3 September 2019

Michelmersh Brick Holdings Plc

(“MBH”, the “Company”, or the “Group”)

Half Year Results for the six months ended 30 June 2019

Michelmersh Brick Holdings Plc (AIM:MBH), the specialist brick manufacturer, is pleased to report its half year results for the six months ended 30 June 2019.

Financial Highlights

	30 June 2019	**30 June 2018**	**Change**
Turnover	£27.2m	£23.1m	*+ 17.4%*
Underlying[1] gross margin	41.9%	40.5%	+ 1.4%
Underlying[1] EBITDA*	£6.6m	£5.6m	*+ 18.0%*
Underlying[1] operating profit	£5.4m	£4.7m	*+ 15.5%*
Reported PBT	£4.0m	£2.9m	*+41.0%*
Underlying[1] PBT	£5.2m	£4.4m	*+ 18.3%*
Reported Basic EPS	3.36p	2.55p	*+31.7%*
Underlying[1] EPS	4.55 p	4.20 p	*+ 8.3%*
Interim Dividend	1.15p	1.06p	*+8.5%*
Cash from operations	£6.1m	£2.7 m	*+ 130.1%*

Operational Highlights:

- Financial performance above expectations
- Strong financial performance from UK operations
- Acquisition and integration of the Belgian business
- Strong balanced forward order book going into H2, 7% ahead of the same period last year. (Note this excludes Floren.be forward orders and is on a like for like basis)
- Completion of phase 1 of the Carlton investment project targeting enhanced efficiency and output
- Investment in IT CRM and HR infrastructures
- Increased interim dividend

Commenting on the results, Martin Warner, Chairman of Michelmersh Brick Holdings Plc, said:

“Following a very strong first half in 2019, and with a robust order book, Michelmersh can look forward to steady trading for the remainder of the year. Stocks across the industry remain at historically low levels and the volume of imported products are increasing.

The Group’s performance in the first half of 2019 has continued into the second half and, with the positive backdrop to our markets, the Board expects to exceed market expectations for the full year. ”

** EBITDA is defined as earnings before interest, tax, depreciation and amortisation.*

[1] *References to ‘underlying’ excludes items classed as exceptional and amortisation of intangibles*

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The information contained within this announcement is deemed to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. Upon the publication of this announcement, this inside information is now considered to be in the public domain.

About Michelmersh Brick Holdings PLC:

Michelmersh Brick Holdings PLC is a business with seven market leading brands: Blockleys, Carlton, Charnwood, Freshfield Lane, Michelmersh, Floren and Hathern Terra Cotta. These divisions operate within a fully integrated business combining the manufacture of clay bricks and pavers. The Group also includes a landfill operator, New Acres Limited, and seeks to develop future landfill and development opportunities on ancillary land assets.

Established in 1997, the Company has grown through acquisition and organic growth into a profitable and asset rich business, producing over 120 million clay bricks and pavers per annum. Michelmersh currently owns most of the UK's premium manufacturing brick brands and is a leading specification brick and clay paving manufacturer.

Michelmersh strives to be a well invested, long term, sustainable, environmentally responsible business. Opportunity, training and security for all employees, whilst meeting the needs of stakeholders are at the forefront of everything we do. We aim to lead the way in producing some of Britain's premium clay products and enhancing our environment by adding value to the architectural landscape for generations to come.

We are Michelmersh Brick Holdings PLC: we are "Britain's Brick Specialist".

Please visit the Group's websites at: www.mbhplc.co.uk and www.bimbricks.com

Chairman's Statement

I am pleased to be reporting on another positive set of results for Michelmersh, which includes a maiden contribution from our new Belgian subsidiary, Floren et Cie ("Floren") from the date of its acquisition. The acquisition demonstrates the Board's ambition and ability to continue the operational expansion of the Group. Since being acquired on 15 February 2019, Floren has performed to expectations and been integrated into the wider Group structure. We welcome the new team to the Group and thank them for their efforts in the integration process and look forward to progressing together.

Financial Highlights

	30 June 2019	30 June 2018	Change
Turnover	£27.2m	£23.1m	*+ 17.4%*
Underlying[1] gross margin	41.9%	40.5%	*+ 1.4%*
Underlying* EBITDA[2]	£6.6m	£5.6m	*+ 18.0 %*
Underlying* EBIT	£5.4m	£4.7m	*+ 15.5%*
Reported PBT	£4.0m	£2.9m	*+41.0%*
Underlying* PBT	£5.2m	£4.4m	*+ 18.3%*
Reported Basic EPS	3.36p	2.55p	*+31.7%*
Underlying* EPS	4.55 p	4.20p	*+ 8.3%*
Interim Dividend	1.15p	1.06p	*+8.5%*
Cash from operations	£6.1m	£2.7 m	*+ 130.1%*

[1]Underlying gross margin is calculated by adding back £770,000 to the reported gross profit to eradicate the 'fair value' element of brick stock acquired at Floren and adjustment for the impact of IFRS16.

