

LUCECO PLC
2019 FULL YEAR RESULTS

Delivering sustained progress

Luceco plc (“Luceco”, or the “Group” or the “Company”), a manufacturer and distributor of high quality and innovative wiring accessories, LED lighting products, and portable power products, today announces its audited results for the year ended 31 December 2019 (“FY 2019” or “the period”).

Year ended 31 December (£m)	Reported results				Adjusted ¹ results			
	2019	2018	Change (%)	Change at constant FX rate ²	2019	2018	Change (%)	Change at constant FX rate ²
Revenue	172.1	163.9	5.0%	3.1%	172.1	163.9	5.0%	3.1%
Gross margin %	37.5%	30.3%	7.2ppts		36.2%	30.9%	5.3ppts	4.8ppts
Operating profit	20.2	4.9	312.2%		18.0	8.5	111.8%	88.2%
Operating margin %	11.7%	3.0%	8.7ppts		10.5%	5.2%	5.3ppts	4.3ppts
Profit before tax	17.1	3.0	470.0%		15.8	6.3	150.8%	
Profit after tax	13.1	1.5	773.3%		12.1	4.6	163.0%	
Basic earnings per share	8.3p	0.9p	822.2%		7.7p	2.9p	165.5%	
Net debt	27.4	32.2	(14.9%)					
Net debt : EBITDA ¹					1.06	2.20x ³	(51.8%)	
Free cash flow	13.0	5.4	140.7%		18.9	7.7	145.4%	
Return on capital invested					21.8%	9.9%	11.9ppts	
Dividend per share	0.6p	0.6p	-					

1. The definitions of the adjustments made and reconciliations to the reported figures can be found in note 1 of the consolidated financial statements

2. 2019 translated at 2018 exchange rates. These were 1.33 for £: US dollar and 8.84 for £: RMB. Further details in note 10 of the consolidated financial statements

3. Rebased for the impact of IFRS 16 adoption

Financial highlights

- Sustained progress across a broad range of metrics in challenging market conditions:
 - Revenue of £172.1m, 5.0% higher than last year
 - Adjusted Operating Profit of £18.0m:
 - >100% conversion of revenue growth into operating profit
 - Adjusted Operating Margin doubled to 10.5%
 - Adjusted Free Cash Flow of £18.9m:
 - >100% conversion of operating profit growth into cash
 - Closing net debt reduced to 1.06x Adjusted EBITDA
 - Adjusted Basic EPS of 7.7p

Strategic highlights

- Focus on managed, profitable growth:
 - Investing in the best growth opportunities
 - Withdrawing investment from others
- Continuing to invest in our business model:
 - New product development, range expansion and cost reduction
 - Manufacturing and warehousing transformation and IT enhancements

SARS-CoV-2 (Coronavirus) summary

- Worldwide action to safeguard employees
- Chinese lockdown disrupted product supply in February and March 2020, but back to normal by the end of Q1 2020
- European lockdown disrupted demand from the start of Q2 2020:
 - Revenue currently at circa 50% of normal levels
 - Monthly cash outflow limited to £0.5m per month through proactive action to reduce cost
 - Adequate liquidity to fund this rate of loss: £24.5m of undrawn facilities at the end of Q1 2020, committed until end of 2021
- Resilience and optionality added to the funding plan:
 - Agreement reached with relationship bank to:
 - Loosen banking covenants in late 2020 to accommodate severe downside scenarios
 - Swap £10.0m of existing invoice financing facility for £10.0m of Revolving Credit Facility to underpin debt capacity
 - COVID Corporate Finance Facility applied for
 - China mortgage lending available

Commenting on the results, Chief Executive Officer, John Hornby said:

“2019 was a year of excellent performance on a broad front, which is testament to the hard work and dedication of the entire Luceco team.

We witnessed sustained progress across a broad range of metrics in challenging market conditions. Our focus has been on managing profitable growth, investing in our resilient business model and laying the right foundations for further progress in the years to come.

The coronavirus outbreak has temporarily disrupted this progress. Our primary focus is on the safety and well-being of our colleagues. The full impact of the pandemic is, as yet, unknown but we entered this period on a strong footing and with considerable liquidity.

We are confident in being able to make further progress in the years to come and look forward to the future with optimism.”

There will be a conference call of the results at 9:30am today for analysts and investors. Please contact Florence Mayo at MHP Communications on 020 3128 8572 or email luceco@mhpc.com for details.

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Business summary

Luceco is a manufacturer and distributor of high quality and innovative wiring accessories, LED lighting and portable power products for a global customer base.

The Group supplies trade distributors, retailers, wholesalers and project developers with a wide range of products which broadly fall into the following market recognised brands:

- British General (“BG”): wiring devices including switches and sockets, circuit protection and cable management products;
- Luceco and Kingfisher Lighting: energy efficient internal and external LED lighting products and accessories;
- Masterplug: cable reels, extension leads, surge protection, timers and adaptor products; and
- Ross: audio visual products including TV wall mounts, desk mounts and audio visual accessories.

Luceco’s long-established BG brand commands a loyal following amongst professional electrical contractors in both the UK and overseas. It is synonymous with quality, safety, innovation and value for money. The production of BG wiring accessories is the main focus of the Group’s Chinese manufacturing facility, allowing it to control product quality, cost and availability.

The Luceco and Kingfisher LED lighting brands combine to present a comprehensive range of indoor and outdoor LED lighting solutions. The range focuses largely on professionally installed products with an emphasis on performance and quality. The Group is able to support these products by offering customers access to its in-house installation design team.

Masterplug is the market leading brand in the UK Portable Power category. It is sold largely to consumers through retail distribution and online. Its products are offered in a wide range of global electrical standards and they are sold in every territory in which the Group operates.

Forward-looking statements

This announcement contains forward-looking statements that are subject to risk factors associated with, among other things, the economic and business circumstances occurring from time to time in the countries, sectors and markets in which the Group operates. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated. No assurances can be given that the forward-looking statements in this announcement will be realised.

