidiary management teams would be included there.

As always our loyal, dedicated and skilled workforce is a key part of our success and we make every effort to support them through continued training and health and safety compliance.

Conclusion

I am delighted to be reporting on another excellent trading period and such an outstanding set of results. I would once more like to thank all of our employees for their hard work and contribution.

Steve Roberts
Executive Chairman

12 November 2018

Consolidated statement of comprehensive income
for the six month period ended 30 September 2018

	6 months ended 30 September 2018	6 months ended 30 September 2017	Year ended 31 March 2018
	Unaudited £'000	Unaudited £'000	Audited £'000
Revenue	28,576	27,196	53,573
Cost of sales	<u>(22,942)</u>	<u>(22,202)</u>	<u>(43,067)</u>
Gross profit	5,634	4,994	10,506
Other operating income	12	13	23
Administrative expenses	(3,903)	(3,453)	(7,459)
Operating profit (before amortisation and transaction costs)	1,743	1,554	3,070
Transaction costs and adjustments	23	(158)	(158)
Amortisation of intangible assets arising on acquisitions	(76)	(26)	(102)
Operating profit	1,690	1,370	2,810
Finance costs	<u>(103)</u>	<u>(59)</u>	<u>(213)</u>
Profit before income tax	1,587	1,311	2,597
Income tax expense	<u>(302)</u>	<u>(249)</u>	<u>(613)</u>
Profit for the period	1,285	1,062	1,984
Total comprehensive income attributable to equity holders of the parent	1,285	1,062	1,984
Earnings per share from continuing operations			
Basic earnings per share	6.9p	5.9p	10.9p
Diluted earnings per share	6.9p	5.9p	10.8p

Consolidated statement of changes in equity
for the six month period ended 30 September 2018

	Share capital £'000	Capital redemption reserve £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2017	184	6	5,169	9,231	5,102	19,692
Total comprehensive income for the period						
Profit for the period	-	-	-	-	1,062	1,062
Transactions with owners, recorded directly in equity						
Issue of shares	5	-	-	-	-	5
Exercise of share options	-	-	-	-	38	38
Equity dividends paid	-	-	-	-	(742)	(742)
Merger reserve arising on acquisition	-	-	-	374	-	374
At 30 September 2017	189	6	5,169	9,605	5,460	20,429
At 1 April 2017	184	6	5,169	9,231	5,102	19,692
Total comprehensive income for the year						
Profit for the year	-	-	-	-	1,984	1,984
Transactions with owners, recorded directly in equity						
Issue of shares	5	-	-	-	-	5
Exercise of share options	-	-	-	-	65	65
Equity dividends paid	-	-	-	-	(742)	(742)
Merger reserve arising on acquisition	-	-	-	374	-	374
At 31 March 2018	189	6	5,169	9,605	6,409	21,378
At 1 April 2018	189	6	5,169	9,605	6,409	21,378
Total comprehensive income for the period						
Profit for the period	-	-	-	-	1,285	1,285
Transactions with owners, recorded directly in equity						
Exercise of share options	-	-	-	-	14	14
Equity dividends paid	-	-	-	-	(740)	(740)
At 30 September 2018	189	6	5,169	9,605	6,968	21,937

