

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

FULL YEAR TRADING UPDATE (unaudited)
For the year ended 3 September 2022

“A strong performance in a transformational year for the Group”

Carr's (CARR.L), the Speciality Agriculture and Engineering Group, provides a trading update (unaudited) for the year ended 3 September 2022. This is not a preliminary statement of annual results. This update focuses on continuing operations in Speciality Agriculture and Engineering, following the disposal of the Agricultural Supplies division after the year end. The Agricultural Supplies division has been classified as a discontinued operation.

Financials (continuing operations)

Adjusted ¹	FY22	FY21 (restated) ³	+/-
Revenue (£m)	124.2	120.3	+3.3%
Adjusted ¹ operating profit (£m)	11.9	11.1	+7.5%
Adjusted ¹ profit before tax (£m)	11.2	10.4	+8.0%
Adjusted ¹ EPS (p)	10.0	10.1	-1.0%
Net debt ² (£m)	14.0	10.0	-40.8%
Statutory	FY22	FY21 (restated)³	+/-
Revenue (£m)	124.2	120.3	+3.3%
Operating profit (£m)	8.2	8.2	+0.4%
Profit before tax (£m)	7.6	7.5	+0.4%
Basic EPS (p)	6.4	6.2	+3.2%

Highlights

- Revenue from continuing operations increased 3.3%
- Adjusted profit before tax from continuing operations increased 8.0%
- Reported operating profit from continuing operations in line with prior year at £8.2m
- Agricultural Supplies business sold at market comparable 6.4 x FY21 EBITDA
- Post year-end disposal leads to net cash on balance sheet
- Refreshed Board for 2023
- Group now focused on higher margin, differentiated, international businesses

Current Year Outlook

Trading in the early part of the current financial year was strong, but became more challenging in November and December 2022, with lower volumes of feed blocks sold in both the USA and UK markets and very competitive pricing for tenders in the Engineering division. At this stage of the year, the Board remains of the view that trading for the full year will be in line with its expectations and will provide a further update at the half year.

¹ Adjusted results are consistent with how business performance is measured internally and are presented to aid comparability of performance. Adjusting items include goodwill impairment, amortisation of acquired intangible assets, gain on acquisition of joint ventures and adjustments to contingent consideration

² Excluding leases

³ Prior year restatement recognised in relation to the timing of recognition of revenue from customer contracts within the Engineering division, which increased FY21 revenue by £565,000 and reduced FY21 adjusted profit before tax by £41,000

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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 around the world. Carr's operates a business model that empowers operating subsidiaries, enabling them to be competitive, agile, and effective in their individual markets whilst setting overall standards and goals.

The Speciality Agriculture division manufactures and supplies feed blocks, minerals and boluses containing trace elements and minerals for livestock.

The Engineering division manufactures vessels, precision components and remote handling systems, and provides specialist engineering services, for the nuclear, defence and oil & gas industries.

Introduction

The Board of Carr's Group plc today provides a trading update, including unaudited results for the full year ended 3 September 2022. Recent announcements stated that the year end and audit process has taken more time than planned, consequently the Board has decided that it is in the interests of all stakeholders to provide this unaudited information in advance of the Annual General Meeting to be held on 27 February 2023. Completion of the audit and publication of the full Annual Report and Accounts for the year ended 3 September 2022 are expected imminently.

Overview

2022 was a transformational year for Carr's Group. The Board addressed strategic priorities and made changes that will enable growth in shareholder value by developing the Group's market leading businesses in Speciality Agriculture and Engineering. The Group will focus on higher margin, differentiated, international businesses, following the disposal of the Agricultural Supplies division in October 2022.

The future development of the Speciality Agriculture division will be through organic growth opportunities and carefully targeted acquisitions. The Engineering division will focus on the unique qualities and strengths of the current businesses to realise their full potential at a time when the nuclear sector is expanding capacity and capability.

The Board has been refreshed, bringing considerable experience to lead the Group at a time of change and renewal for businesses that have strong prospects for the future.

Financial Performance

Revenue for the year from continuing operations increased to £124.2m (2021 restated: £120.3m).

Adjusted operating profit from continuing operations increased to £11.9m (2021 restated: £11.1m), with Speciality Agriculture contributing £9.2m (2021: £9.5m), and Engineering contributing £5.4m (2021 restated: £3.9m). Reported operating profit was in line with last year at £8.2m (2021 restated: £8.2m).

Adjusted profit before tax from continuing operations increased to £11.2m (2021 restated: £10.4m) whilst reported profit before tax increased 0.4% to £7.6m (2021 restated: £7.5m).

