Carr's Group plc

12 November 2018

CARR'S GROUP PLC ("Carr's" or the "Group")

FULL YEAR RESULTS
For the year ended 1 September 2018
"Strategic progress and financial performance ahead of expectations"

Carr's (CARR.L), the Agriculture and Engineering Group, announces its results for the year ended 1 September 2018.

Financial Highlights

		Adjusted[1]	
	FY18	**FY17**	**+/-**
Revenue (£m)	403.2	346.2	+16.5%
Operating profit (£m)	17.5	12.1	+44.4%
Profit before tax (£m)	16.6	11.4	+45.2%
Adjusted[1] EPS (p)	13.9	8.9	+56.2%

		Statutory	
	FY18	**FY17**	**+/-**
Revenue (£m)	403.2	346.2	+16.5%
Operating profit (£m)	16.4	10.7	+53.5%
Profit before tax (£m)	15.5	10.0	+55.0%
Basic EPS (p)	13.0	7.7	+68.8%
Dividend per share (p)	4.5	4.0	+12.5%
Net debt	15.4	14.1	+8.6%
Capex	5.5	3.9	+41.5%

Commercial Highlights

- Strong performance in UK Agriculture with growth across all areas, reflecting improved farm incomes
- USA feed blocks significantly ahead of expectations, up 17.7%, driven by recovery in USA cattle prices
- Plans to expand feed block business internationally progressing well:
  - Agreements signed with leading distributors in New Zealand
- Post year end, acquired Animax, a producer of market-leading livestock trace element supplementation products
- Significant improvement in Engineering:
  - Strong recovery in UK Manufacturing
  - First full year contribution from NuVision
- First contracts won to sell Wälischmiller remote handling equipment into the USA market
- NuVision now integrated and two significant MSIP® contracts signed, strengthening order book to FY21

Chris Holmes, Chairman of Carr's Group, commented:

"We are very pleased to announce a significant improvement in the Group's financial performance for the year, exceeding the Board's expectations, across both the Agriculture and Engineering divisions. This performance was largely as a result of investments we made across the business in recent years, in addition to a recovery in our underlying markets.

"UK Agriculture continued to perform well reflecting the sustained recovery in farm incomes. Our USA feed blocks business continued to benefit from the recovery in USA cattle prices and we made further progress on growing our international feed blocks business. Our Engineering division also delivered a significantly improved performance during the year.

"Trading for the new financial year has started in line with the Board's expectations. We made further progress during the year on our strategic objectives and continue to believe the breadth of our product offering, investments in acquisitions and research, and our international footprint leaves us well positioned for further growth across both our divisions in the medium term."

[1] Adjusted results are after adding back amortisation of acquired intangible assets and non-recurring items including acquisition costs (note 3)

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About Carr's Group plc:

Carr's is an international leader in manufacturing value added products and solutions, with market leading brands and robust market positions in Agriculture and Engineering, supplying customers in over 50 countries around the world.

Its Agriculture division manufactures and supplies feed blocks and supplementation products for livestock, distributes farm machinery and runs a UK network of rural stores, providing a one-stop shop for the farming community. Its Engineering division designs and manufactures bespoke equipment and provides technical engineering services into the nuclear, petrochemical, oil and gas, pharmaceutical, process and renewable energy industries, including robotic and remote handling equipment.

Chairman's Statement

Review of the year

For the year ended 1 September 2018, the Group has delivered a performance ahead of the Board's expectations and significantly ahead of the prior year. Both our Agriculture and Engineering divisions have benefitted from the investments made in previous years, particularly the acquisition of NuVision, as well as a recovery in our UK Manufacturing business and continued improvements in our underlying markets.

In our Agriculture division, UK Agriculture continued to perform strongly reflecting improved farm incomes and higher levels of farmer confidence. In the USA, cattle prices improved steadily during the year supporting a recovery in USA feed block volumes, which were significantly ahead of the prior year. UK feed blocks performed in line with expectations. In Europe, feed block sales volumes through our joint venture business based in Germany, Crystalyx Products GmbH, continued to grow. Our plans to develop the feed block business internationally remain on track.

Our Engineering division delivered a significantly improved financial result compared to the prior year. We saw a strong recovery in our UK Manufacturing business, with the significant contract announced in July 2017 performing as expected and the benefit of improved controls over contract profitability. Our Remote Handling business also performed strongly, benefiting from the delivery of substantial contracts into the Chinese market. NuVision, acquired in August 2017, performed well in its first full year as part of the Group, securing several significant contracts to be delivered over the next three years. The business was also successfully integrated into the wider Engineering division.

During the year we have continued to invest in our people. Due to the retirement of a number of key, long-standing senior managers, we have recruited high calibre successors for a number of our businesses, including the appointment of a new Managing Director for our USA feed blocks business and a new Managing Director for our UK feed blocks business. In addition, the appointment of a new Divisional Managing Director for the Engineering division in November 2017 is driving the strategic focus and growth of that division.

