MICHELMERSH
Brick Holdings PLC
Britain's Brick Specialists

31 March 2020

Michelmersh Brick Holdings Plc
("MBH" or the "Group")

FINAL RESULTS

Strong operational and financial performance, leading to record results

Michelmersh Brick Holdings (AIM: MBH), the specialist brick manufacturer, is pleased to report its audited final results for the year ended 31 December 2019, representing a strong performance and continued progress.

Financial Highlights

- Revenue up 15% to £53.5 million (2018: £46.3 million)
- Improved gross margin by 2% to 40.9% (2018: 38.9%)
- Underlying[1] Operating profit increased by 13% to £10.3 million (2018: £9.1 million)
- Underlying[1] Basic EPS at 8.87 pence up 31.2% over 2018
- Underlying[1] EBITDA increased 18% to £12.9 million (2018: £10.9 million)
- Cash generated by operations of £16.6 million (2018: £11.7 million), representing 161% of Operating profit

Operational Highlights

- Acquisition of a Belgian brick business - Floren
- Completed phase 1 Carlton expansion – new robotic kiln unloading and packaging plant
- Strong bounce-back of Michelmersh plant following restructure in 2018

Martin Warner, Chairman of Michelmersh Brick Holdings, commented:

"Following a record year and strong first quarter, the Group is in a sound financial position with significant cash reserves and assets. As announced last week, we have taken the necessary immediate steps to protect the business for the benefit of all stakeholders in the midst of the current crisis. These measures will be kept under constant review.

"Michelmersh has always emerged stronger through difficulties and I see no reason why this should not be the case now with our committed and able workforce, positive financial position and unique position in the market place."

[1]*Underlying results reflect the statutory results excluding one-off items including those that arose in connection with the acquisition of Floren (2018 costs associated with the restructure of operations at the Michelmersh plant). See note 4 for a full explanation and reconciliation.*

An analyst briefing will be held as a conference call at 9.30am today. For the dial-in details, please email michelmersh@yellowjerseypr.com.

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About Michelmersh Brick Holdings PLC:

Michelmersh Brick Holdings PLC is a business with seven market leading brands: Blockleys, Carlton, Charnwood, Freshfield Lane, Michelmersh, Hathern Terra Cotta and Floren. 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 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

Introduction
Michelmersh has continued to deliver growth and development during 2019 and produced a very satisfying financial performance. Turnover, earnings and cashflow are all positive indicators that have been generated in part by the acquisition of a Belgian business, Floren et Cie nv ("Floren"), but also from the existing business at our five UK based brickworks. The Group ends the year with a broader base of products and geography and with a strong balance sheet, comfortable debt profile and a mature and profitable business.

Financial Highlights
The detailed reports that follow expand on the detail behind the financial outcomes, but the table below demonstrates the advances made in 2019 in all key financial metrics.

	2019	2018	Increase
Turnover (£m)	£53.5	£46.3	15.5%
Gross margin	40.9%	38.9%	2.0%
Operating profit (£m)	10.3	9.1	12.8%
Profit before tax (£m)	9.7	8.5	14.2%
EBITDA (£m)	12.9	11.0	18.4%
Basic EPS (pence)	8.87	6.76	31.3%
Net cash Generated by operations (£m)	16.6	11.7	42.4%

[a]***All of the above metrics are 'underlying' as defined in note 4 below***

Cash and Net Debt
The Group ended the year with net debt of £7.5 million which is equivalent to 0.6 times underlying EBITDA – (2018 £11.8 million - 1.07 times underlying EBITDA). Net cash generated by operations of £16.6 million was 42 % greater than in 2018 (£ 11.7 million), and was particularly pleasing as the Group continued to operate at high intensity through the year. Cash at the year-end amounted to £15.1 million (2018: £5.2 million).

It is important to note that whilst there are opportunities to invest in process the Group has no committed capital projects at this time.

Through the Floren acquisition, we now have a Euro denominated earnings source that provides a natural hedge for our Euro denominated cash outflows mainly related to engineering components and consultants.