The forward-looking statements reflect the knowledge and information available at the date of preparation of this announcement and the Company undertakes no obligation to update these forward-looking statements. Nothing in this announcement should be construed as a profit forecast.

CHAIRMAN'S STATEMENT

Performance

Last year's Chairman's Statement reported the Board's satisfaction with the turnaround in performance delivered by Luceco in the second half of 2018. The structural improvements to the Group's people, processes and systems throughout 2018 made the Board cautiously optimistic that further progress could be made in 2019.

I am very pleased to report that the Group has indeed sustained progress throughout 2019. The achievement is all the more impressive considering the scale of the challenge and the macroeconomic environment in which the turnaround has been delivered.

Highlights are as follows:

- Return to revenue growth: 5.0% (2018: -2.2%)
- Strong Adjusted¹ Gross Margin enhancement: 36.2% (2018: 30.9%)
- Key profit and cash metrics have all more than doubled in the year:
 - Adjusted¹ Operating Profit: £18.0m (2018: £8.5m)
 - Adjusted¹ Operating Margin: 10.5% (2018: 5.2%)
 - Adjusted¹ Free Cash Flow: £18.9m (2018: £7.7m)
- Ratio of net debt to Adjusted¹ EBITDA halved: 1.06x (2018: 2.2x)

1. The definitions of the adjustments made and reconciliations to the statutory figures can be found in note 1 of the consolidated financial statements.

More information on the Group's performance during the period can be found in the Chief Financial Officer's Review.

Luceco has enjoyed a decade of strong revenue growth. The Group's historic results demonstrate that the majority of growth has been profitable and value-enhancing. However, Luceco has sometimes found it difficult to fully optimise rapid top-line growth with equal progress in other areas of the business. Over the last two years, the Board is pleased to report that the senior management team has responded to these growing pains.

The Group remains focused on sustained growth and has ample market opportunities to do so. Today, opportunities for growth are now aligned with a disciplined approach to resource allocation to focus on the highest potential for both profit and cash generation versus simple market share gains. An equal emphasis is also now placed on continuing to invest in people and the operating effectiveness of the business model to improve profitability, quality of products and service and to ensure any growth delivered today is sustainable tomorrow.

Despite some very challenging market conditions, this re-invigorated discipline allowed financial progress to be made on a broad front in 2019. The Board is confident that the measures taken during 2018 and 2019 have improved Luceco's resilience, a quality that will no doubt be called upon in 2020 as the Group responds to the demands of both the coronavirus and Brexit.

Purpose and strategy

The Group's purpose is to deliver high quality, innovative electrical products to attractive markets worldwide through sustainable investment in products, people and channels to market.

Luceco's market-leading core product range generates cash for re-investment in synergistic growth markets. The Group addresses these markets with a unique culture and business model.

Approving the strategy and overseeing its effective implementation is one of the Board's primary responsibilities. The Group's six key strategic priorities are listed in the Chief Executive Officer's Review, together with an update on each. Luceco's strategic priorities remain unchanged from last year and are consistent with our choice of markets, business and financial model.

People

I would like to thank the entire Luceco team for delivering such a strong set of results in 2019 and for making significant progress across a range of initiatives that will sustain the Group's success into the future.

I would also like to note the arrival of Will Hoy to the Board in September 2019. Will's extensive industrial sector and mergers and acquisitions experience will be of particular use to the Group over the coming years.

Impact of SARS-CoV-2 (Coronavirus)

The management team has responded swiftly and comprehensively to the outbreak of the SARS-CoV-2 coronavirus over recent months.

Actions were implemented worldwide to safeguard the wellbeing of the Group's employees, starting in late January at the Group's Chinese factory in Jiaying (800km from Wuhan). The senior management team is to be thanked for its diligent and professional response to this situation in difficult circumstances.

Production restarted at both our factory and our major suppliers in late February and the rate of supply is now more than adequate to meet demand.

Whilst very good progress has been made in mitigating the impact of the virus on supply, actions taken by governments to slow the spread of the virus in the markets in which we sell have begun to adversely impact demand. This was expected. The full extent of the impact is impossible to gauge accurately. It will largely depend on the progression of both government policy and human behaviour, neither of which can be reasonably predicted when the event itself is without recent precedent. Early actions taken to reduce cost, preserve cash and make the Group's funding arrangements more flexible for the unforeseen stand us in very good stead for whatever is to come.

A more detailed commentary on the impact of the virus on the business is included in the Chief Executive Officer's Review.

Conclusion

The Group enters a period of unprecedented uncertainty with its highest profitability, lowest leverage and with significant liquidity. It has implemented a comprehensive plan to minimise the disruptive impact of the virus on operations. The plan ensures the business retains maximum flexibility to respond to a range of possible short-term outcomes to maximise long-term value.

The Board's desire for flexibility has led it to recommend the temporary suspension of dividends until the impact of the virus is better understood.

It has also taken the decision to withdraw its current profit guidance for 2020. New guidance will be issued as soon as it can be reasonably assessed.

Your Board believes the Group's business model, much improved balance sheet and financial performance provide the best possible starting point as we enter this challenging period. The Group has already proven its ability to withstand challenges and I have the utmost confidence it will do so again.

GILES BRAND

Chairman
23 April 2020

CHIEF EXECUTIVE OFFICER'S REVIEW

Business performance

The return to revenue growth in 2019 was achieved amid challenging conditions in our key UK market, from which we derive 80% of revenue.

UK business confidence and construction sector activity were held back by the uncertainty created by two successive Brexit extensions and a change of government. Despite this, year-on-year revenue growth started strongly, totalling 10% in the first half, but slowed in the second as we reached tougher comparatives, resulting in full year growth of 5.0%.

We saw strong and sustained growth from our international businesses. In Continental Europe, which continues to reap the benefit of earlier investments in both product development and sales resource, revenue growth was 14.8% in 2019 and has totalled almost 300% over the last five years. Sales to Middle Eastern customers also grew well, at improved margins.