[2] EBITDA is defined as earnings before interest, tax, depreciation and amortisation.

**Items deemed underlying are reconciled with the reported figures in the table Alternative Performance Measures below.*

Turnover for the six months increased by 17.4% over the equivalent period in 2018, of which like for like turnover for the existing UK business grew by 8.6%. The reported Operating Profit of £4.1 million (2018: £3.2 million) and Profit Before Taxation of £4.0 million (2018: £2.9 million) underlines the Company's continuing success of improving returns from its existing business. These financial results include a number of items that reflect accounting for the acquisition of Floren but make it difficult to extract the underlying trading performance. The table below (Alternative Performance measures) extracts these items and allows a clearer view of the underlying performance, showing a more meaningful increase in all of the main performance indicators.

All of the financial metrics are positive but it should be noted that underlying earnings per share shows an 8.3% improvement over H1 2018 even with a short period of contribution from Floren since acquisition.

The income statement reports a provisional 'Bargain' purchase of Floren of £0.8 million. A Bargain purchase represents the excess of the fair value of the assets and liabilities acquired over the consideration made for the business. The 'fair value' exercise involved external valuation of land and buildings, and an internal evaluation of inventory. An exercise to complete the establishment of fair value of other tangible and intangible assets and consequent deferred tax balances is under way and will be applied in the audited balance sheet as at 31 December 2019. This confirms our view that the earnings-based valuation was supported by the tangible assets being acquired. Further detail of the acquisition is provided in note 4 to this statement. The income statement also records as an exceptional item the costs associated with the acquisition as an expense below Operating profit.

Alternative Performance measures reconciliation:

	Six months ended	Six months ended	H1 2019/ H12018	12 months ended
	30 June 2019	30 June 2018		31 December 2018
	£000	£000		£000
Reported Operating profit	4,064	3,169	+28.2%	7,054
Add back exceptional costs of plant restructure [a]	-	930		930
To remove the 'fair value' element of acquired brick stocks so as to report 'normal' trading terms [b]	770	-		-
Amortisation of intangibles	569	569		1,138
IFRS16 impact	(13)	-		-
'Underlying' operating profit	**5,390**	**4,668**	**+ 15.5%**	**9,122**
Finance costs – reported	(296)	(312)		(617)
- exclude IFRS16 charge	59	-		-
'Underlying' profit before taxation	5,153	4,356	+ 18.3%	8,505
'Underlying' operating profit as above	**5,390**	**4,668**	**+ 15.5%**	**9,122**
IFRS16 impact	(330)	-		-
Depreciation	1,557	939		1,842
Underlying EBITDA	**6,617**	**5,607**	**+18.0%**	**10,964**
Reported Basic EPS	3.36 p	2.55 p	31.7%	5.78 p
Earnings adjusted by [a] and [b] above	770	930		930
Earnings adjusted by excluding exceptional 'Bargain Purchase' and Acquisition costs Amortisation of intangibles	(828) 567 569	 569		 1,138
Underlying Basic EPS	4.55 p	4.20 p	+ 8.3%	6.76 p

IFRS 16 Leases

Treatment of plant and vehicle leases are now subject to a different accounting treatment than in prior period with the implementation of IFRS 16. Assets previously held under contract leases are now treated as a fixed asset with an associated lease liability. The effect on these Interim Statements has been to increase tangible fixed assets by £1.3 million, and to recognise a similar amount in long and short term interest bearing liabilities. Monthly rental charges are now replaced with depreciation and interest spread over the period of the lease. The net impact on the Income Statement is a net reduction in profit before taxation of £46,000 but with the charging of interest and depreciation not included in the reported EDITDA, the effect on the six month's EBITDA has been positive by £330,000. The comparative figures have not been restated.

Land and Assets

The Group continues to explore a range of opportunities to enhance and release the value of its land assets. The new road being developed at Telford will commence construction in 2020 as we complete the final preparations and clear planning and legal conditions. This will release substantial in-ground minerals for the brick plant and offer opportunities to release land for sale.

Capital expenditure in H1 has centred around the Telford road project and completing phase 1 of the Carlton plant replacement project. The automation of the kiln unloading process is now complete and evaluation of subsequent phases is under way that hold the opportunity to increase plant capacity and efficiency.