In line with our strategy, we have continued to invest in technology and innovation to grow the business internationally. Following the commissioning of the new low moisture feed block plant in Tennessee, the site is now fully operational, and volumes continue to build. We also expanded our remote handling facility in Markdorf, Germany which has enabled us to complete the full integration of the STABER business, acquired in October 2016, within Wälischmiller.

Following the year end we acquired Animax Limited, a producer of market-leading trace element supplements, for a total cash consideration of up to £8.5m. This acquisition is highly complementary to our global feed blocks business and aligns with our stated strategy of investing in growing agriculture markets in the UK and internationally. We will continue to appraise new opportunities in line with our strategy.

Financial review

Revenue for the year increased by 16.5% to £403.2m (2017: £346.2m). Adjusted operating profit, which is before amortisation of acquired intangible assets and non-recurring items, was up 44.4% to £17.5m (2017: £12.1m), with Agriculture contributing £13.4m (2017: £11.4m) and Engineering £4.1m (2017: £0.6m). Reported operating profit was up 53.5% at £16.4m (2017: £10.7m). Non-recurring items include certain acquisition related costs totalling £0.3m and a write-off of goodwill relating to the UK Manufacturing business, Bendalls, totalling £0.5m.

Adjusted profit before tax was up 45.2% to £16.6m (2017: £11.4m) and reported profit before tax was up 55.0% at £15.5m (2017: £10.0m). Basic earnings per share were up by 68.8% to 13.0 pence (2017: 7.7 pence), with fully diluted earnings per share of 12.7 pence (2017: 7.6 pence) and adjusted earnings per share, excluding amortisation of acquired intangible assets and non-recurring items, of 13.9 pence (2017: 8.9 pence).

Net debt at 1 September 2018 was £15.4m (2017: £14.1m). The movement included £11.5m generated from operations, £7.1m used in investing activities, and £3.8m paid in dividends.

Dividend

The Board is proposing a final dividend of 2.35 pence per ordinary share, which together with the two interim dividends of 1.075 pence per ordinary share paid on 21 May 2018 and 5 October 2018, make a total of 4.5 pence per share for the year (2017: 4.0 pence per share). The final dividend, if approved by the Shareholders, will be paid on 11 January 2019, to Shareholders on the register on close of business 30 November 2018, and the shares will go ex-dividend on 29 November 2018.

Corporate governance

During the year, we have continued to review our governance framework following a number of changes implemented in 2017, including changing the membership of our Audit and Remuneration Committees and revising our policy on executive remuneration following a consultation with certain major shareholders. We were pleased to receive overwhelming support for these changes at our AGM in January 2018 and our Remuneration Committee will continue to consult with major shareholders on specific policy matters as and when appropriate.

In July this year, the Financial Reporting Council published its revised Corporate Governance Code 2018 which will apply to the Group from September 2019 onwards. The revised Code introduces some important changes to UK corporate governance. During the course of the current financial year, we will continue to review our governance practices to ensure that we are well placed moving into the new regime. As a Group, we remain committed to promoting a robust and transparent governance framework which will continue to serve the interests of all our stakeholders.

Outlook

The Group remains committed to delivering on its strategic objectives of investing in its people and its asset base, whilst continuing to drive innovation and delivering growth across our two divisions, with a focus on broadening our geographic footprint.

The Board remains confident in the prospects of the UK Agriculture business in the near term following the sustained recovery in farm incomes. While we now have greater visibility in relation to farming support post Brexit, we remain cautious over the nature of future trade agreements with the EU and the rest of the world. We expect the gradual recovery in USA cattle prices to continue in the current financial year, which, together with the acquisition of Animax and expansion into other geographic markets, provides a solid base for growth in the Agriculture division.

In Engineering, order books remain strong across most of the businesses and the recovery in the division's financial performance is expected to continue. We continue to invest in product development and improved production methods to support the future growth of the division. While uncertainty remains over the potential impact of Brexit on certain supply chains, we remain encouraged by the growth opportunities available, particularly in the USA and Asia, which we continue to develop.

Trading in the new financial year has started in line with the Board's expectations. We remain confident that our investments in acquisitions, research and product innovation position the Group well for sustained growth.

Chris Holmes DL
Chairman
12 November 2018

Chief Executive's Review

The year has seen significant progress for the Group, with our financial performance ahead of the Board's expectations and significantly improved upon the prior year across both Agriculture and Engineering. We continued to deliver our strategic objectives, which are consistent with our vision to be recognised as a truly international business at the forefront of innovation and technology.

During the year we were also able to make significant progress with senior management succession plans for a number of key leadership roles across the Group, as well as continuing to invest in our own programmes to develop our next generation of leaders. People remain fundamental to our businesses; we recognise the enormous contribution of our people across the businesses which has enabled the Group to deliver a strong result for the year. Another key driver is keeping everyone safe, and we have continued to focus on safety throughout the financial year, improving our reporting mechanisms and further embedding our safety culture.