We continue to review and allocate our resources to those markets with the greatest opportunity for returns. We ceased operations in the USA in 2018, merged our businesses in France and Spain in 2019 and we will close our Hong Kong sales office in the first half of 2020. These activities free up resources to accelerate progress in other markets where we have greater potential.

Group revenue grew in each of its key product group segments of Wiring Accessories (6.5%), LED Lighting (4.6%) and Portable Power (3.6%). A detailed review of the operating segment performances can be found in the Chief Financial Officer's Review.

Adjusted Gross Margin increased by 5.3 percentage points to 36.2% (2018: 30.9%). Gross margins benefited from the positive impact of manufacturing efficiency gains, lower cost product designs, product mix and favourable currency and commodity price movements.

The combination of the growth in revenue, improved gross margins and a well-controlled cost base has resulted in the Group delivering Adjusted Operating Profit of £18.0m at an operating margin of 10.5% (2018: 5.2%). This result provides confidence that once the current coronavirus outbreak is resolved, the Group has the ability to surpass the previous peak operating margin of 10.8%.

More information on our performance during the year can be found in the Chief Financial Officer's Review.

Impact of SARS-CoV-2 (Coronavirus)

The SARS-CoV-2 coronavirus (which causes the COVID-19 disease) was discovered in the city of Wuhan, China in December 2019 and has since spread worldwide.

The Group responded swiftly and comprehensively to this situation. Everything possible was done to safeguard the wellbeing of our employees, who were our utmost priority. I would like to take this opportunity to thank my team for their rapid response and unerring commitment in these challenging times.

The full impact of the outbreak on our business is not yet clear. The commentary below summarises what we know or can reasonably expect:

Supply impact

- The Group sources nearly all of its products from China
- Approximately half of these products come from the Group's own production facility in Jiaxing, roughly 800km from Wuhan. It employs 1,000 people out of a Jiaxing population of five million
- The Jiaxing area has been relatively unaffected by the outbreak. At the time of writing there is only one active case of COVID-19 in the city
- There have been no infections in the Group's Chinese workforce
- In response to the outbreak, the facility was closed for the two weeks immediately following the Chinese New Year holidays, but reopened on 17 February, albeit at reduced capacity due to a lack of workers. Capacity has gradually recovered since
- The Group holds c.100 days of inventory that partially mitigates the impact of any production shortfall
- The rate of product supply from our facility and other vendors has now returned to normal. Any additional costs incurred in dealing with the virus will be excluded from the Group's Adjusted metrics in 2020

Demand impact

- We took the following actions in March 2020 to reduce cost or preserve cash, in expectation that the strict constraints placed on free movement by governments to contain the spread of the virus would impact demand across our industry:
 - Suspension of dividends
 - Cancellation of bonus payments
 - Temporary pay cuts from the Board down
 - Reducing production headcount in China
 - Furloughing sales, administration and distribution headcount in the rest of the Group
 - Cancellation of all discretionary spend including capex
 - Through these measures, we have reduced our fixed cost spend, that is, minimum spend with no sales or purchase activity, by £1.9m to £3.5m per month

- Whilst Q1 2020 was in line with budget, since the start of Q2 2020 we have seen Group revenue reduce by circa 50% as a result of lockdown measures in the UK and Europe. Our cash outflow at this level of activity is £0.5m per month and EBITDA is close to breakeven
- We have £50m of bank facilities from our long-standing relationship bank that are committed until the end of 2021. £24.5m of this was undrawn at the end of Q1 2020
- The facilities above have financial covenants. Our base case forecast shows clear compliance with these covenants for the foreseeable future. Nevertheless, our relationship bank has agreed to reset future quarterly financial covenant limits in Q3 and Q4 2020 to accommodate a severe but plausible downside scenario. This will be legally contracted by early May 2020. This is discussed in more detail in the Chief Financial Officer's Review

Strategy update

The Group's investment case has six key strategic objectives, which have previously been communicated to shareholders. An update on the progress of each objective is provided below:

Increase sales to professional customers

Our aim over recent years has been to grow our professional business to match our established retail business. The Group's focus on clearly branded, high quality, innovative and readily available products, with extensive supporting services, is appealing to this group of customers. In the past year, we have:

- Invested in our customer service by:
 - Simplifying our pricing structure to make ourselves easier to do business with and to reward customer loyalty
 - Upgrading the IT systems supporting our UK warehouse
 - Building a transactional website through which professional customers can place and track orders and manage their account
- Invested in our sales teams by:
 - Developing a Customer Relationship Management platform to provide them with better information on both current and potential customers
 - Providing them with the skills necessary to develop relationships throughout the value chain
 - Providing them with both product training and easier access to technical product content

Increase sales to international customers and improve international profitability

Increasing sales to international customers remains key to growing our business organically whilst progressively reducing our reliance on the UK market. This type of growth allows the Group to maximise returns from the development of existing products, particularly products like LED that share a near-global standard.

The Group set up six new international sales offices between 2015 and 2016 to deliver this strategy. Its success is illustrated by a tripling of international revenue since then.

Our desire to maximise profit from this growth will result in our international customers being served by three fewer offices by the end of 2020 following the end of operations in the USA, France and Hong Kong over the last three years. Resources have been redeployed into our other international businesses that we believe can offer higher returns.

These actions have allowed the international business to contribute its first aggregate net profit this year.

Sales by geography can be found in the Chief Financial Officer's Review.

Enter new product segments that are synergistic with our existing business

New product development is key to expanding the basket of products we sell to each customer and to expanding the value of each product category through innovation. 2019 was a relatively quiet year for new product development as we focused our engineers on designing better versions of existing products. Nevertheless we still introduced, amongst others:

- BG Smart! – an innovative range of automation products that allow users to control and schedule power in the home
- Electric Vehicle ("EV") chargers – Mode 2 chargers for electric vehicles
- Office electrics – on-the-desk power and data solutions for offices
- Professional LED luminaires – ongoing expansion of our range for the professional market

Maximise manufacturing efficiency and effectiveness

The last two years have seen a significant improvement in the performance of our China manufacturing facility. After a period of rapid capacity expansion, the lower revenue growth experienced by the Group in the last two years has allowed us to place more emphasis on improving plant efficiency.