Acquisition
The Floren business was acquired for a gross consideration of £8.7 million including some deferred payments, which represented under six-times historic earnings. Deferred consideration is dependent on performance, but at the first trigger point relating to 2019, the target was easily surpassed. The Group undertook a wide-ranging fair value exercise which has revealed a significant excess of the value of assets less liabilities over the consideration – in accounting parlance a 'Bargain purchase' of £2.4 million that is disclosed separately in the income statement.

The acquisition consideration was funded from existing cash and facilities, but immediately post acquisition the funding base was replenished by increasing the revolving credit facility with our principal banker HSBC, and through a share placing that netted £4.7 million.

Dividend
On 30 June 2019, the Group paid a final dividend in respect of 2018 of 2.14 pence per ordinary share bringing the total dividend for 2018 to 3.2 pence. In January 2020, the Group paid an interim dividend of 1.15 pence per ordinary share. Despite a significant cash balance and undrawn facilities, the Board has decided to suspend dividends pending the resolution of the economic backdrop created by the coronavirus. We have reviewed a number of measures aimed at preserving cash resources until the present uncertainty is over and we hope to return to normal dividends in due course.

The Board has decided to delay this year's AGM until June given that travel and gathering together may still be difficult in mid-May when we traditionally hold AGMs.

Board and Employees
The success of the Group over recent years has arisen through the diligence and intelligence of its employees, and, on behalf of the Board, I extend thanks and congratulations.

Since April 2019, the Board has had only two non-executive directors as we have sought another individual who can bring their expertise to the benefit of the Group. We have identified a well-qualified candidate who will join the Board at an appropriate time when economic conditions are more settled.

Outlook
At the time of writing, there are macro-economic uncertainties surrounding world trade, Covid-19 and the continued discussions about post arrangements with the EU. Whilst Michelmersh operates in a sector that has long-term political and social support from all quarters and the new chancellor's first budget confirmed this government's support of local authority housing development alongside the private sector, there are clearly short-term challenges for all UK businesses. Along with other businesses in our sector, we have taken steps to suspend operations at our brick plants in the interests of our workforce.

As noted above, the Group's finances are strong with substantial cash balances and undrawn facilities with a supportive banking partner in HSBC. We have stress-tested our forecasts with severe scenarios including loss of sales, reduced output and additional overheads all relating to the impact of coronavirus. We have also examined actions we may take to preserve cash resources and have discussed covenant headroom with HSBC. At this stage the Board remains confident that the Group can overcome the challenges posed by Covid-19.

The UK brick manufacturing sector is mature, logical and well-funded and I am confident that Michelmersh will continue to thrive, although there will undoubtedly be headwinds caused by Covid-19, which will affect our workforce and customers in ways that cannot be predicted as we publish these results. Michelmersh has always emerged stronger through difficulties and I see no reason why this should not be the case now with our committed and able workforce, positive financial position and unique position in the market place.

Martin Warner
Chairman

Chief Executive's Report

Clay products
Turnover growth of 15% was achieved through 5% like-for-like growth in our established UK business plus turnover from the acquired Belgian business that we describe in detail below.

Management continues to seek higher margins through operational improvements and investment and has increased gross margin by 2% in 2019 over 2018. Again, this improvement came from existing businesses allied to strong margins generated by the Belgian subsidiary.

Michelmersh stays very close to customers and suppliers and in that way, seeks to respond quickly to changes in markets and technology.

Since restructuring operations in 2018, the performance of the Michelmersh plant in Romsey that was struggling in 2017 has exceeded our expectations. The restructured operation has settled down into an efficient plant and has increased output of machine-made bricks through 2019 and has quadrupled contribution on 5% more turnover. This performance is a credit to the local workforce and management.

Performance
As noted in our previous years, IT was again at the forefront of our commercial approach. During Q3 the Group embarked on developing and implementing a new CRM system. The objective was to deliver a new system through 2020. This new software will give the Group a greater understanding and management of our customer requests and orders. The new system, which is currently being stress tested by the team, will also lead to improved levels of customer service with enhanced planning and visibility.