Agriculture

The Agriculture division has performed strongly this year, as a result of improvements in underlying markets as well as the investments made in recent years.

During the year, revenue was up 13.8% to £359.6m (2017: £315.9m). Adjusted operating profit was up 16.9% to £13.4m (2017: £11.4m) and reported operating profit was up 20.1% to £13.0m (2017: £10.8m).

<u>Feed blocks</u>

Total global feed block sales volumes were up 15.0% compared to last year.

Our USA feed blocks business was significantly ahead of last year with sales volumes up 17.7%. This performance was driven by the ongoing recovery in cattle prices in the USA. Our new low moisture feed block plant in Tennessee is now fully operational and provides additional capacity and access to new markets across the Eastern and South Eastern states of the USA.

UK feed blocks sales volumes were up 8.9%, in line with expectations.

Our joint venture business based in Germany, Crystalyx Products GmbH, performed strongly during the period with sales volumes up 12.4%, due to improved farm incomes following a recovery in the milk price across Europe.

Our plans to grow our feed blocks business internationally continue to progress well. In New Zealand, our direct sales operation distributing to farmers through merchants has continued to grow, with supply agreements now in place with several of the country's leading agricultural merchants. In South America, we are now supplying products through our chosen distributors and made our first commercial sales during the year. Farm trials continue to demonstrate the efficacy of our products, providing local evidence which we will use in support of our plans to develop our market in South America.

The strength of our brands, including Crystalyx®, SmartLic®, Megastart®, FlaxLic® and Horslyx®, continue to enable us to drive growth and expand internationally and we remain focused on investment in new product development.

<u>UK Agriculture</u>

UK Agriculture continued to perform well across all areas of the business, reflecting improved farm incomes and ongoing farmer confidence. Manufactured feed volumes were up 8.7%, in line with the national average. Key drivers for the increased volumes were the late Spring and the dry weather during the summer months.

Our retail business delivered a strong performance during the period, with the country store network reporting an increase of 4.4% in like-for-like sales and a 12.1% increase in total sales. The increase in total sales was primarily driven by the acquisition of Pearson Farm Supplies, an agricultural retail business with locations across Yorkshire, Lancashire and North West Wales, which was completed in October 2017. This business has now been successfully integrated and as expected the acquisition has enabled synergies to be achieved with our existing retail business and the team has settled in well. Our retail footprint currently stands at 43 locations.

Machinery sales revenues were ahead of the prior year, up 7.8%, a new record level of sales, as the business continued to benefit from an improved trading environment. We also invested in the expansion of our machinery branch at Morpeth, Northumberland, during the year to provide additional workshop capacity, improving our after-sales service capability.

The oil distribution business delivered sales volumes that were 4.6% ahead of the prior year. The business saw higher demand for heating oil in the colder months earlier in the year, partially offset by a reduction in on-farm activity during the drier summer months.

Strategic acquisition

On 21 September 2018 we acquired Animax Limited, a producer of market-leading trace element supplementation products for livestock, for an initial cash consideration of £6m. Additional cash consideration of up to a maximum of £2.5m is payable over the period to November 2020, based on the achievement of agreed financial targets.

Animax, based in Suffolk in the UK, is at the forefront of innovation in the field of livestock trace element supplementation. Its patent-protected leaching boluses are proven to release trace elements in a controlled and consistent manner over prolonged periods, resulting in improved animal performance. The boluses are currently sold in the UK and overseas under the Tracesure® and Allsure® brands. Animax also produces other leading animal health and trace element supplementation products sold under well-known brands including Copasure®, Copinox®, Coprac®, Easycal® and Pardevit®.

Animax broadens the Group's animal health and supplementation product ranges that deliver added value to farmers. Its products are highly complementary to the established Carr's Group feed block business across the USA, New Zealand, Europe, UK and Ireland.

Carr's will support the growth and development of Animax through investment in research to develop new products and by investing in manufacturing efficiencies. In addition, Carr's expects significant manufacturing, distribution and sales synergy benefits to be realised as a result of the acquisition.

Agriculture Outlook

We remain confident in the prospects of UK Agriculture in the near term following the sustained recovery in farm incomes. We now have greater visibility on the impact of Brexit on farming support in the near term, although uncertainty remains over future trade agreements with the EU and the rest of the world.

Internationally, the gradual recovery in the USA cattle market seen through the course of the year is expected to be sustained, which will contribute to the future growth of this business.

We remain focused on developing our global supplements business. The acquisition of Animax is in line with that strategy; it builds on our established global feed blocks business and provides a broader platform for the next phase of international growth across the Agriculture division. We also remain alert to other suitable acquisition opportunities where we believe there is a strong commercial and strategic rationale.

Engineering

The Engineering division has seen a significant improvement in financial performance during the year, following the challenges experienced in 2017 which were largely attributable to one major contract delay in the UK Manufacturing business. That contract is back on track and performing in line with our expectations.