We believe there are more efficiency gains to come. To that end, we recruited a new Managing Director and Director of Finance for the facility in the year. Both come with extensive experience of world-class manufacturing environments in the German automotive industry.

The new management team has launched an ambitious transformation plan to improve productivity and further reduce manufacturing costs. This plan will include investment in factory automation in the coming years.

The progress we are making in China is complemented by investment in our Telford warehouse, which accounts for c.40% of Group revenue.

We are implementing a UK warehouse management system that will optimise warehouse operations through integrating resource planning, stock management and purchasing. To improve productivity and efficiency, we will also be investing in equipment that will improve stock storage, retrieval and picking.

We expect these investments to deliver enhanced customer service, increased capacity and improved efficiency in 2020 and beyond.

Maximise return on capital and maintain capital discipline

The reduction in net debt to £27.4m at 31 December 2019 meant that the Group ended the year with net debt leverage at 1.06x, at the bottom of our targeted range. We also reduced our use of debt factoring as planned.

The balance sheet is now well positioned.

Maintain best practice corporate governance

We continue to invest in our governance framework to maximise control and drive operational efficiency.

Investment in the finance team started in 2018 and we continue to improve the efficiency of our finance systems and processes.

We increased investment in IT across the business in 2019 to improve the efficacy of our business model.

The Board was strengthened by the appointment of Will Hoy as a Non-Executive Director in September 2019.

People

Our employees are critical to the success of the Group and its ability to meet its objectives. We aim to communicate regularly with our employees to maximise their engagement.

Bulletins and reports provide employees with a common awareness of the financial and economic factors affecting the Group's performance. Our quarterly employee newsletter "Luceco Limelight" includes sections on: our people globally, key initiatives, headline financial performance and new product launches.

CFO Matt Webb, and I regularly brief our colleagues on published financial results and we hold open question and answer sessions with our teams.

Employees are consulted as appropriate to reflect their views when making decisions that are likely to affect their interests. Our annual employee engagement survey captures and responds to the views of the workforce.

In accordance with the 2018 UK Corporate Governance Code, Tim SurrIDGE was appointed by the Board as the designated Non-Executive Director for workforce engagement; more about his role can be found in the 2019 Annual Report and Accounts.

The Group endeavours to provide supportive working conditions and an environment to accommodate the employment of disabled people. Once employed, a career plan is developed to ensure suitable opportunities for each disabled person. If employees become disabled whilst employed by the Group, they will continue to be employed wherever practical in the same role. If this is not practicable, every effort is made to train and redeploy within the Group.

Further information on our people can be found in the Environment, Social and Governance section of the Annual Report and Accounts.

Outlook

2019 was a year of excellent performance on a broad front, which is testament to the hard work and dedication of the entire Luceco team. We witnessed sustained progress across a broad range of metrics in challenging market conditions. Our focus has been on managing profitable growth, investing in our resilient business model and laying the right foundations for further progress in the years to come.

The coronavirus outbreak has temporarily disrupted this progress. Our primary focus is on the safety and well-being of our colleagues. The full impact of the pandemic is, as yet, unknown but we entered this period on a strong footing and with considerable liquidity.

We are confident in being able to make further progress in the years to come and look forward to the future with optimism.

JOHN HORNBY

Chief Executive Officer

23 April 2020

CHIEF FINANCIAL OFFICER'S REVIEW

Use of alternative performance measures

The commentary in the Chief Financial Officer's Review uses alternative performance measures, which are described as "Adjusted". Definitions of these measures can be found in note 1 of the consolidated financial statements. The measures provide additional information for users on the underlying performance of the business, enabling consistent year-on-year comparisons.

Overview

Luceco has grown rapidly and successfully over an extended period in markets that are not known for high growth. It has seized share from incumbents by moving quickly with innovative, customer-centric and entrepreneurial thinking. It has built a culture in which talented people with purpose are encouraged to make a difference. As a result, it has built strong positions in attractive core markets that generate healthy and relatively dependable profits. It can reinvest these profits in clearly defined future growth opportunities or return them to shareholders if none are forthcoming. It operates a clear, simple and yet deceptively hard to replicate business model. All of this should generate an attractively predictable financial outcome in normal market conditions.

Our expected financial outcomes, or financial model, are shown below, together with a summary of how we performed against them in 2019:

Financial model	Expected outcome (in normal market conditions)	2019 results
Revenue	Like-for-like revenue growing faster than GDP	3.9% (faster than GDP)
	Total revenue growth averaging 5-10% through the economic cycle	5.0%
Profit	Adjusted Operating Margin of 10-15%	10.5%
Cash	>100% conversion of Adjusted EBITDA into Adjusted Operating Cash Flow	105.0%
	Adjusted Free Cash Flow Margin of 5-10%	11.0%
Dividends	Progressive	0.6p
	20%-30% earnings payout	7.8% earnings payout
Capex	3-4% of annual revenue	2.1%
Capital structure and returns	Return on Capital Invested of 20-30%	21.8%
	Net Debt : Adjusted EBITDA of 1.0x to 2.0x	1.06x
	Annual Adjusted Net Cash Flow (Adjusted Free Cash Flow less dividends and Employee Benefit Trust share purchases) equal to 5% of revenue	7.9%

Revenue

Group revenue increased by £8.2m (5.0%) to £172.1m. The primary drivers are shown below:

Group revenue bridge:	£m	Change %
2018 Revenue	163.9	
Closure of US operations	(1.5)	(0.9%)
Currency movements	3.2	2.0%
Like-for-like increase	6.5	3.9%
Total movement	8.2	5.0%
2019 Revenue	172.1	

Revenue grew by 10.1% in the first half, boosted by weak comparatives at the start of 2018. Growth slowed as expected in the second half as we reached tougher comparatives and experienced subdued demand from professional channels in a wider UK market that faced considerable macro-economic uncertainty.