The Floren balance sheet reflects the same structure as the Group; a strong core of tangible fixed assets including significant land holdings and adequate working capital for the business. As a result of the acquisition, the Group's balance sheet has grown. Over the last 12 months, net asset value per share has grown 7.7% to 75 pence.

Net Debt and Working Capital

Net debt at 30 June 2019 stood at £15.1 million (30 June 2018: £18.1 million) and as noted above included £1.3 million as a result of the adoption of IFRS 16 in this period. During the first six months of 2019, we have seen some large cash flows relating to the Floren acquisition. Acquisition consideration and associated costs paid out in the period amounted to £8.8 million while the net cash in Floren's balance sheet equated to £700,000 at acquisition and £800,000 at 30 June. To fund the acquisition, the Group drew £5.3 million from existing debt facilities in Euros such that currency fluctuations are less of a risk going forward. Floren now offers some structural currency hedging as it generates currency that meets demands elsewhere in the Group.

Post-acquisition, the Group took advantage of strong investor demand and placed 5.6 million shares at nil discount to generate net proceeds of £4.8 million.

Having also paid £2.5 million in interim and final dividend in respect of 2018 during the last six months, the underlying cash generation of the business is evident in the period end net debt figure. Historically, H2 is a stronger cash generative period than H1 and we expect to further drive down our debt by the year end.

The Board are aware that strong operating cash generation, modest debt levels and comfortable covenants gives the business flexibility to take advantage of opportunities that arise – both the Carlton and Floren acquisitions were made easier by having a strong cash/debt position.

Dividend

Consistent with the Board's stated intentions to provide a meaningful and progressive dividend, we are pleased to report that continued robust trading allows us to declare an interim dividend of 1.15 pence (2018: 1.06 pence). The dividend will be paid on 10 January 2020 to members on the register on 6 December 2019. The Board has revised upwards its guidance on the expected final dividend for 2019, as it maintains its policy of one third of the total annual dividend being paid at the interim stage and two thirds of the total annual dividend being paid at the full year.

The final dividend for 2018 was paid in June 2019 and for the first time, with shareholders having the option to elect for a scrip dividend. I am pleased to note that this facility was selected by a reasonable number of large and smaller shareholders which encourages us to maintain that facility going forwards. Those wishing to take shares in lieu of cash for the interim dividend will have until 17 December to make that election.

Outlook

Following a very strong first half in 2019, and with a robust order book, Michelmersh can look forward to steady trading for the remainder of the year. Stocks across the industry remain at historically low levels and the volume of imported products are increasing.

The Group's performance in the first half of 2019 has continued into the second half and, with the positive backdrop to our markets, the Board expects to exceed market expectations for the full year.

Wider concerns surrounding political uncertainty, potential housebuilding slowdown in the south-east and worldwide economic pressures have yet to have a discernible impact on the brick manufacturing industry. The Directors however maintain a cautious view on these background factors and the effect they may have on brick demand and pricing in the final quarter of the financial year and 2020. Michelmersh continues to operate on the basis of a strong order book, strong loyal customer relationships and continued latent demand from the specification, housing, repair maintenance and improvement and commercial sectors. Our European acquisition has been very positive and has brought with it enormous product flexibility and future growth opportunity.

M R Warner

CHAIRMAN

Consolidated Income Statement

		6 months ended 30 June 2019 £'000	6 months ended 30 June 2018 £'000	12 months ended 31 December 2018 £'000
		Unaudited	Unaudited	Audited
Revenue		**27,165**	23,136	46,324
Cost of sales		**(16,544)**	(13,775)	(28,305)
Gross profit		**10,621**	9,361	18,019
Administration expenses	- Underlying	**(6,041)**	(4,774)	(8,994)
	- Exceptional [1]	**-**	(930)	(930)
	-Amortisation of intangibles	**(569)**	(569)	(1,138)
		(6,610)	(6,273)	(11,062)
Other income		**53**	81	97
Operating profit		**4,064**	3,169	7,054
Exceptional items	- 'Bargain purchase'[2]	**828**	-	-
	- Acquisition costs [3]	**(567)**	-	-
Finance expense		**(296)**	(312)	(617)
Profit before taxation		**4,029**	2,857	6,437
Taxation		**(991)**	(657)	(1,452)
Profit for the period		**3,038**	2,200	4,985
Basic earnings per share		**3.36 p**	2.55 p	5.78 p
Diluted earnings per share		**3.26 p**	2.50 p	5.57 p

Exceptional item[1] relates to costs incurred in relation to the reconfiguration of activities at the Michelmersh plant in respect of redundancies and plant accelerated depreciation.