Basic earnings per share from continuing operations increased to 6.4p (2021 restated: 6.2p) and adjusted earnings per share reduced to 10.0p (2021 restated: 10.1p).

Net debt at 3 September 2022, excluding leases, was higher at £14.0m (2021: £10.0m), funding increases in working capital driven by inflationary cost increases. Since year end, with completion of the disposal of the Agricultural Supplies division and the receipt of the initial proceeds, the balance sheet is cash positive.

The profit numbers referenced in this document exclude the impact of discontinued operations. The net loss for the year after tax from discontinued operations of £2.2m (2021: £3.8m profit) consists of the loss recognised relating to the disposal of the Carr's Billington Agricultural business, net of profit from the Agricultural Supplies division.

CONTINUING OPERATIONS		FY22	FY21	
		£m	(restated) ¹	+/-
			£m	
Revenue	Speciality Agriculture	78.1	68.5	+14.0%
	Engineering	46.2	51.9	-11.0%
	Total	124.2	120.3	+3.3%
Adjusted operating profit	Speciality Agriculture	9.2	9.5	-3.5%
	Engineering	5.4	3.9	+38.2%
	Central	(2.6)	(2.3)	+13.7%
	Total	11.9	11.1	+7.5%
Net finance costs		(0.7)	(0.7)	+0.2%
Adjusted profit before tax		11.2	10.4	+8.0%
EPS - adjusted (pence)		10.0	10.1	-1.0%
EPS - basic (pence)		6.4	6.2	+3.2%

BALANCE SHEET - NET ASSETS	At 3 September 2022	At 28 August 2021
	£m	(restated) ¹
		£m
Fixed assets	75.8	113.7
Net working capital	30.1	39.7
Assets/liabilities held for resale	47.0	-
Assets employed	153.0	153.3
Pension surplus	6.8	9.4
Lease liabilities	(7.5)	(15.4)
Tax provisions	(1.7)	(2.7)
Net debt	(14.0)	(10.0)
Net assets	136.5	134.6

NET DEBT RECONCILIATION	£m
Net debt at 28 August 2021	(10.0)
Adjusted EBITDA in respect of continuing operations	15.1
Movement in working capital	(8.7)
Capital expenditure	(3.9)
Interest and tax	(1.6)
Dividends paid	(4.7)
Acquisitions (net of borrowings acquired)	(0.8)
Other	0.4
Net debt at 3 September 2022	(14.0)

¹ Prior year restatement recognised in relation to the timing of recognition of revenue from customer contracts within the Engineering division, which increased FY21 revenue by £565,000 and reduced FY21 adjusted profit before tax by £41,000

Dividend

On completion of the audit, the Board intends to propose a final dividend of 2.85 pence per share which, together with the two interim dividends, would make a total dividend of 5.20 pence per share for the full year, up 4% on the prior year (2021: 5.00 pence). Payment will be subject to approval by shareholders which will be sought at the general meeting called to approve the Annual Report and Accounts.

Strategy

Since April 2021, business performance has been reported in three divisions: Speciality Agriculture, Agricultural Supplies, and Engineering. This provided clearer information on the profitability of each division and more detail on how each contributes to earnings per share.

In January 2022, a review of the strategic options for long-term growth in shareholder value in each of the three divisions was announced. Following careful evaluation of all options, supported by external advisers, the Board determined that the Group will most successfully create long-term shareholder value by focusing on the higher margin, differentiated, international businesses in Speciality Agriculture and Engineering.

The Speciality Agriculture division, which delivers measurable productivity benefits to livestock farmers through patented products sold under market-leading brands, will grow with investment in the existing businesses and, over time, by carefully targeted acquisitions. Opportunities include demand for nutritional supplements generated by increasing use of low intensity pasture-based grazing, the rise in sustainability-related nutrition programmes, and growing interest in welfare-centred management systems.

The Engineering division will develop the current portfolio of businesses, which include patented and differentiated products and services, to achieve their full potential in specialist markets at a time when totally dependable engineering solutions and services, fit for the nuclear industry, are in demand. Opportunities include increasing capacity through small modular reactor technology development, extending installed asset life to maintain capacity, and supporting high levels of investment in long-term fundamental research.

In August 2022, we reached agreement with co-owners Edward Billington & Son Limited for the sale of all our holdings in the Agricultural Supplies division. Following a general meeting on 19 September 2022 at which 98% of shareholder votes were in favour, the sale was completed on 26 October 2022, with the Group's holding valued at £44.5 million (on a debt-free basis), a market comparable multiple of 6.4 x FY21 EBITDA, leading to anticipated net proceeds of £29.0 million, after accounting for all transaction costs, debt and working capital adjustments.