Revenue by geographical location of customer:	2019 £m	2018 £m	Change %
UK	137.6	130.1	5.8%
Europe	17.8	15.5	14.8%
Middle East and Africa	9.0	9.1	(1.1%)
Asia Pacific	4.2	5.3	(20.8%)
Americas	3.5	3.9	(10.3%)
Total Revenue	172.1	163.9	5.0%

UK growth of 5.8% was underpinned by the full year effect of selling price updates made in 2018 and customer destocking that left retail volumes unusually weak in the comparative period.

Europe experienced another year of double-digit growth, led by strong progress in Spain, Germany and Ireland, where we have built businesses with excellent long-term potential. Growth slowed temporarily in the second half as we made structural changes in France to improve management and lower costs. Regional growth recovered to double-digit rates in early 2020.

Mid-single digit revenue growth in the Middle East was offset by a slowdown in Africa caused by difficult economic conditions.

Asia Pacific did not repeat an excellent 2018 performance which benefited from unusually high one-off promotional sales. The region also experienced some tough economic conditions. However, our focus on improving the sales mix helped to fully offset the decline in revenue, leaving profits flat.

The decline in Americas revenue includes the impact of ending loss-making US operations in August 2018.

Profit

Gross margin

The Adjusted Gross Margin for the year was 36.2% (2018: 30.9%). As shown below, the Group's focus on mix improvement, product cost savings and selling price updates improved the margin over 10 percentage points between the first half of 2018 and the second half of 2019. This has sustained the Group's profit growth in challenging market conditions. Margins are now at a record high and the Group's strategy should yield further improvements over time in normal circumstances.

	H1 2018	H2 2018	FY 2018	H1 2019	H2 2019	FY 2019
Adjusted Gross Margin %	27.3%	33.9%	30.9%	35.0%	37.4%	36.2%
Average currency rates:						
USD:GBP	1.37	1.31	1.33	1.29	1.26	1.28
RMB:GBP	8.74	8.88	8.84	8.76	8.85	8.80
Average copper price \$ (tonne)	6,919	6,258	6,527	6,165	5,844	5,998

Operating costs

Adjusted Operating Costs were £44.3m, or 5.2% higher than last year, which was broadly in line with revenue growth.

Approximately half of the growth was caused by cost inflation. The remainder is attributable to additional bonus payable as a result of improved business performance, increased share scheme charges and net investment in new sales resource.

Operating margin

Solid revenue growth, strong gross margin improvement and tight control of overheads allowed the Group to more than double operating margins from 5.2% to 10.5% in 2019. It is this attractive combination that the Group is trying to replicate going forward.

Net finance expense

A higher USA Federal Funds Rate and a stronger dollar resulted in an increase in the cost of USD-denominated borrowing, which offset the benefit of lower overall net debt to leave Adjusted Net Finance Expense in line with the prior year at £2.2m.

Taxation

The effective tax rate on Adjusted Profit Before Tax reduced from 27.0% in 2018 to 23.4% in 2019. This was as a result of a greater proportion of Group profits being taxed at 19.0% in the UK and greater access to brought-forward losses following changes to the corporate structure.

Adjusted Free Cash Flow

£m	Adjusted ¹ 2019	Adjusted ¹ 2018
Adjusted Operating Profit	18.0	8.5
Adjusted Depreciation and Amortisation	7.9	6.5
Adjusted EBITDA	25.9	15.0
Changes in working capital	1.0	1.3
Other items	0.3	(0.4)
Adjusted Operating Cash Flow	27.2	15.9
Adjusted Operating Cash Conversion ²	105.0%	106.0%
Net capital expenditure	(3.6)	(4.7)
Interest paid	(2.1)	(2.2)
Tax paid	(2.6)	(1.3)
Adjusted Free Cash Flow	18.9	7.7
Adjusted Free Cash Flow as % Revenue	11.0%	4.7%

1. A reconciliation of the reported to Adjusted results is shown within note 1 of the consolidated financial statements

2. Adjusted Operating Cash Conversion is defined as Adjusted Operating Cash Flow divided by Adjusted EBITDA

The Group achieved excellent free cash flow of £18.9m (2018: £7.7m), representing a free cash flow margin of 11.0% (2018: 4.7%). The margin was better than the expected range of 5-10% due to unusually high conversion of working capital into cash and unusually low capital expenditure.

The working capital performance reflects another year of significant improvement in inventory management and receivables collection. Inventory days were 135 days at the end of 2017. They reduced to 112 days in 2018 and stood at 105 days in 2019, driven by better management of stock levels through the product life cycle and the elimination of aged items. Receivable days

reduced from 91 in 2018 to 89 in 2019, partly as a result of a change to incentive arrangements that placed greater onus on cash collection. Payable days were further reduced from 88 days in 2018 to 75 days.

Whilst further improvement in working capital management is being targeted, it will naturally be difficult to sustain such large strides in the coming years.

Dividends

Given the uncertainty presented by the coronavirus, the Board has taken the difficult decision not to recommend a final dividend payment. An interim dividend of 0.6p per share had been paid during the year. The Board remains fully confident in the Group's progressive dividend strategy and will reinstate the Group's dividend as soon as it is practicable. The Group has a progressive dividend policy equal to between 20% and 30% of Group earnings.

Capital expenditure

The Group's net capital expenditure consists of capitalised product development costs and the purchase of physical assets. Net expenditure reduced by £1.1m to £3.6m (2018: £4.7m). The Group has adequate manufacturing and fulfilment capacity as a result of earlier investments, reducing current spend. Its R&D activities in 2019 were largely focused on updating versions of existing products rather than introducing new products, reducing the capitalised amount.