During the year, revenue was up 43.6% to £43.6m (2017: £30.4m). Adjusted operating profit was up 533.5% to £4.1m (2017: £0.6m) and reported operating profit was up to £3.4m (2017: loss of £0.1m).

UK Manufacturing

Our UK Manufacturing business recovered strongly during the year generating revenues of £18.4m (2017: £13.0m). Work on the significant contract announced in July 2017 continues to progress and the order book remains strong. Although there has been a significant improvement in the trading performance during the year, goodwill of £0.5m was written off as a result of an impairment review undertaken.

During the year we strengthened the management team in our fabrication business with the appointment of a new Managing Director and Commercial Director.

In our precision engineering business, the continued recovery of the oil price, together with strengthened management, more effective business development and enhanced manufacturing efficiencies, has delivered a significant uplift in revenues.

Remote Handling

Our Remote Handling business has performed well during the year and in line with the Board's expectations. Revenues for the financial year totalled £19.5m (2017: £17.2m). The substantial orders into China, awarded in 2017, have all now been successfully delivered during the year. As expected, following the successful completion of these contracts, the order book in the near term is softer than last year, but this is not expected to impact on overall divisional performance and medium-term prospects for our Remote Handling business remain positive.

The extension of our facility in Markdorf, Germany has now been completed, including the full relocation of people and machinery from STABER following its acquisition in October 2016. Operating from a single site should enable efficiency improvements in the medium-term.

Our plans to enter the USA market with Wälischmiller remote handling equipment continue to progress with our first contracts being won earlier than expected during the second half of the year.

USA Engineering

Carr's established an engineering presence in the USA through the acquisition of NuVision Engineering, Inc in August 2017. The business has performed well in its first year of ownership, generating revenues of £5.7m (2017: £0.2m). During the year we completed the integration of NuVision into our wider Engineering division and successfully completed a planned reorganisation of its management and leadership teams.

NuVision has secured a good level of work during the year, including two significant Mechanical Stress Improvement Process (MSIP®) contracts, which substantially strengthen the order book through to FY21.

During the year, we also disposed of NuVision's 49% stake in Mid-Columbia Engineering, Inc (MCE), a non-core loss-making business based in Richland, Washington, to enable greater strategic focus on the development of the USA Engineering business.

Engineering Outlook

Prospects for the Engineering Division remain good over the medium term. The order books in the UK Manufacturing and USA Engineering businesses remain strong. We remain confident in the long-term outlook for the Remote Handling business with the forecast lower sales in 2019, due to contract phasing, not expected to impact upon the performance of the division.

While uncertainty remains around Brexit and the impact this could have on certain supply chains within our engineering businesses, we believe our geographically diverse operations position the Group well to deliver growth in the medium term. We remain focused on identifying suitable value enhancing acquisitions, which complement our existing operations, and will continue to invest in technology and innovation across the division.

Tim Davies
Chief Executive Officer
12 November 2018

UNAUDITED CONSOLIDATED INCOME STATEMENT

for the year ended 1 September 2018

	Note	2018 £'000	(Restated) 2017 £'000
Continuing operations			
Revenue	2	**403,192**	346,224
Cost of sales		**(349,864)**	(307,543)
Gross profit		**53,328**	38,681
Distribution costs		**(18,950)**	(16,391)
Administrative expenses		**(21,188)**	(14,413)
Share of post-tax results of associates		**1,634**	1,609
Share of post-tax results of joint ventures		**1,581**	1,204
Adjusted[2] operating profit		**17,464**	12,091
Amortisation and non-recurring items	3	**(1,059)**	(1,401)
Operating profit	2	**16,405**	10,690
Finance income		**358**	176
Finance costs		**(1,261)**	(864)
Adjusted[2] profit before taxation		**16,561**	11,403
Amortisation and non-recurring items	3	**(1,059)**	(1,401)
Profit before taxation	2	**15,502**	10,002
Taxation	4	**(1,855)**	(1,707)
Profit for the year		**13,647**	8,295
Profit attributable to:			
Equity shareholders		**11,892**	7,005
Non-controlling interests		**1,755**	1,290
		13,647	8,295
Earnings per ordinary share (pence)			
Basic	5	**13.0**	7.7
Diluted		**12.7**	7.6
Adjusted	5	**13.9**	8.9

[2] Adjusted results are after adding back amortisation of acquired intangible assets and non-recurring items including acquisition costs (note 3)

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 1 September 2018

	2018 **£'000**	2017 £'000
Profit for the year	**13,647**	8,295
Other comprehensive income/(expense)		
Items that may be reclassified subsequently to profit or loss:		
- Foreign exchange translation (losses)/gains arising on translation of overseas subsidiaries	**(505)**	1,835
- Net investment hedges	**111**	(70)
- Taxation (charge)/credit on net investment hedges	**(21)**	14
Items that will not be reclassified subsequently to profit or loss:		
- Actuarial gains on retirement benefit asset/obligation:		
- Group	**4,836**	4,951
- Share of associate	**1,194**	1,070
- Taxation charge on actuarial gains on retirement benefit asset/ obligation:		
- Group	**(822)**	(842)
- Share of associate	**(203)**	(211)
Other comprehensive income for the year, net of tax	**4,590**	6,747
Total comprehensive income for the year	**18,237**	15,042
Total comprehensive income attributable to:		
Equity shareholders	**16,482**	13,752
Non-controlling interests	**1,755**	1,290
	18,237	15,042