Whilst the Agricultural Supplies division generated approximately 75% of historic Group revenues, the market environment and ownership structure meant that it contributed approximately 25% to adjusted earnings per share attributable to shareholders. The split ownership structure meant that Carr's Group did not have full control of the strategy or direction of the combined business, whilst it consumed a substantial proportion of management time. It required up to £10m of replacement capital expenditure, and the rise in commodity prices led to a substantial increase in working capital during 2022. The disposal addresses a fundamental challenge to growing shareholder value.

The decision to focus on high margin, differentiated, international businesses, and the disposal of the lower margin UK-only division, are the first steps in an ongoing process of strategic change for the Group. The receipt of sale proceeds puts the balance sheet in a strong net cash position. The Board will carefully consider the appropriate allocation of capital to achieve a balance between investment for growth in long-term value of the Group and returns to shareholders, including options to secure a fully funded, risk free position for the legacy defined benefit pension scheme.

Board

Carr's Group has a refreshed Board of new Executive and Non-Executive members bringing considerable experience for the benefit of all shareholders.

In line with Board succession plans, Shelagh Hancock and Stuart Lorimer were appointed as Non-Executive Directors from 1 September 2022. Shelagh, CEO of First Milk, the leading UK farmer owned dairy co-operative, has considerable experience relevant to the Speciality Agriculture division. Stuart, Finance Director of FTSE listed AG Barr plc, will become Audit Committee Chair in succession to John Worby. Both Shelagh and Stuart have already brought fresh insight to Board meetings and provide constructive challenge to the Executive Directors.

As part of the Board's succession plan, John Worby, who has been on the Board since 2015, will complete his time as Audit Committee Chair shortly and will retire from the Board in mid-2023 following a period of handover and support to the new Board members. John has provided wise counsel and shared a lifetime's experience in finance and public companies, which has been of great value to the Group.

Neil Austin has been on the Board for over nine years. In August 2022, Neil indicated his intention to leave Carr's Group to take up a new role at Westmorland Family, headquartered at Penrith in Cumbria. Neil has been central to many of the improvements and developments at Carr's Group in recent times and has made a significant contribution to the work of the Board. His detailed understanding of the workings of the Group combined with a sharp intellect have been a real help to Board members and senior managers throughout his tenure. Neil stands down as Chief Financial Officer and from the Board today, and leaves with all the Board wishing him success in his new role, and gratitude for his legacy at Carr's Group.

David White joins the Board today as Chief Financial Officer, in succession to Neil Austin, bringing extensive finance and operational experience gained at Aggreko plc, Weir Group and in professional services. David was appointed following an external search process and has made a very positive impact since joining the Group on 3 January 2023.

In November 2022, following an extensive search process, it was announced that Tim Jones would be joining the Board and would become Non-Executive Chair. Tim's appointment takes effect today. He brings substantial experience to the role, having been Non-Executive Chair of Treatt plc, a FTSE listed business whose market capitalisation increased eight-fold in the 11 years of his tenure. Tim has a deep understanding of equity markets, is an FCA approved person and a member of the Chartered Institute of Securities and Investment, and is well placed to engage with, and reflect the interests of, all shareholders.

Since October 2021 Peter Page has worked in the business full-time as Executive Chair, following agreement with the incumbent Chief Executive Officer, Hugh Pelham, that he would leave the business and step down from the Board. Further to an extensive internal and external search process, it was announced in August 2022 by the Board that Peter Page would be appointed Chief Executive upon the appointment of a new Non-Executive Chair which takes effect today.

As separately announced today, Martin Rowland will join the Board as a Non-Executive Director shortly following the AGM in accordance with a relationship agreement entered into between Harwood Capital Management Limited and the Company on 20 February 2023.

FY22 Year-End Process

In November 2022 a delay was announced to the completion of the year-end process that has several consequences including a temporary suspension of trading in the Company's ordinary shares, delayed release of the Annual Report, unaudited results and payment of the final dividend later than usual. Whilst the delay primarily relates to a part of the business in which Carr's Group had a minority shareholding and that has now been sold, the Company will carefully review the audit process to seek opportunities for the timely completion of the current financial year.

The field work required to close the FY22 audit process is essentially complete, with the Company and its auditor (Grant Thornton UK LLP) concluding a small number of supplementary information requests to close out testing. Final auditor internal review and quality checks have commenced.

Following completion of the audit and publication of results, the company will apply to the Financial Conduct Authority (FCA) for the restoration of the Group's shares to the premium listing segment of the Official List of the FCA and to trading on the London Stock Exchange. The Board is aware of the inconvenience that the suspension of trading will have caused to shareholders.