Capex is expected to average 3-4% of revenue in normal circumstances. Whilst 2019 was only 2.1%, I expect spend to return to the average over time as we continue to expand our product range and invest in better manufacturing, fulfilment and IT capabilities to enhance our business model.

Capital structure and returns

Return on capital

Return on Capital Invested improved from 9.9% in 2018 to 21.8% in 2019 thanks to improved profitability and tight control of capex and working capital.

The Group continually reviews the deployment of its capital to ensure it is invested in areas with the greatest opportunity for future returns. It has set clear investment criteria for the deployment of additional capital. Its investment in product development activities is focused on the low-risk expansion of ranges sold through existing distribution channels. It continually invests in projects that improve internal efficiency and deliver a quick, relatively assured payback. Through these means, it aims to improve its return on capital over time.

Capital structure

Net debt at 31 December 2019 was £4.8m lower than prior year at £27.4m (31 December 2018: £32.2m).

The headline reduction of £4.8m does not do full justice to the progress made in deleveraging the business.

This is because, over the same period, the Group adopted IFRS 16 Leases and swapped off-balance sheet non-recourse debt factoring for traditional on-balance sheet debt. Both actions brought existing debt-like commitments onto the Group's balance sheet and into reported net debt, thereby limiting the apparent progress made.

The table below illustrates the underlying progress made if the prior year position is normalised for IFRS 16 and non-recourse debt factoring. It shows that normalised net debt reduced by £15.3m and leverage reduced by 1.64x in comparable terms.

	Reported		
	2019	2018	Change
Reported net debt	£27.4m	£32.2m	(£4.8m)
Add: Non-recourse debt factoring	£5.0m	£12.4m	(£7.4m)
Add: IFRS 16 (adopted 1 January 2019)	—	£3.1m	(£3.1m)
Normalised net debt	£32.4m	£47.7m	(£15.3m)
Normalised net debt : Adjusted EBITDA	1.25	2.89	1.64

At 31 December 2019, the Group's non-utilised facilities totalled £24.0m. These are committed until 31 December 2021.

The Company's covenants and headroom are summarised as follows:

2019 full year covenant	Covenant	Actual	Headroom
Net debt : Adjusted EBITDA	2.50 : 1	1.06	Net debt headroom: £37.4m Adjusted EBITDA headroom: £14.9m
Adjusted EBITDA : Net finance expense	4.00 : 1	11.77	Adjusted EBITDA headroom: £17.1m Net finance expense headroom: £4.3m

The key measures which management use to evaluate the Group's use of its financial resources and capital management are set out below:

	Adjusted 31 December 2019	Adjusted 31 December 2018
Adjusted Earnings Per Share (pence)	7.7	2.9
Net debt : Adjusted EBITDA (times)	1.06	1.95
Adjusted Free Cash Flow (£m)	18.9	7.7

Note 1 in the notes to the condensed consolidated financial statements provides an explanation of the Group's alternative performance measures. EBITDA reflects certain adjustments required by the Company's loan agreements, including proforma adjustments for acquisitions and business closures.

The Group complied with its covenant requirements throughout the year.

Coronavirus stress testing and liquidity assessment

We have reviewed and stress-tested our funding arrangements in light of the coronavirus.

We have considered both base case and severe but plausible downside case scenarios.

In our base case, we have assumed that Group revenue remains at circa 50% of normal levels until the end of June 2020, gradually recovering to 80% by August 2020, then 100% from January 2021. We have assumed that the mitigating actions described in the Chief Executive Officer's Review remain in place to an appropriate extent for the duration of the downturn.

In our severe but plausible downside case, we have modelled a second virus-driven lockdown from September to November 2020, which leaves Group revenue at 25% of normal levels for its duration, gradually recovering to 100% of normal levels by February 2021. All other assumptions remain the same as the base case, including the application of the same mitigating actions for the duration of the second downturn.

In both scenarios, the Group has adequate headroom in existing bank facilities to fund itself.

In the severe but plausible downside case only, the Group exceeds the financial covenants applicable to its existing facilities shown above in Q4 2020 and Q1 2021. Subject to contract, our relationship bank has therefore agreed to reset the covenants limits applicable in 2020 as shown:

Financial covenant	Existing limit	Reset limit
Net debt : Adjusted EBITDA:		
Q2 2020	<2.5	<2.5
Q3 2020	<2.5	<3.5
Q4 2020	<2.5	<5.5
Adjusted EBITDA : Net finance expense:		
Q2 2020	>4.0	>4.0
Q3 2020	>4.0	>3.7
Q4 2020	>4.0	>2.9

With facilities due to mature on 31 December 2021, the Group is planning to refinance in the normal course of business in H2 2020, at which point Q1 2021 covenant will be set as needed. In addition, our relationship bank has agreed to swap £10.0m of invoice financing for £10.0m of extra revolving credit facility to maintain our access to lending if the number of invoices reduces.

These changes will be legally contracted by early May 2020. We are also pursuing funding via the Bank of England's COVID Corporate Finance Facility, which we may meet the criteria for, to prudently add redundancy to our funding options. The Group has historically used mortgage lending in China and has the option to do so again.

Operating segment review

The revenue and profit generated by the Group operating segments are shown below. Operating profits are stated after the proportional allocation of fixed central overheads. The profit contribution for each segment, before fixed central overheads, is also shown to illustrate the likely profit impact of future growth.

Wiring Accessories

	Adjusted ¹			Reported		
	2019	2018	Change	2019	2018	Change
Revenue	£70.1m	£65.8m	6.5%	£70.1m	£65.8m	6.5%
Contribution profit	£19.6m	£11.4m	71.9%	£21.1m	£11.5m	83.5%
Contribution margin %	28.0%	17.3%	10.7ppts	30.1%	17.5%	12.6ppts
Operating profit	£12.7m	£6.5m	95.4%	£14.3m	£6.2m	130.6%
Operating margin %	18.1%	9.9%	8.2ppts	20.4%	9.4%	11.0ppts

1. Further details of Adjustments are in note 1 of the consolidated financial statements.

Wiring Accessories is the Group's largest and most profitable segment.