Exceptional item[2] – the 'Bargain purchase' reflects the excess of fair value of the assets acquired at Floren over the consideration paid. Exceptional item [3] is the costs incurred in acquiring Floren that has been expensed in the period. See note 4 for further details of the acquisition.

Consolidated Statement of Comprehensive Income

	6 months ended 30 June 2019 £'000	6 months ended 30 June 2018 £'000	12 months ended 31 December 2018 £'000
	Unaudited	Unaudited	Audited
Profit for the financial period	**3,038**	2,200	4,985
Other comprehensive income			
Items which will not subsequently be reclassified to profit or loss			
Currency movements	22	-	-
Revaluation deficit of property, plant and equipment	-	-	(42)
Revaluation surplus of property, plant & equipment	-	-	565
Deferred tax on revaluation	-	-	(115)
Other comprehensive income for the period net of tax	22	-	408
Total comprehensive income for the financial period	**3,060**	2,200	5,393

Consolidated Balance Sheet

	As at 30 June 2019 £'000 Unaudited	As at 30 June 2018 £'000 Unaudited	As at 31 December 2018 £'000 Audited
Assets			
Non-current assets			
Intangible assets	**22,379**	23,517	22,948
Property, plant and equipment	**64,294**	51,449	52,416
	86,673	74,966	75,364
Current assets			
Inventories	**9,135**	8,811	8,309
Trade and other receivables	**11,164**	11,054	8,245
Cash and cash equivalents	**8,881**	2,571	5,255
Total current assets	**29, 180**	22,436	21,809
Total assets	**115,853**	97,402	97,173
Liabilities			
Current liabilities			
Trade and other payables	**9,464**	7,372	7,065
Interest bearing borrowings	**1,922**	2,666	1,770
Lease liabilities	**558**	-	-
Corporation tax payable	**1,079**	719	564
Total current liabilities	**13,023**	10,757	9,399
Non-current liabilities			
Interest bearing borrowings	**20,714**	18,049	15,310
Lease liabilities	**761**	-	-
Deferred tax liabilities	**11,930**	8,493	8,670
	33,405	26,542	23,980
Total liabilities	**46,428**	37,299	33,379
Net assets	**69,425**	60,103	63,794
Equity attributable to equity holders			
Share capital	**18,495**	17,243	17,297
Share premium account	**15,545**	11,518	11,643
Other reserves	**22,145**	21,156	21,788
Retained earnings	**13,240**	10,186	13,066
Total equity	**69,425**	60,103	63,794

Consolidated Statement of Changes in Equity

	Share Capital	Share Premium	Other Reserves	Retained Earnings	Total Equity
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
As at 1 January 2018	17,234	11,495	20,816	9,838	**59,383**
Profit for the period	-	-	-	2,200	**2,200**
	-	-	-	2,200	**2,200**
Shares issued in the period	9	23	-	-	**32**
Share based payment	-	-	340	-	**340**
Dividends paid	-	-	-	(1,852)	**(1,852)**
As at 30 June 2018	**17,243**	**11,518**	**21,156**	**10,186**	**60,103**
Profit for the period	-	-	-	2,785	**2,785**
Revaluation deficit	-	-	(42)	-	**(42)**
Revaluation surplus	-	-	565	-	**565**
Deferred tax on revaluation	-	-	(115)	-	**(115)**
Total comprehensive income	-		408	2,785	**3,193**
Shares issued in the period	54	125	-	-	**179**
Transfer to retained earnings	-	-	(96)	96	**-**
Share based payment	-	-	320	-	**320**
As at 31 December 2018	**17,297**	**11,643**	**21,788**	**13,066**	**63,794**
Profit for the period	**-**	**-**	**-**	**3,038**	**3,038**
Currency difference	**-**	**-**	**-**	**22**	**22**
Total comprehensive	**-**		**-**	**3,060**	**3,060**
Shares issued in the period	**1,198**	**3,902**	**-**	**-**	**5,100**
Share based payment	**-**	**-**	**358**	**-**	**358**
Dividends paid	**-**	**-**	**-**	**(2,887)**	**(2,887)**
As at 30 June 2019	**18,495**	**15,545**	**22,146**	**13,239**	**69,425**