UNAUDITED CONSOLIDATED BALANCE SHEET
as at 1 September 2018

	2018 £'000	(Restated) 2017 £'000
Assets		
Non-current assets		
Goodwill	**24,272**	24,293
Other intangible assets	**2,223**	2,266
Property, plant and equipment	**38,484**	37,149
Investment property	**170**	176
Investment in associates	**13,129**	11,443
Interest in joint ventures	**8,004**	6,590
Other investments	**74**	73
Financial assets		
- Non-current receivables	**21**	444
Retirement benefit asset	**10,146**	5,209
	96,523	87,643
Current assets		
Inventories	**42,371**	37,023
Trade and other receivables	**67,516**	59,723
Current tax assets	**119**	297
Financial assets		
- Derivative financial instruments	**26**	13
- Cash and cash equivalents	**24,632**	23,887
	134,664	120,943
Total assets	**231,187**	208,586
Liabilities		
Current liabilities		
Financial liabilities		
- Borrowings	**(34,994)**	(17,060)
- Derivative financial instruments	**-**	(18)
Trade and other payables	**(64,290)**	(56,181)
Current tax liabilities	**(175)**	(673)
	(99,459)	(73,932)
Non-current liabilities		
Financial liabilities		
- Borrowings	**(4,997)**	(20,966)
Deferred tax liabilities	**(3,981)**	(4,010)
Other non-current liabilities	**(1,784)**	(3,755)
	(10,762)	(28,731)
Total liabilities	**(110,221)**	(102,663)
Net assets	**120,966**	105,923
Shareholders' equity		
Share capital	**2,285**	2,285
Share premium	**9,141**	9,130
Other reserves	**93,855**	80,067
Total shareholders' equity	**105,281**	91,482
Non-controlling interests	**15,685**	14,441
Total equity	**120,966**	105,923

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 1 September 2018

	Share Capital £'000	Share Premium £'000	Treasury Share Reserve £'000	Equity Compensation Reserve £'000	Foreign Exchange Reserve £'000	Other Reserve £'000	Retained Earnings £'000	Total Shareholders' Equity £'000	Non-controlling Interests £'000	Total £'000
At 4 September 2016	2,280	9,111	(8)	706	2,895	207	81,540	96,731	13,357	110,088
Profit for the Year	-	-	-	-	-	-	7,005	7,005	1,290	8,295
Other comprehensive income	-	-	-	-	1,779	-	4,968	6,747	-	6,747
Total comprehensive income	-	-	-	-	1,779	-	11,973	13,752	1,290	15,042
Dividends paid	-	-	-	-	-	-	(19,467)	(19,467)	(245)	(19,712)
Equity-settled share-based payment transactions	-	-	-	(320)	-	-	766	446	39	485
Allotment of shares	5	19	-	-	-	-	-	24	-	24
Purchase of own shares held in trust	-	-	(4)	-	-	-	-	(4)	-	(4)
Transfer	-	-	12	-	-	(2)	(10)	-	-	-
At 2 September 2017	2,285	9,130	-	386	4,674	205	74,802	91,482	14,441	105,923
At 3 September 2017	**2,285**	**9,130**	**-**	**386**	**4,674**	**205**	**74,802**	**91,482**	**14,441**	**105,923**
Profit for the Year	**-**	**-**	**-**	**-**	**-**	**-**	**11,892**	**11,892**	**1,755**	**13,647**
Other comprehensive (expense)/income	**-**	**-**	**-**	**-**	**(415)**	**-**	**5,005**	**4,590**	**-**	**4,590**
Total comprehensive (expense)/income	**-**	**-**	**-**	**-**	**(415)**	**-**	**16,897**	**16,482**	**1,755**	**18,237**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**(3,770)**	**(3,770)**	**(588)**	**(4,358)**
Equity-settled share-based payment transactions	**-**	**-**	**-**	**1,041**	**-**	**-**	**8**	**1,049**	**76**	**1,125**
Excess deferred taxation on share based payments	**-**	**-**	**-**	**-**	**-**	**-**	**27**	**27**	**1**	**28**
Allotment of shares	**-**	**11**	**-**	**-**	**-**	**-**	**-**	**11**	**-**	**11**
Transfer	**-**	**-**	**-**	**-**	**-**	**(3)**	**3**	**-**	**-**	**-**
At 1 September 2018	**2,285**	**9,141**	**-**	**1,427**	**4,259**	**202**	**87,967**	**105,281**	**15,685**	**120,966**