After the completion of audit, the Annual Report and Accounts will be published and made available to shareholders in the usual manner. The Company Secretary will arrange for a General Meeting at the earliest opportunity to seek approval from shareholders of the accounts, the appointment and remuneration of the auditor, the remuneration report, and the proposed dividend.

GROUP PERFORMANCE REVIEW

Overview

The Group performed well during the financial year ended 3 September 2022 (“FY22”). Continuing operations, comprising Speciality Agriculture and Engineering, delivered 8.0% growth in adjusted profit before tax compared to the prior year, from a 3.3% revenue increase. FY22 was challenging due to supply chain delays, raw material cost increases and energy price rises, as the effects of the Covid pandemic receded and global business activity started to return to higher levels.

Health and Safety performance reflects increased awareness of risks, and changing habits. Reportable Incidents declined from 9 in 2020 to 4 in each of 2021 and 2022. Lost Time Incidents reduced from 19 in 2020 to 9 in 2021 to 4 in 2022. Leading indicators, such as identification of hazards and reporting near misses, reflect a greater awareness of safety-related issues and more confidence in reporting them as a preventative measure.

OPERATIONAL REVIEW FOR CONTINUING OPERATIONS

Speciality Agriculture

The Speciality Agriculture businesses have patented and well-recognised brands, differentiated products and strong customer relationships. Sales teams worked hard throughout the year to bring sales prices in line with extraordinary raw material cost increases, enabling the businesses to finish FY22 ahead of initial expectations.

Adjusted operating profit for the division, at £9.2m, was marginally below prior year (2021: £9.5m), whilst revenues rose 14.0%, to £78.1m (2021: £68.5m), as inflation in raw material costs was necessarily passed on to the market.

USA

Adjusted operating profit in the US feed blocks business held up well, due to strong margin discipline and a focus on addressing the time lag between cost increases and sales. At the start of the year, a significant increase in raw material costs impacted margins, due to timing differences in the receipt of orders, manufacturing, and deliveries, but was promptly addressed in the first quarter to bring costs and pricing into line for the full year. US feed block volumes were lower than prior year, adversely affected by drought, in several regions of the market, causing a reduction in the number of livestock out on grass, an impact that lasted throughout the year and will continue into 2023. Market forecasts are for a recovery in stock numbers in the medium-term, once rainfall increases and forage availability improves.

For 2023, the US blocks management team has been expanded with the appointment of a Vice-President of Sales and Marketing to lead activity for revenue growth that will include recruitment of additional distributors and providing strong product support. HorsLic®, the equine feed block, is a priority for additional volumes, with a recently appointed account manager and new distributor in Texas enabling the business to increase activity in the region with the largest horse population in the USA.

Substantial movements in the relative prices of canola and soy meal adversely impacted the by-pass protein business in the north-eastern US. New supply contracts and opportunities for product diversification are being developed.

UK and Europe

Strong farmgate prices for dairy, beef and lamb in the UK in 2022 enabled the market to absorb price increases for feed blocks, as the business passed on substantial rises in raw material costs. Volumes were stable, with the UK slightly ahead of prior year, whilst Europe was marginally behind. Escalating costs and shortages of key raw materials impacted margins in the first half of the year but these were back on track by the year end. The launch of the new Crystalx® dairy range in 2021 was well received and remains an opportunity for growth. A period of 3-shift working at the UK manufacturing operation helped maintain inventories.

Bolus volumes were stable, with strong demand in the UK. Ireland is a significant market for grassfed stock, and now accounts for a third of bolus revenues. Increases in raw material costs, from copper to packaging, impacted margins in view of the need to maintain competitive prices. During 2022, all bolus products were brought under one brand, Tracesure®, which has been refreshed in the US, New Zealand and Europe, to help extend our global reach.

New Zealand

Logistics issues, due to reduced global freight capacity after Covid, and associated increases in shipping costs, impacted short term profitability of the business in New Zealand, but sales volumes of both feed blocks and boluses were stable. A full evaluation of the long-term opportunity for growth through investment will be completed in 2023.

Outlook

The Speciality Agriculture division enables farmers to optimise forage and grass-based nutrition systems, supporting their objectives to raise healthy animals efficiently, in a welfare friendly and environmentally responsible way, by providing appropriate nutritional supplements that are released in the required quantities at the right time. Investment in product development will ensure a pipeline for future growth.

In 2022, the Speciality Agriculture division responded well to supply chain and market challenges, maintaining margins and ensuring product availability for customers. In 2023, costs of energy and raw materials, whilst still much higher than in previous years, are plateauing.