In addition to new IT projects the Group continued to improve our innovative Building Information Modelling (BIM) product files through bimbricks.com, our one-stop website for designers, contractors and BIM managers to visit, explore and interact with files and product information for free. bimbricks.com is an important strategic offering for the Group, remaining at the forefront of industry modernisation by continuing to lead the way in offering intuitive, informative and supportive product data files.

Strong, efficient distributor support and key supply chain relationships played a significant part in delivering the successes of 2019. The Group remains committed to supporting the role of our merchants and distributors. During the coming year the Group will continue to develop this network of suppliers, ensuring excellent customer service and closer business to business interaction.

In line with our Board strategy, 2019 saw the Group continue its "balanced market" approach by delivering to sites throughout the UK and Europe. This approach meant the Group covered a broad cross section of sectors ranging from RMI, housing, commercial & regeneration projects.

Stunning facades, inspired architecture and enhancing the built environment was again at the forefront of 2019. Notable projects included award winning homes in St. John's Gardens, Sandbach Heath, a superb urban regeneration scheme at Belle Vue, Hampstead Green Place, and a new educational facility for The Royal College of Pathologists in E1. The Caxton in Buckingham Green highlights inspired design with beautiful facades, but more importantly showcases our products being used in complex off site prefabrication scenarios.
The Group continues to forge a crucial role in the renaissance of brick as it begins a new decade with brands that have evolved to create some of the most popular products and prestigious projects used in today's built environment.

Strong, focused support of students was an important part of 2019. During 2019 the Group supported British bricklaying candidate, Lewis Greenwood, on his journey to representing the UK at the 45th WorldSkills competition held in Kazan earlier this year. As Britain's Brick Specialists, the Group is committed to leading the way by donating products, giving Continuing Professional Development (CPD) presentations, offering factory tours and generally supporting students, colleges and vocational courses across the country. Our goal is to aid in the process of training and educating our next generation of promising young bricklayers since they are the future of the construction sector.

In 2020 the Group launched its educational support programme ‘Pledge 100’. As a business we pledge to donate 100,000 bricks to bricklaying colleges up and down the country in support of NVQ training. Commitments such as the Pledge 100 initiative demonstrate the Group's commitment to educating the brick layers of tomorrow.

Floren
On 15 February 2019, the Group completed the acquisition of Floren et Cie nv (“Floren”) after an accelerated due diligence process. With limited acquisition opportunities in the UK, the Board looked further afield and targeted the northern European market. Floren was a family owned manufacturer of a wide range of high-quality bricks with a very efficient manufacturing process, a strong customer base and a loyal workforce with a culture consistent with that of Michelmersh. The wide product range was consistent with the UK business and 25% of output makes its way to the UK via a UK based brick factor. On a like-for-like basis, the business performed better in 2019 than in 2018 and prospects for future high performance are strong. The Board welcomes the Belgian team to the Group and thanks them for their contribution.

Capital expenditure on a staff welfare block were completed post acquisition and we are assessing plant repair and improvement programmes alongside local management.

Management systems
The group further strengthened its sustainability profile and management systems in 2019 with ISO 9001 at Carlton and the award of the prestigious RoSPA Diamond Level for health and safety performance covering all UK sites. All of our factories and products are now accredited to a fleet of national and international ISO standards.

Staff development
2019 was another exciting year for staff development with the launch of our new fully integrated HR & Payroll system to all staff. This has provided all of our staff with greater visibility and functionality, as well as providing managers with more facilities to manage and develop their teams.

Although there is a legal requirement for us to engage with staff, we have tried to move beyond simply focusing on regulatory compliance by promoting and embedding responsible practice and behaviours across the Group to all staff. One of the ways we have looked to achieve this is by establishing and launching our Core Company Values – Integrity, Respect, Innovation and Sustainability – IRIS. As a company we have strong moral and ethical principles and so, by actively promoting and encouraging staff to follow and adhere to these values, we are fostering a more supportive, trusting and healthier environment for all our staff to work and flourish in.