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 1 September 2018

	Note	2018 £'000	2017 £'000
Cash flows from operating activities			
Cash generated from continuing operations	6	**14,980**	15,094
Interest received		**226**	175
Interest paid		**(1,210)**	(896)
Tax paid		**(2,511)**	(1,179)
Net cash generated from operating activities		**11,485**	13,194
Cash flows from investing activities			
Acquisition of subsidiaries (net of overdraft/cash acquired)		**(1,522)**	(12,640)
Contingent/deferred consideration paid		**(2,617)**	(549)
Net costs of disposal of associate		**(90)**	-
Dividend received from associate and joint ventures		**704**	1,212
Loan repaid by associates		**1,008**	22
Other loans		**59**	80
Purchase of intangible assets		**(325)**	(371)
Proceeds from sale of property, plant and equipment		**189**	691
Purchase of property, plant and equipment		**(4,488)**	(2,854)
Purchase of own shares held in trust		**-**	(4)
Redemption of preference shares in joint venture		**20**	150
Net cash used in investing activities		**(7,062)**	(14,263)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital		**11**	24
New bank loans and movement on RCF		**(2,076)**	6,000
Finance lease principal repayments		**(997)**	(846)
Repayment of borrowings		**(3,241)**	(3,110)
Increase/(decrease) in other borrowings		**8,934**	(2,804)
Dividends paid to shareholders		**(3,770)**	(19,467)
Dividends paid to related party		**(588)**	(245)
Net cash used in financing activities		**(1,727)**	(20,448)
Effect of exchange rate changes		**(305)**	344
Net increase/(decrease) in cash and cash equivalents		**2,391**	(21,173)
Cash and cash equivalents at beginning of the year		**18,614**	39,787
Cash and cash equivalents at end of the year		**21,005**	18,614

NOTES TO THE UNAUDITED PRELIMINARY ANNOUNCEMENT

1. Basis of preparation

The Group's unaudited Preliminary Announcement does not constitute statutory consolidated financial statements for the year ended 1 September 2018 or the year ended 2 September 2017. The statutory accounts for the year ended 1 September 2018 will be finalised on the basis of the financial information presented by the Directors in this preliminary announcement and will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

The financial statements for the year ended 2 September 2017 were unqualified and have been delivered to the Registrar of Companies.

The prior year consolidated income statement has been restated for the reclassification to operating profit of the share of post-tax results of the associates and joint ventures. The inclusion of these results in operating profit better reflects the Board's view that these businesses are integral to the Group's operations and strategy. Comparatives at 2 September 2017 have been restated by £2,813,000, increasing operating profit with no impact to profit before tax.

The prior year consolidated balance sheet has been restated for the finalisation of the fair value acquisition accounting for NuVision Engineering, Inc which was acquired on 4 August 2017. Comparatives at 2 September 2017 have been restated decreasing non-current assets by £266,000, current assets by £188,000, non-current liabilities by £668,000 and increasing current liabilities by £214,000. There has been no impact to net assets as at 1 September 2017.

2. Segmental information

The segmental information for the year ended 1 September 2018 is as follows:

	Agriculture £'000	Engineering £'000	Group £'000
Total segment revenue	**359,620**	**43,618**	**403,238**
Inter segment revenue	**(12)**	**(34)**	**(46)**
Revenue from external customers	**359,608**	**43,584**	**403,192**
Adjusted[3] EBITDA[4]	**12,751**	**6,000**	**18,751**
Depreciation, amortisation and profit/(loss) on disposal of property, plant and equipment	**(2,769)**	**(1,733)**	**(4,502)**
Share of post-tax results of associates and joint ventures	**3,396**	**(181)**	**3,215**
Adjusted[3] operating profit	**13,378**	**4,086**	**17,464**
Amortisation and non-recurring items	**(386)**	**(673)**	**(1,059)**
Operating profit	**12,992**	**3,413**	**16,405**
Finance income			**358**
Finance costs			**(1,261)**
Adjusted[3] profit before taxation			**16,561**
Amortisation and non-recurring items			**(1,059)**
Profit before taxation			**15,502**

[3] Adjusted results are after adding back amortisation of acquired intangible assets and non-recurring items including acquisition costs (note 3)

[4] Earnings before interest, tax, depreciation, amortisation, profit/(loss) on the disposal of property, plant and equipment and share of post-tax results of associates and joint ventures

2. Segmental information (continued)

The segmental information for the year ended 2 September 2017 (restated) is as follows:

	Agriculture £'000	Engineering £'000	Group £'000
Total segment revenue	315,876	30,390	346,266
Inter segment revenue	(9)	(33)	(42)
Revenue from external customers	315,867	30,357	346,224
Adjusted[5] EBITDA[6]	11,302	2,084	13,386
Depreciation, amortisation and profit/(loss) on disposal of property, plant and equipment	(2,690)	(1,418)	(4,108)
Share of post-tax results of associates and joint ventures	2,834	(21)	2,813
Adjusted[5] operating profit	11,446	645	12,091
Amortisation and non-recurring items	(630)	(771)	(1,401)
Operating profit	10,816	(126)	10,690
Finance income			176
Finance costs			(864)
Adjusted[5] profit before taxation			11,403
Amortisation and non-recurring items			(1,401)
Profit before taxation			10,002