Revenue increased by £4.3m (6.5%). Double-digit growth in sales to UK retail customers was the key driver of this, particularly in the first half of the year. Sales to Middle East markets that share British wiring standards also grew strongly. Overall progress was only held back by relatively flat sales to UK professional customers in a period of economic and political uncertainty. Profit contribution margin increased significantly in the period thanks in the main to lower production costs from the Group's factory in China, which overwhelmingly makes wiring accessories. Adjusted Operating Margin almost doubled in the period to 18.1%.

LED Lighting

	Adjusted ¹			Reported		
	2019	2018	Change	2019	2018	Change
Revenue	£54.2m	£51.8m	4.6%	£54.2m	£51.8m	4.6%
Contribution profit	£5.1m	£3.2m	59.4%	£5.7m	£2.7m	111.1%
Contribution margin %	9.4%	6.2%	3.2ppts	10.5%	5.2%	5.3ppts
Operating profit/(loss)	£1.2m	£0.5m	140.0%	£1.7m	£(1.6)m	(206.3%)
Operating margin %	2.2%	1.0%	1.2ppts	3.1%	(3.1)%	6.2ppts

1. Further details of Adjustments are in note 1 of the consolidated financial statements.

The Group entered the lighting market in 2013 as the industry adopted LED technology.

It developed a wide range of products which it initially sold through existing UK channels at low incremental cost to serve. From 2015 onwards, it also used LED products to open up six new international markets, leveraging lighting's near-global product standard.

It has built a business with revenue in excess of £50.0m over six years, largely organically but bolstered by the acquisition of Kingfisher Lighting in 2017.

It continues to invest in both its product line and in the sales resources necessary to grow the business. The focus for future growth in this segment is on professional-grade products and expansion in international markets. This investment inevitably takes time to mature, which holds back margins in the short term.

Despite not being at full maturity, the segment delivered an Adjusted Contribution Margin of 9.4% in 2019. This was the product of a 13.1% margin in the UK and a 0.5% margin internationally, underlining the potential for margin improvement as international investments reach maturity.

Headline revenue growth of 4.6% was held back by the Group's exit from low margin product lines and the US market. Absent these effects, growth would have been 8.5%. Whilst sales in Europe grew by nearly 40%, project-based sales to UK customers, which represent 40% of the segmental total, reduced in uncertain economic conditions in which orders were repeatedly delayed rather than cancelled. The Group's focus on higher margin opportunities during this period helped to improve Adjusted Operating Margin from 6.2% to 9.4%.

Portable Power

	Adjusted ¹			Reported		
	2019	2018	Change	2019	2018	Change
Revenue	£42.6m	£41.1m	3.6%	£42.6m	£41.1m	3.6%
Contribution profit	£8.2m	£4.7m	74.5%	£8.3m	£4.2m	97.6%
Contribution margin %	19.2%	11.4%	7.8ppts	19.2%	10.2%	9.0ppts
Operating profit	£4.1m	£1.5m	173.3%	£4.1m	£0.3m	1,266.7%
Operating margin %	9.6%	3.6%	6.0ppts	9.6%	0.7%	8.9ppts

1. Further details of Adjustments are in note 1 of the consolidated financial statements.

The Group enjoys a leading position in the UK portable power market.

Segmental revenue increased by £1.5m (3.6%) following a recovery in demand from the major UK retailers after an unusually subdued 2018. Operating margins recovered to close to the Group average after a weak prior year as a result of price updates made in 2018 in response to input cost inflation.

Ross

	Adjusted ¹			Reported		
	2019	2018	Change	2019	2018	Change
Revenue	£5.2m	£5.2m	nil%	£5.2m	£5.2m	nil%
Contribution profit	£0.5m	£0.4m	25.0%	£0.6m	£0.4m	50.0%
Contribution margin %	9.6%	7.7%	1.9ppts	11.5%	7.7%	3.8ppts
Operating profit	£nil	£nil	nil%	£0.1m	£nil	nil%
Operating margin %	nil%	nil%	nil	1.9%	nil%	1.9ppts

1. Further details of Adjustments are in note 1 of the consolidated financial statements.

Ross revenue was flat in the period. Ross products are sold through the same channels as other segments, allowing the business to contribute an incremental £0.5m of Adjusted Contribution Profit to the payment of fixed central overheads in 2019.

Impact of foreign exchange movements

A summary of the consolidated income statement on a constant currency basis is shown below. Current period balances have been translated at the prior year's average exchange rates and demonstrate the impact of the movement in exchange rates during the period (see note 19 of the consolidated financial statements in the Annual Report and Accounts).

	2019	Adjusted 2019		Constant Currency		Adjusted	
	Adjusted actual ¹	Currency impact	at Constant Currency ²	variance to 2018		2018 actual	
	£m	£m	%	£m	£m	%	£m
Revenue	172.1	3.2	1.9%	168.9	5.0	3.1%	163.9
Cost of sales	(109.8)	(1.2)	1.1%	(108.6)	4.7	(4.1%)	(113.3)
Gross profit	62.3	2.0	3.3%	60.3	9.7	19.2%	50.6
Gross margin %	36.2%		0.5ppts	35.7%		4.8ppts	30.9%
Operating costs	(44.3)	—	—	(44.3)	(2.2)	5.2%	(42.1)
Operating profit	18.0	2.0	12.5%	16.0	7.5	88.2%	8.5
Operating margin %	10.5%		1.0ppts	9.5%		4.3ppts	5.2%

1. Year ended 31 December 2019 translated at 2019 average exchange rates.

2. Year ended 31 December 2019 translated at 2018 average exchange rates.

The Group's main currency exposures are with US dollar ("USD") and Chinese Renminbi ("RMB"). A 4% strengthening of USD against sterling led to a 1.9% increase in revenue, with USD representing just under half of Group sales. The RMB weakened slightly against sterling, lowering the cost of our products and improving margins. For 2020, the Group has hedged forward all of its currency needs. For 2021, it has sold forward 50% of its expected USD income and bought forward 30% of its RMB costs.