Following the introduction in 2018 of Personal Development Programmes (PDPs), we have redesigned the format for 2019 to make the PDPs more streamlined and more person-centric to give staff the opportunities to grow and develop. We believe employee engagement consists of two-way commitment and communication between us and our staff and so, looking ahead, we are reviewing further ways we can listen, consider and respond to all our staff at all levels.

Land Assets
The long-term prospects of the Group’s business depend on obtaining and securing mineral reserves. This process is technically demanding and time-consuming and continues in the background to current brick manufacturing.

The strong recovery of the Michelmersh plant detailed above has confirmed the likelihood that the option to extract mineral from the land adjacent to the brickworks at Romsey will be exercised, providing mineral reserves that preserve the brickmaking at the site for 20 years.

Preparatory work and satisfaction of planning conditions are now largely in place to allow the commencement of the construction of a new road at Telford. This will release the remainder of the in-ground mineral for the Blockleys brickworks, ultimately leading to the restitution of the site and unlocking land development opportunities.

The land adjacent to the current operational quarry at Carlton holds mineral resources that provide additional longevity to the brickworks. Planning procedures and dialogue with interested parties have commenced to secure the mineral, which is important in the context of the future investment in the plant.

At Floren, regulatory consent for future mineral extraction from the land within our ownership has further cemented the working life of the plant.

Opportunities for development or disposal of ancillary land continue to be pursued at all sites alongside our mineral extraction and restitution responsibilities.

Plant and machinery
Capital expenditure on plant in 2019 was lower than in previous years as previous investment projects are bedded in and upcoming investments are evaluated and scheduled. Evaluation of these longer-term projects run alongside the continual ongoing repair, replacement and improvement to existing plant, always with a view to increase efficiency around the Group's two largest input costs – energy and labour – but also to improve the safety and well-being of our employees.

At Carlton, the installation and commissioning of the new robotic kiln unloading and packaging equipment was completed in 2019. This futureproofing has significantly improved the efficiency of the plant and has increased unloading capacity by 25%, allowing opportunity for future expansion, while reducing the use of plastic packaging by more than 40%. With Phase I investment complete, we turn our attention to other operations and evaluation of returns and technical specification of further investment are well advanced.

A long-running evaluation of automation at Freshfield Lane is showing positive progress that investment may yield expansion and operational efficiency gains.

Charity
The Group believes it has a corporate responsibility to contribute to charities across the country, donating funds, food products, children's toys, resources and a wealth of clay products to deserving institutions and organisations that require aid and support.

The Group has continued to support over 40 different community-based charities during 2019, including many local to its operations. These charities include the Salvation Army, British Heart Foundation, Save the Children, Cancer Research, Variety, Barnardo's, Guide Dogs for the Blind, Hospice and many more.

Outlook
We approach 2020 with enthusiasm and determination. The first quarter of 2020 was in line with forecasts until we decided to suspend operations despite appalling weather conditions and disruption arising from the coronavirus. Recent events have challenged our long-standing contingency plans and we have developed specific tactics to deal with the disruption caused by Covid-19, which have included the temporary suspension of operations. We have stress-tested our budget and, whilst we are satisfied that we have adequate resources to ride out a difficult trading period, we have also identified mitigating actions to preserve cash resources. We are monitoring the situation and the welfare of our staff closely.

Michelmersh has a strong profile and established market presence, is well-structured and has become broader based through acquisitions in recent years. Our significant resources include our skilled, committed and experienced workforce, efficient and well-invested plant, significant mineral reserves and our strong balance sheet and financial base. We are also heavily embedded in the repair, maintenance and improvement sector. The Board looks forward to continued progress in the coming years.