[5] Adjusted results are after adding back amortisation of acquired intangible assets and non-recurring items including acquisition costs (note 3)

[6] Earnings before interest, tax, depreciation, amortisation, profit/(loss) on the disposal of property, plant and equipment and share of post-tax results of associates and joint ventures

3. Amortisation and non-recurring items

	2018 £'000	2017 £'000
Amortisation of intangible assets	**292**	124
Goodwill impairment	**516**	1,700
Business combination expenses	**251**	1,349
Release of contingent consideration	**-**	(2,090)
Restructuring costs	**-**	112
Loss on property disposal	**-**	206
	1,059	1,401

An impairment of £516,000 was recognised in the year against the carrying value of goodwill in respect of the Bendalls Engineering business.

Business combination expenses relate to acquisition costs incurred in the period as well as contingent consideration in relation to prior year acquisitions of Phoenix Feeds Limited and the business and certain assets of Mortimer Feeds Limited which is explained further below.

Phoenix Feeds Limited was acquired on 1 June 2016. The consideration paid included £490,000 of contingent consideration linked to the continued employment of key personnel and therefore in accordance with IFRS 3 this was not recognised as consideration in the acquisition accounting in the 53 weeks ended 3 September 2016. It is instead being recognised in the income statement over a two year period with £184,000 (2017: £306,000) recognised in the current year. Given the nature of the payment it has been recognised as a non-recurring item.

3. Amortisation and non-recurring items (continued)

Mortimer Feeds was acquired on 5 June 2017. The consideration paid included £30,000 of contingent consideration linked to the continued employment of key personnel and therefore in accordance with IFRS 3 this was not recognised as consideration in the acquisition accounting in the prior year. It is instead being recognised in the income statement over a one year period with £30,000 (2017: £nil) recognised in the current year. Given the nature of this payment it has been recognised as a non-recurring item.

The goodwill impairment and release of contingent consideration recognised in the prior year relate to the acquisition of Chirton Engineering Limited which was acquired in year ended 2014.

Restructuring costs in the prior year comprise redundancy costs.

The loss on property disposal recognised in the prior year was in respect of the disposal of a property that was no longer required following the relocation of one of the Group's Agricultural branches.

4. Taxation

	2018	2017
	£'000	£'000
(a) Analysis of the charge in the year		
Current tax:		
UK corporation tax		
Current year	**1,352**	887
Adjustment in respect of prior years	**(228)**	(144)
Foreign tax		
Current year	**1,549**	591
Adjustment in respect of prior years	**-**	(8)
Group current tax	**2,673**	1,326
Deferred tax:		
Origination and reversal of timing differences		
Current year	**(796)**	442
Adjustment in respect of prior years	**(22)**	(61)
Group deferred tax	**(818)**	381
Tax on profit from ordinary activities	**1,855**	1,707

(b) Factors affecting tax charge for the year
The tax assessed for the year is lower (2017: lower) than the rate of corporation tax in the UK of 19% (2017: 19.58%). The differences are explained below:

Profit before taxation	**15,502**	10,002
Tax at 19% (2017: 19.58%)	**2,945**	1,958
Effects of:		
Tax effect of share of results of associates and joint ventures	**(611)**	(551)
Tax effect of expenses that are not allowable in determining taxable profit	**300**	494
Tax effect of non-taxable income	**(310)**	(418)
Effects of different tax rates of foreign subsidiaries	**227**	473
Effects of changes in deferred tax rates	**(490)**	(36)
Unrecognised deferred tax on losses	**44**	-
Adjustment in respect of prior years	**(250)**	(213)
Total tax charge for the year	**1,855**	1,707

The tax effect of expenses that are not allowable in determining taxable profit includes the non-recurring items of business combination expenses and goodwill impairment (note 3). These have been treated as disallowable for tax purposes.

The tax effect of non-taxable income includes the effect of income within the patent box regime and in respect of the prior year the release of contingent consideration in respect of the Chirton Engineering acquisition in 2014 (note 3).

The effect of changes in deferred tax rates in the current year includes the effect to deferred tax balances following the reduction in US Federal tax rates during the year.

5. Earnings per ordinary share

Basic earnings per share are based on profit attributable to shareholders and on a weighted average number of shares in issue during the year of 91,402,338 (2017: 91,355,427). The calculation of diluted earnings per share is based on 93,438,607 shares (2017: 92,125,320).