Consolidated balance sheet at 30 September 2018

	30 September 2018 Unaudited £'000	30 September 2017 Unaudited £'000	31 March 2018 Audited £'000
Assets			
Property, plant and equipment	3,122	3,007	3,050
Intangible assets	20,552	20,661	20,628
Trade and other receivables	1,420	-	-
Total non-current assets	25,094	23,668	23,678
Inventories	724	1,033	952
Trade and other receivables	9,224	8,881	9,833
Prepayments	536	503	265
Cash and cash equivalents	1,746	2,923	1,731
Total current assets	12,230	13,340	12,781
Total assets	37,324	37,008	36,459
Equity			
Share capital	189	189	189
Capital redemption reserve	6	6	6
Share premium	5,169	5,169	5,169
Merger reserve	9,605	9,605	9,605
Retained earnings	6,968	5,460	6,409
Total equity attributable to equity holders of the Company	21,937	20,429	21,378
Liabilities			
Loans and borrowings	2,173	3,630	2,672
Deferred consideration	206	474	510
Deferred tax liabilities	316	307	316
Total non-current liabilities	2,695	4,411	3,498
Loans and borrowings	194	180	227
Deferred consideration	417	365	425
Trade and other payables	11,181	10,898	10,333
Current tax payable	900	725	598
Total current liabilities	12,692	12,168	11,583
Total liabilities	15,387	16,579	15,081
Total equity and liabilities	37,324	37,008	36,459

Consolidated statement of cash flows
for the six month period ended 30 September 2018

	6 months ended 30 September 2018	6 months ended 30 September 2017	Year ended 31 March 2018
	Unaudited	Unaudited	Audited
	£'000	£'000	£'000
Operating profit for the period	1,690	1,370	2,810
<i>Adjustments for:</i>			
Depreciation	264	265	559
Amortisation	76	26	103
(Profit)/loss on sale of property, plant and equipment	14	(3)	(7)
Non-cash transaction adjustments	(23)	-	-
	2,021	1,658	3,465
Change in inventories	228	(70)	11
Change in trade and other receivables	(811)	(52)	(1,004)
Change in prepayments	(271)	(205)	33
Change in trade and other payables	846	(461)	(1,103)
Cash generated from operations	2,013	870	1,402
Interest received	-	-	-
Interest paid	(65)	(59)	(139)
Tax paid	-	(106)	(483)
Net cash flow from operating activities	1,948	705	780
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	119	94	186
Acquisition of property, plant and equipment	(333)	(313)	(569)
Acquisition of subsidiary (net of cash acquired)	(327)	(817)	(866)
Net cash from investing activities	(541)	(1,036)	(1,249)
Cash flows from financing activities			
Issue / (repayment) of borrowings	(498)	1,504	511
Repayment of finance lease liabilities	(168)	(129)	(216)
Proceeds from the exercise of share options	14	38	64
Equity dividends paid	(740)	(742)	(742)
Net cash from financing activities	(1,392)	671	(383)
Net increase in cash and cash equivalents	15	340	(852)
Cash and cash equivalents at start of period	1,731	2,583	2,583
Cash and cash equivalents at end of period	1,746	2,923	1,731

Notes

1. Basis of preparation

These interim consolidated financial statements have been prepared using accounting policies based on International Financial Reporting Standards (IFRS and IFRIC Interpretations) issued by the International Accounting Standards Board (“IASB”) as adopted for use in the EU. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the 31 March 2018 Annual Report and Financial Statements. The financial information for the half years ended 30 September 2018 and 30 September 2017 does not constitute statutory accounts within the meaning of Section 434 (3) of the Companies Act 2006 and both periods are unaudited. The financial information has not been prepared (and is not required to be prepared) in accordance with IAS 34 *Interim Financial Reporting*.

The annual consolidated financial statements of Northern Bear plc (the “Company”, or, together with its subsidiaries, the “Group”) are prepared in accordance with IFRS as adopted by the European Union. The comparative financial information for the year ended 31 March 2018 included within this report does not constitute the full statutory Annual Report for that period. The statutory Annual Report and Financial Statements for the year ended 31 March 2018 have been filed with the Registrar of Companies. The Independent Auditors’ Report on the Annual Report and Financial Statements for the year ended 31 March 2018 was i) unqualified, ii) did not draw attention to any matters by way of emphasis, and iii) and did not contain a statement under 498(2) - (3) of the Companies Act 2006.

2. Accounting policies

The Group has applied the same accounting policies and methods of computation in its interim consolidated financial statements as in its 2018 annual financial statements, as set out in Notes 2 and 3 of that document, except for those that relate to new standards and interpretations effective for the first time for periods beginning on (or after) 1 April 2018, and will be adopted in the 2019 financial statements. The accounting policies applied are based on the recognition and measurement principles of IFRS in issue as adopted by the European Union (EU) and are effective at 31 March 2019 or are expected to be adopted and effective at 31 March 2019.