Frank Hanna, Peter Sharp
Joint Chief Executives
31 March 2020

Consolidated Income Statement
For the year ended 31 December 2019

	2019	2018
	£'000	£'000
Revenue	53,523	46,324
Cost of sales	(31,618)	(28,305)
Gross profit	21,905	18,019
Administrative expenses		
Underlying	(11,757)	(8,994)
Exceptional [1]	-	(930)
Amortisation of intangibles	(1,163)	(1,138)
	(12,905)	(11,062)
Other income	224	97
Exceptional item – Bargain purchase[2]	2,422	-
– acquisition costs[3]	(566)	-
Operating profit	11,065	7,054
Finance costs	(698)	(617)
Profit before taxation	10,367	6,437
Taxation	(1,763)	(1,452)
Profit for the financial year	8,604	4,985
Basic earnings per share	9.41 p	5.78 p
Diluted earnings per share	9.19 p	5.57 p

Exceptional Items

[1] In 2018, costs relating to the restructuring of operations at the Michelmersh plant incurred redundancy costs (£390,000) and write down of plant and equipment (£540,000) as tile and hand-making activities ceased.
[2] Bargain purchase; represents the excess of the fair value of assets less liabilities acquired over the consideration payable for the acquisition of Floren in February 2019
[3] Costs relating to the acquisition of Floren.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	2019 £'000	2018 £'000
Profit for the financial year	8,604	4,985
Other comprehensive income/(expense)		
Items which will not subsequently be reclassified to profit and loss		
Currency movements	67	-
Revaluation surplus of property, plant and equipment	801	565
Revaluation deficit of property, plant and equipment	(10)	(42)
Deferred tax on movement	(134)	(115)
	724	408
Total comprehensive income for the year	9,328	5,393

Consolidated Balance Sheet
As at 31 December 2019

	2019 £'000	2018 £'000
Assets		
Non-current assets		
Intangible assets	22,590	22,948
Property, plant and equipment	65,348	52,416
	87,938	75,364
Current assets		
Inventories	9,761	8,309
Trade and other receivables	8,567	8,245
Cash and cash equivalents	15,140	5,255
Total current assets	33,468	21,809
Total assets	121,406	97,173
Liabilities		
Current liabilities		
Trade and other payables	9,889	7,065
Lease liabilities	542	-
Interest bearing borrowings	3,414	1,770
Corporation tax payable	882	564
Total current liabilities	14,727	9,399
Non-current liabilities		
Interest bearing borrowings	18,036	15,310
Lease liabilities	673	-
Deferred tax liabilities	8,670	8,670
	30,575	23,980
Total liabilities	45,303	33,379
Net assets	76,103	63,794
Equity attributable to equity holders		
Share capital	18,498	17,297

Share premium account	**15,545**	**11,643**
Other reserves	**23,192**	**21,788**
Retained earnings	**18,868**	**13,066**
Total equity	**76,103**	**63,794**

Consolidated Statement of changes in equity
For the year ended 31 December 2019

	Share Capital	Share option reserve	Merger reserve	Share premium	Revaluation reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
As at 1 January 2018	**17,234**	**515**	**3,423**	**11,495**	**16,878**	**9,838**	**59,383**
Profit for the year	-	-	-	-	-	4,985	**4,985**
Revaluation surplus	-	-	-	-	565	-	**565**
Revaluation deficit	-	-	-	-	(42)	-	**(42)**
Deferred taxation on revaluation	-	-	-	-	(115)	-	**(115)**
Total comprehensive income	-	-	-	-	408	4,985	**5,393**
Share based payment	-	660	-	-	-	-	**660**
Transfer to retained earnings	-	(96)	-	-	-	96	**-**
Shares issued during the year	63	-	-	148	-	-	**211**
Dividend paid	-	-	-	-	-	(1,853)	**(1,853)**
At 31 December 2018	**17,297**	**1,079**	**3,423**	**11,643**	**17,286**	**13,066**	**63,794**
Profit for the year	-	-	-	-	-	8,604	**4,985**
Revaluation deficit	-	-	-	-	(10)	-	**(10)**
Revaluation surplus	-	-	-	-	801	-	**801**
Deferred taxation on revaluation	-	-	-	-	(134)	-	**(134)**
Currency difference	-	-	-	-	-	67	**67**
Total comprehensive income	-	-	-	-	657	8,671	**9,328**
Share based payment	-	765	-	-	-	-	**765**
Shares issued during the year	1,201	-	-	3,902	-	-	**5,103**
Transfer to retained earnings	-	(18)	-	-	-	18	**-**
Dividend paid	-	-	-	-	-	(2,887)	**(2,887)**
At 31 December 2019	**18,498**	**1,826**	**3,423**	**15,545**	**17,943**	**18,868**	**76,103**