Amortisation and non-recurring items that are charged or credited to profit do not relate to the underlying profitability of the Group. The Board believes adjusted profit before these items provides a useful measure of business performance. Therefore an adjusted earnings per share is presented as follows:

	2018		2017	
	Earnings £'000	**Earnings per share pence**	Earnings £'000	Earnings per share pence
Earnings per share – basic	**11,892**	**13.0**	7,005	7.7
Amortisation and non-recurring items:				
Amortisation of intangible assets	**292**	**0.3**	124	0.1
Goodwill impairment	**516**	**0.6**	1,700	1.9
Business combination expenses	**251**	**0.3**	1,349	1.5
Release of contingent consideration	**-**	**-**	(2,090)	(2.3)
Restructuring costs	**-**	**-**	112	0.1
Loss on property disposal	**-**	**-**	206	0.2
Taxation effect of the above	**(60)**	**(0.1)**	(88)	(0.1)
Non-controlling interest in the above	**(145)**	**(0.2)**	(175)	(0.2)
Earnings per share – adjusted	**12,746**	**13.9**	8,143	8.9

6. Cash generated from continuing operations

	2018 £'000	2017 £'000
Continuing operations		
Profit for the year	**13,647**	8,295
Adjustments for:		
Tax	**1,855**	1,707
Tax credit in respect of R&D	**(451)**	(129)
Depreciation of property, plant and equipment	**4,372**	4,093
Depreciation of investment property	**6**	6
Goodwill impairment	**516**	1,700
Intangible asset amortisation	**397**	124
Loss on disposal of property, plant and equipment	**19**	215
Release of contingent consideration	**-**	(2,090)
Business combination expenses	**251**	1,299
Net fair value expense on share based payments	**1,125**	485
Other non-cash adjustments	**107**	(222)
Interest income	**(358)**	(176)
Interest expense and borrowing costs	**1,357**	901
Share of results of associates and joint ventures	**(3,215)**	(2,813)
IAS19 income statement charge (excluding interest)	**24**	59
Changes in working capital (excluding the effects of acquisitions):		
Increase in inventories	**(5,106)**	(2,379)
Increase in receivables	**(7,015)**	(383)
Increase in payables	**7,449**	4,402
Cash generated from continuing operations	**14,980**	15,094

7. Pensions

The Group operates its current pension arrangements on a defined benefit and defined contribution basis. The valuation of the defined benefit scheme under the IAS19 accounting basis showed a surplus in the scheme at 1 September 2018 of £10.1m (2017: £5.2m).

In the year, the retirement benefit charge, excluding interest, in respect of the Carr's Group Pension Scheme was £24,000 (2017: £59,000).

A Group subsidiary undertaking is a participating employer in a defined benefit pension scheme of the associate, Carrs Billington Agriculture (Operations) Ltd. The IAS19 accounting basis showed a surplus for that scheme at 1 September 2018 of £2.0m (2017: deficit of £2.3m). The scheme is treated as a defined contribution scheme by the Group, and its level of participation in the scheme is estimated at 48.5%, which is based on its estimated share of the buyout liabilities. Due to the fact that the sponsoring employer is an associate company of the Group, 49% of the deficit calculated on an IAS19 accounting basis is included in the Group's balance sheet within its 'Investment in Associates'.

Since the year end, the High Court has ruled on the case of *Lloyds Banking Group Pensions Trustees Ltd v Lloyds Bank plc and others*. The ruling that Lloyds Bank Group must amend its three defined benefit pension schemes in order to equalise Guaranteed Minimum Pensions (GMPs) between males and females will impact how companies account for pension schemes under IAS 19. Given the timing of this ruling and the date of signing these financial statements it is considered impracticable to reflect any potential financial impact to the accounting for the Group's defined benefit pension scheme within its accounts for year ended 1 September 2018. Any impact arising from this ruling will be reflected in the IAS 19 accounting in the Group's interim results for 2019. This is not expected to be material to the Group's net assets.

8. Analysis of changes in net debt

	At 3 September 2017 £'000	Cash Flow £'000	Other Non-Cash Changes £'000	Exchange Movements £'000	**At 1 September 2018 £'000**
Cash and cash equivalents	23,887	1,050	-	(305)	**24,632**
Bank overdrafts	(5,273)	1,646	-	-	**(3,627)**
	18,614	2,696	-	(305)	**21,005**
Loans and other borrowings:					
- current	(10,951)	(6,025)	(13,511)	43	**(30,444)**
- non-current	(19,425)	2,407	13,339	115	**(3,564)**
Finance leases:					
- current	(836)	997	(1,084)	-	**(923)**
- non-current	(1,541)	-	108	-	**(1,433)**
Net debt	(14,139)	75	(1,148)	(147)	**(15,359)**

9. The Board of Directors approved the preliminary announcement on 12 November 2018.

10. The Company intends to provide a Summary Report and Accounts to shareholders by 5 December 2018. The full Report and Accounts will be available upon request from the Company Secretary, Carr's Group plc, Old Croft, Stanwix, Carlisle, CA3 9BA or alternatively on the Company's website: www.carrsgroup.com