New standards impacting the Group that will be adopted in the annual financial statements for the year ending 31 March 2019, and which have given rise to changes in the Group’s accounting policies are:

- IFRS 9 Financial Instruments; and
- IFRS 15 Revenue from Contracts with Customers

Details of the impact of these two standards are given below. Other new and amended standards and interpretations issued by the IASB that will apply for the first time in the next annual financial statements are not expected to have a material impact on the Group.

IFRS 9 *Financial Instruments*

IFRS 9 has replaced IAS 39 *Financial Instruments: Recognition and Measurement*, and has had an effect on the Group in the following areas:

- The impairment provision on financial assets measured at amortised cost (such as trade and other receivables) have been calculated in accordance with IFRS 9’s expected credit loss model, which differs from the incurred loss model previously required by IAS 39. This has not resulted in a change to the impairment provision at 1 April 2018.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 has replaced IAS 18 *Revenue* and IAS 11 *Construction Contracts* as well as various Interpretations previously issued by the IFRS Interpretations Committee, noting the Company has adopted the modified retrospective approach. There is no material impact on any revenue stream for the Group, noting the following as it relates to the Group’s revenue streams from its operating segments as set out in Note 4 of the Annual Report and Financial Statements for the year ended 31 March 2018:

Notes (continued)

2. Accounting policies (continued)

- Roofing activities – revenue is recognised over time based on allocation of the customer contract price to distinct performance obligations and recognising revenue when those performance obligations are satisfied;
- Building services activities - revenue is recognised over time based on allocation of the customer contract price to distinct performance obligations and recognising revenue when those performance obligations are satisfied;
- Materials handling activities
 - Product sales – revenue is recognised on delivery to the customer
 - Assets leased to customers – revenue is recognised on a straight line basis over the lease term

On application of IFRS 15 the Group has changed the basis of presentation of its consolidated balance sheet such that contract retentions due in more than one year are shown in non-current assets. The amount due in more than one year is presented on an undiscounted basis as the impact of discounting is not considered to be material. The Group has not restated the consolidated balance sheet at 31 March 2018 or 30 September 2017 in this report on an equivalent basis.

The adoption of the above standards has not had a significant impact on the Group's profit for the period or equity.

Standards and interpretations effective in subsequent financial periods

There are a number of standards and interpretations which have been issued by the International Accounting Standards Board that are effective for periods beginning subsequent to 31 March 2019 (the date on which the company's next annual financial statements will be prepared up to) that the Group has decided not to adopt early. The most significant of these is IFRS 16 Leases (mandatorily effective for periods beginning on or after 1 January 2019). It is currently anticipated that substantially the whole of the Group's leases that are currently accounted for as operating leases off the Group's balance sheet would come on to the balance sheet with the associated lease debt.

3. Taxation

The taxation charge for the six months ended 30 September 2018 is calculated by applying the Directors' best estimate of the annual effective tax rate to the profit for the period.

Notes (continued)

4. Earnings per share

Basic earnings per share is the profit or loss for the period divided by the weighted average number of ordinary shares outstanding, excluding those held in treasury, calculated as follows::

	6 months ended 30 September 2018 Unaudited	6 months ended 30 September 2017 Unaudited	Year ended 31 March 2018 Audited
Profit for the period (£'000)	<u>1,285</u>	<u>1,062</u>	<u>1,984</u>
Weighted average number of ordinary shares excluding shares held in treasury for the proportion of the year held in treasury ('000)	<u>18,510</u>	<u>17,920</u>	<u>18,270</u>
Basic earnings per share	<u>6.9p</u>	<u>5.9p</u>	<u>10.9p</u>