Consolidated Statement of cash flows
For the year ended 31 December 2019

	2019	2018
	£'000	£'000
Cash flows from operating activities		
Profit before taxation	**10,368**	**6,437**
Loss/ (profit) on disposal of fixed assets	**247**	**(15)**
Finance expense	**698**	**617**

Depreciation	**3,313**	**1,842**
Amortisation	**1,165**	**1,138**
Bargain purchase	**(2,422)**	**-**
Exceptional write down of assets	**-**	**540**
Share based payment charge	**765**	**660**
Cash flow from operations before changes in working capital	**14,134**	**11,219**
Decrease in inventories	**822**	**1,159**
Decrease / (increase) in receivables	**37**	**(1,311)**
Increase in payables	**1,629**	**602**
Net cash generated by operations	**16,622**	**11,669**
Taxation paid	**(2,105)**	**(1,823)**
Net cash generated by operating activities	**14,517**	**9,846**
Cash flows from investing activities		
Purchase of subsidiary undertaking net of cash acquired	**(6,202)**	**-**
Purchase of property, plant and equipment	**(2,412)**	**(1,985)**
Proceeds of disposal of property, plant and equipment	**-**	**45**
Net cash used in investing activities	**(8,614)**	**(1,940)**
Cash flows from financing activities		
Proceeds of loan drawdown	**5,100**	**-**
Adjustment in respect of IFRS16	**(646)**	**-**
Repayment of interest bearing liabilities	**(1,990)**	**(4,520)**
Interest paid	**(698)**	**(617)**
Proceeds of share issue	**4,704**	**211**
Dividend paid	**(2,488)**	**(1,853)**
Net cash generated by / (used in) financing activities	**3,982**	**(6,779)**
Net increase/(decrease) in cash and cash equivalents	**9,885**	**1,127**
Cash and cash equivalents at the beginning of the year	**5,255**	**4,128**
Cash and cash equivalents at the end of the year	**15,140**	**5,255**

Cash and cash equivalents comprise:		
Cash at bank and in hand	**15,140**	**5,255**
Bank overdraft	**-**	**-**
	15,140	**5,255**

NOTES TO THE FINANCIAL INFORMATION

1. ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs as adopted by the EU"), IFRS Interpretations Committee interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The information in this statement is in accordance with the recognition and presentation requirements of IFRS but not the disclosure requirements.

There have been no changes to the accounting policies adopted since the last consolidated financial statements were published, except resulting from the adoption of IFRS 16 Leases.

2. FINANCIAL INFORMATION

The financial information set out in this Preliminary Announcement does not constitute the Group's statutory financial statements for the years ended 31 December 2019 or 2018. The financial information has been extracted from the Group's statutory financial statements for the years ended 31 December 2019 and 2018. The auditors have reported on those financial statements; their report for 2019 included the following statements:

Opinion

We have audited the group financial statements of Michelmersh Brick Holdings plc (the 'group') for the year ended 31 December 2019 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated statement of cash flows, the general information and the notes to the group financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the group financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the group financial statements in the UK, including the FRC's Ethical Standard as applied to SME listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to the accounting policy in the financial statements concerning the group's ability to continue as a going concern. On 11 March 2020, COVID-19 was declared a pandemic by the World Health Organisation.

The impact of the COVID-19 pandemic on the business remains unquantifiable at this stage, particularly in relation to implications for the construction industry and wider economy.