Consolidated Statement of Cash Flows

	6 months ended £'000 30 June 2019 Unaudited	6 months ended £'000 30 June 2018 Unaudited	12 months ended £'000 31 December 2018 Audited
Net cash generated by operations	**6,144**	2,670	11,669
Taxation paid	**(760)**	(935)	(1,823)
Net cash generated by operating activities	**5,384**	1,735	9,846
Cash flows from investing activities			
Purchase of property, plant and equipment	**(810)**	(316)	(1,985)
Purchase of subsidiary undertaking net of cash acquired	**(6,768)**	-	-
Proceeds on disposal of property, plant and equipment	**29**	42	45
Net cash used in investing activities	**(7,549)**	(274)	(1,940)
Cash flows from financing activities			
Bank loan drawdown	**5,264**	-	-
Interest paid	**(238)**	(312)	(617)
Repayment of interest bearing liabilities	**(970)**	(885)	(4,520)
Principle elements of lease rentals	**(480)**		
Proceeds of share issue	**4,703**	32	211
Dividends paid	**(2,488)**	(1,853)	(1,853)
Net cash generated by / (used in) financing activities	**5,791**	(3,018)	(6,779)
Net increase / (decrease) in cash and cash equivalents	**3,626**	(1,557)	1,127
Cash and cash equivalents at beginning of period	**5,255**	4,128	4,128
Cash and cash equivalents at end of period	**8,881**	2,571	5,255
Cash and cash equivalents comprise:			
Cash at bank and in hand	**8,881**	2,571	5,255

NOTES TO THE GROUP INTERIM REPORT

1. GENERAL INFORMATION

Michelmersh Brick Holdings Plc ("the Company") is a public limited company incorporated in the United Kingdom under the Companies Act 2006 (registration number 3462378). The Company is domiciled in the United Kingdom and its registered address is Freshfield Lane, Danehill, Haywards Heath, West Sussex, RH17 7HH. The Company's Ordinary Shares are traded on AIM, part of the London Stock Exchange plc. Copies of the Interim Report and Annual Report and Accounts may be obtained from the address above, or at www.mbhplc.co.uk.

2. ACCOUNTING POLICIES

Basis of preparation

The interim financial information in this report has been prepared using accounting policies consistent with IFRS as adopted by the European Union. IFRS is subject to amendment and interpretation by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee and there is an ongoing process of review and endorsement by the European Commission. The financial information has been prepared on the basis of IFRS that the Directors expect to be adopted by the European Union and applicable as at 31 December 2018. "The group has chosen not to adopt IAS 34 "Interim Financial Statements" in preparing the interim financial information."

IFRS 16 Leases

The Group has adopted IFRS 16 using the modified retrospective method (including appropriate practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2019). Accordingly, the information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations.
IFRS 16 eliminates the classification for lessees of leases as operating leases or finance leases and treats all in a similar way to finance leases. It replaced IAS 17 Leases and related interpretations.

Statutory accounts

Financial information contained in this document does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 ("the Act"). The statutory accounts for the year ended 31 December 2018 have been filed with the Registrar of Companies. The report of the auditors on those statutory accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Act.

The financial information for the six months ended 30 June 2019 and 30 June 2018 is unaudited.

3. EARNINGS PER SHARE

The calculation of earnings per share is based on a profit of £4,905,000 (six months ended 30 June 2018 –£2,200,000; 12 months ended 31 December 2018–£4,985,000) and 90,427,069 (at 30 June 2018 86,191,712 and 31 December 2018, 86,312,463) being the weighted average number of ordinary shares in issue.

Diluted

At 30 June 2018 there were 2,815,170 (30 June 2018: 1,811,232, and at 31 December 2018 2,242,595) dilutive shares under option leading to 93,242,239 shares (30 June 2018: 88,002,944, and at 31 December 2018 88,655,058) being the weighted average number of ordinary shares for the purposes of diluted earnings per share. A calculation is performed to determine the number of share options that are potentially dilutive based on the number of shares that could have been acquired at fair value, considering the monetary value of the subscription rights attached to outstanding share options.

4. ACQUISITION OF SUBSIDIARY

On 15 February 2019, the Company completed the acquisition of 100% of the share capital of Floren et Cie for a maximum gross consideration of £8.7 million, payable in cash (£8.3 million), and deferred ordinary Michelmersh Brick Holdings Plc ordinary shares to a value of £400,000 provided certain targets are met. The provisional fair value of the net assets of Floren at acquisition was £9.5 million after applying a valuation of the land and buildings that were conducted by independent valuers and internal evaluation of the fair value of brick stocks.

An exercise to complete the establishment of fair value of other tangible and intangible assets and consequent deferred tax balances is under way and will be applied in the audited balance sheet as at 31 December 2019.