The calculation of diluted earnings per share is the profit or loss for the period divided by the weighted average number of ordinary shares outstanding, after adjustment for the effects of all potential dilutive ordinary shares, excluding those in treasury, calculated as follows:

	6 months ended 30 September 2018 Unaudited	6 months ended 30 September 2017 Unaudited	Year ended 31 March 2018 Audited
Profit for the period (£'000)	<u>1,285</u>	<u>1,062</u>	<u>1,984</u>
Weighted average number of ordinary shares excluding shares held in treasury for the proportion of the year held in treasury ('000)	<u>18,510</u>	<u>17,920</u>	<u>18,270</u>
Effect of potential dilutive ordinary shares ('000)	<u>64</u>	<u>188</u>	<u>113</u>
Diluted weighted average number of ordinary shares excluding shares held in treasury for the proportion of the year held in treasury ('000)	<u>18,574</u>	<u>18,108</u>	<u>18,383</u>
Diluted earnings per share	<u>6.9p</u>	<u>5.9p</u>	<u>10.8p</u>

Notes (continued)

4. Earnings per share (continued)

The following additional earnings per share figures are presented as the directors believe they provide a better understanding of the trading performance of the Group.

Adjusted basic and diluted earnings per share is the profit for the period, adjusted for acquisition related costs, divided by the weighted average number of ordinary shares outstanding as presented above.

Adjusted earnings per share is calculated as follows:

	6 months ended 30 September 2018 Unaudited	6 months ended 30 September 2017 Unaudited	Year ended 31 March 2018 Audited
Profit for the period (£'000)	1,285	1,062	1,984
Transaction costs and adjustments	(23)	158	158
Amortisation of intangible assets arising on acquisitions	76	26	102
Unwinding of discount on deferred consideration liabilities	38	-	74
Corporation tax effect of above items	-	(30)	(30)
Adjusted profit for the period (£'000)	1,376	1,216	2,288
Weighted average number of ordinary shares excluding shares held in treasury for the proportion of the year held in treasury ('000)	18,510	17,920	18,270
Adjusted basic earnings per share	7.4p	6.8p	12.5p
Adjusted diluted earnings per share	7.4p	6.7p	12.4p

On 25 July 2017 the Group acquired the entire issued share capital of H Peel & Sons (Holdings) Limited and its subsidiary H. Peel & Sons Limited.

The consideration was satisfied through a combination of cash, equity instruments, and deferred and contingent consideration. The amount recognised on the Group's balance sheet for deferred and contingent consideration at the date of acquisition was based on the discounted present value of estimated future payments to be made.

Transaction costs and adjustments for the period ended 30 September 2018 relate to the difference between the amount provided for deferred and contingent consideration due in the period and the actual amount paid. In the period ended 30 September 2017 transaction costs relate to acquisition related costs incurred.

As deferred and contingent consideration is presented at discounted present value the unwinding of this discount is recorded in finance costs in the income statement.

Notes (continued)

5. Finance costs

	6 months ended 30 September 2018 Unaudited	6 months ended 30 September 2017 Unaudited	Year ended 31 March 2018 Audited
On bank loans and overdrafts	60	49	128
Finance charges payable in respect of finance leases and hire purchase contracts	5	10	11
Unwinding of discount on deferred consideration liabilities	38	-	74
Total finance costs	<u>103</u>	<u>59</u>	<u>213</u>

6. Principal risks and uncertainties

The directors consider that the principal risks and uncertainties which could have a material impact on the Group's performance in the remaining six months of the financial year remain the same as those stated on page 7 to 10, and 60 to 64 of our Annual Report and Financial Statements for the year ended 31 March 2018, which are available on the Company's website, www.northernbearplc.com.

7. Half year report

The condensed financial statements were approved by the Board of Directors on 12 November 2018 and are available on the Company's website, www.northernbearplc.com. Copies will be sent to shareholders and are available on application to the Company's registered office.

For and on behalf of the Board of Directors

Thomas Hayes
Finance Director

12 November 2018