These conditions indicate the existence of a material uncertainty which may cast significant doubt upon the group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

For 2018 their report was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

The statutory accounts for the year ended 31 December 2018 have been delivered to the Registrar of Companies, whereas those for the year ended 31 December 2019 will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

The financial information is presented in sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

3. EARNINGS PER SHARE

Basic

The calculation of earnings per share from continuing operations based upon the profit for the year of £8,604,000 (2018: £4,985,000) and 91,463,549 (2018: 86,312,463) weighted average number of ordinary shares.

Diluted

The calculation of diluted earnings per share from continuing operations based upon the profit for the year of £8,604,000 (2018: £4,985,000) and 93,632,839 (2018: 88,655,058) weighted average number of ordinary shares.

4. Alternative performance measure reconciliation

	notes	Year ended 31-Dec-19 £000	Year ended 31-Dec-18 £000	2019/ 2018
Turnover		53,523	46,324	15.5%
Reported Gross Profit		21,905	18,019	21.6%
Cost of sales adjustment re Floren brick stocks	1	1,085	-	
	1	(1,033)	-	
IFRS16 impact	2	(42)	-	
Underlying Gross Profit		**21,915**	**18,019**	21.6%
		40.9%	38.9%	2.0%
Reported Operating profit		11,065	7,054	30.5%
Add back - exceptional costs of plant restructure		-	£930	
-exceptional costs relating to the acquisition of Floren	3	(1,856)	-	
Treat Planbaten as Exceptional	4	(103)	-	
Cost of sales adjustment re Floren brick stocks (net)	1	52	-	
Amortisation of intangibles	5	1,166	1,138	
IFRS16 impact	2	(28)	-	
'Underlying' operating profit		**10,296**	**9,122**	12.8%
Finance costs – reported		(698)	(617)	
- exclude IFRS16 charge		117	-	
'Underlying' profit before taxation		**9,715**	**8,505**	14.2%
'Underlying' operating profit (as above)		**10,296**	**9,122**	12.8%
IFRS16 impact	2	(670)	-	
Depreciation (excluding IFRS 16)		3,313	1,842	
Underlying EBITDA		**12,939**	**10,964**	18.4%
Reported Basic EPS		9.41 p	5.78p	62.8%
Underlying Basic EPS		**8.87p**	**6.76 p**	**31.2%**
Net cash Generated by operations		**16,626**	**11,669**	42.4%

Notes:

1. Cost of sales adjustment re Floren brick stocks: under statutory account treatment, brick stocks are acquired at 'fair value' – ie their resale value. To reflect the underlying trading profit, an adjustment of £1,085,000 has been made to replicate the gross profit as if the brick stocks were sold under normal trading conditions.

   In addition, there is an almost equal value adjustment to match the Floren stock valuation policy with that of the existing Group accounting policy to increase brick stock value by £1,033,000. Michelmersh value finished goods at cost of production plus absorption of overheads associated with the brick plant. Floren accounting policies apply a lower element of overhead absorption and so an adjustment is made on consolidation to reflect the Group basis of valuation and entailed an uplift as at 31 December 2019 in the statutory accounts. This uplift is excluded from the 'underlying' gross profit above.

2. IFRS16 has been adopted in the financial statements for the year ended 31 December 2019 which entails a different accounting treatment for operating leases. This adjustment is to allow a fair comparison with the comparative metric.

3. The bargain purchase and costs of acquisition relating to Floren are excluded from this analysis as they are non-recurring.

4. Floren received an exceptional credit as a result of a change in regulatory treatment of land taxes which is non-recurring.

5. Amortisation of intangible assets is excluded for this purpose as it is widely accepted by investment analysts that earnings measurements excludes amortisation of intangibles.

5. DIVIDEND

The Board has not proposed a final dividend after payment of an interim dividend of 1.154 pence per share in January 2020.

6. REPORT & ACCOUNTS

Copies of this announcement are available and the Annual Report will be available in due course on the Group's website www.mbhplc.co.uk and from the Company's registered office at Freshfield Lane, Danehill, Haywards Heath, West Sussex RH17 7HH.