Engineering

The Engineering division reported a strong recovery in adjusted operating profit during the year, up 38.2% to £5.4m, as a result of closer control of projects and improving utilisation as the interruptions of COVID-19 receded (2021 restated: £3.9m). Adjusted operating margins rose to 11.6% (2021 restated: 7.5%) on lower revenues of £46.2m (2021 restated: £51.9m). Several important projects were awarded in the nuclear industry, reflecting the specialist expertise of the companies in the Engineering division, with the order book closing the year at £40.6m, 2.4% ahead of the prior year (2021 restated: £39.7m).

Fabrication and Precision Engineering

The specialist fabrication business generated a strong result in 2022, due to a positive flow of orders from the nuclear reprocessing and decommissioning sector, together with enhanced utilisation. In September 2022, the specialist fabrication business was accredited to the joint supply chain accreditation register (JOSCAR) which enables the business to bid for work in the UK defence, aerospace and security sectors.

The precision engineering business performed well, ahead of prior year, rebuilding the order book following disruption during Covid, due to its close involvement with the oil and gas sector, which has now recovered strongly. The business is currently focusing on enhanced operating efficiencies and new business opportunities to support growth in profitability. In late 2022, the precision engineering business achieved the demanding *Fit For Nuclear* quality accreditation.

To ensure availability of relevant skills in the future, the fabrication and precision engineering businesses have well-established apprentice programmes, with an intake of nine in 2022. Bendalls Engineering opened a dedicated Skills Academy in Carlisle, in conjunction with Lakes College, that is open to other manufacturers in the area. The Skills Academy is home to the apprentice programmes and provides short courses to upskill employees for specific projects.

Robotics

The Global Robotics business performed in line with expectations, maintaining a strong presence in the nuclear market. New contract wins include the first supply of an A1000 power manipulator in the USA to an internationally renowned research laboratory, the first order for an A100 master slave manipulator to the US Navy, and powered manipulators to Posiva Solutions in Finland for the world's first final deep storage solution for nuclear waste.

The HWM double arm Telbot was selected by RACE, (part of the UK Atomic Energy Authority focussed on remote applications in challenging environments) for the UK-Japanese jointly funded *LongOps* project to develop capabilities for removing and handling waste debris at damaged nuclear sites such as Fukushima. The European Spallation Source (ESS) in Sweden, one of the largest science and technology infrastructure projects in Europe, ordered a double arm robotic manipulator for the world's most advanced neutron source.

Wälischmiller is the leading specialist robotics supplier in the civil nuclear market, with a full range of manipulators, including the recently launched A150, a light weight, highly flexible, small-scale telescopic manipulator for isotopes, and the unique 100% stainless steel manipulator, both designed for the growing nuclear medicine market.

Engineering Solutions

The Engineering Solutions business in the USA provides unique services in the maintenance of nuclear facilities worldwide. It performed well in 2022, ahead of the Board's expectations. The business completed two MSIP® projects in the USA during FY22, with another in Slovenia closing out after year end. Further MSIP projects are progressing in 2023.

During 2022, the business achieved 1,000,000 working hours (equating to almost 12 years) without a lost-time injury, a significant milestone as we continue to focus on safety.

Performance in the UK Engineering Solutions business was impacted by delays and higher costs than expected on one long-running defence contract. All plant has been successfully installed and commissioned, and final handover was completed in early 2023.

In November 2022, the US Government's Department of Energy announced the award of a multimillion-dollar research contract to NuVision engineering, to develop processes for recycling nuclear waste, opening up the prospect of further unique capabilities and business opportunities in the future.

Outlook

The engineering companies are well regarded in the growing nuclear market, as governments seek to improve energy security and reduce dependence on fossil fuels. Each business is developing a pipeline of long and short-term projects to strengthen orderbooks for 2023 and beyond.

Central Costs

In 2022, central costs at adjusted operating profit level were £2.6m, slightly higher than the prior year (2021: £2.3m). With the changing structure of the Group's businesses, central costs will be reviewed to ensure that they remain in line with the future strategy.

Outlook for FY23

Trading in the early part of the current financial year was strong, but became more challenging in November and December 2022, with lower volumes of feed blocks sold in both the USA and UK markets and very competitive pricing for tenders in the engineering division. At this stage of the year, the Board remains of the view that trading for the full year will be in line with its expectations and will provide a further update at the half year.

Following on from 2022, with considerable strategic change and progress, the Group is more focused. The unique know how and customer relations embedded in the Speciality Agriculture and Engineering divisions have considerable value as markets seek technical solutions to long term sustainability challenges.

The Board is confident that both divisions will generate value for shareholders in the long term and that the Group is well-positioned to manage the challenges of the year ahead.