The commentary above focuses on Adjusted metrics which, the Board believes are a better indicator of performance. Our Reported performance surpassed our Adjusted performance thanks largely to one-off cash refunds of aged items in the UK and China. The following table summarises Reported key lines from the Consolidated Income Statement:

Summary of results (£m)	Reported	Reported
	31 December 2019	31 December 2018
Revenue	172.1	163.9
Operating profit	20.2	4.9
Profit before tax	17.1	3.0
Taxation	(4.0)	(1.5)
Profit for the year	13.1	1.5

Going concern and viability statement

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and as such has applied the going concern principle in preparing the Annual Report and Accounts. This is considered in more detail in note 1 of the consolidated financial statements. The Group's going concern and viability statements can be found in the 2019 Annual Report and Accounts.

MATT WEBB

Chief Financial Officer
23 April 2020

PRINCIPAL RISKS AND UNCERTAINTIES

The Board is responsible for identifying, reviewing and managing business and operational risk. It is also responsible for determining the level of risk appetite it is prepared to take in the ordinary course of business to achieve the Group's strategic objectives and to ensure that appropriate and sufficient resource is allocated to the management and mitigation of risk.

In addition to the risk management framework, the Board has delegated responsibility to the Audit Committee for reviewing the overall process of assessing business risks and managing the impact on the Group. The Group's risk management process is set out below.

The principal risks identified and actions taken to minimise their potential impact are included in the table below. This is not an exhaustive list but those the Board believes may have an adverse effect on the Group's cash flow and profitability.

In determining whether it is appropriate to adopt the going concern basis in the preparation of the financial statements, the Directors have considered these principal risks and uncertainties. The Viability Statement, which can be found in the Annual Report and Accounts considers the prospects of the Group should a number of these risks crystallise together.

Risk management process

The senior management team maintains a register of identified business risks (financial and non-financial) which it categorises in terms of probability of occurrence and the potential impact on the Group should the risk crystallise. Mitigating actions undertaken and recommendations for further reduction of risk are also included. Recommended actions are put forward to the Executive Directors for consideration.

The Executive Directors review and challenge the content of the risk register and the recommendations. Risk mitigation actions are agreed, and a plan is created. Each action is assigned an owner who is responsible for carrying out the required action within an agreed timescale. The Executive Directors review the progress made against any actions that have been carried forward.

The Audit Committee regularly reviews risk management and is provided an update in respect of progress made in the reduction of existing risks, summary of newly identified risks and the actions agreed to reduce them to an acceptable level. These risks are reviewed in conjunction with the Audit Committee's other responsibilities including the internal control framework, external audit process and financial reporting.

The Audit Committee provides an update and appropriate recommendation to the Board, where required, for the Board to consider in conjunction with the strategic objectives of the Group.

Senior management	Executive Directors	Audit Committee	The Board
Reviews and updates the risk register for new risks, identifies mitigations in place and recommends actions to reduce risk.	Review and challenge the risks identified and the actions proposed to mitigate them; approve and monitor agreed actions.	Monitors and reviews the risks in conjunction with the internal control framework, audit process and financial reporting.	Holds overall responsibility for effective internal control, risk management and the risk appetite of the Group.

Principal risks

Impact of coronavirus on supply and demand of Luceco products

The full impact of the coronavirus outbreak on the Group is inherently uncertain, but it has the potential to impact both the supply and demand of the Luceco product range. The Group sources nearly all of its products from China, either from its own manufacturing facility or through its suppliers.

Impact	Mitigation	Link to strategy
The Group's Chinese operation and supply chain has been adversely affected by the coronavirus outbreak.	The senior management team has put in place plans to progressively respond to the coronavirus.	Increase sales to professionals, particularly LED
Social distancing measures introduced to suppress the spread of the virus have adversely impacted demand for Luceco products.	The Group has modelled various scenarios to ensure these plans are sufficient to allow the Group to operate and fund itself. These are described in detail in the Chief Financial Officer's Review.	Increase sales to international customers and improve profitability Maximise manufacturing efficiency and effectiveness
The continued spread of the coronavirus could impact the Group's ability to distribute from its warehouses.	Review. The Group has put in place a series of actions to lower cost and preserve cash, as set out in the Chief Executive Officer's Review.	Maximise return on capital and maintain capital discipline
Enabling colleagues to work from home could stretch IT resources and impact effective communication.	The Group has agreed with its relationship bank to make certain changes to its funding arrangements to accommodate a severe but plausible downside scenario. These are described in more detail in the Chief Financial Officer's Review. The Group holds approximately 100 days of inventory that in part mitigates the impact of any production shortfall. The executive management team are in regular liaison with local management to ensure they are aware of any changing dynamics in each country. Precautions are being taken in all Group facilities to safeguard against the spread of the virus. The Board is monitoring the situation daily and adopting recommendations from the relevant authorities in territories in which we operate. Management are identifying key activities that could be undertaken remotely and ensuring that colleagues have the resources that they require.	Maintain best practice corporate governance

Disruption to operating activities

The Group's key manufacturing operation and major suppliers are based in China. Changes in China could impact the Group's ability to manufacture its products.

Impact	Mitigation	Link to strategy
The Group's Chinese operation and supply chain could be adversely affected if there is any disruption to legal, political, economic or social conditions in China.	The executive management team are in regular liaison with their China management team and are aware of any changing dynamics in the country.	Increase sales to professionals, particularly LED Increase sales to international customers and improve profitability
If the key operational and supplier sites went offline for any reason or period of time, it would have a material adverse effect upon the Group's ability to manufacture and bring its products to market, severely impacting its business, financial position and future prospects.	The Group has a disaster recovery plan in place to protect its operations. The Chinese factory comprises separate buildings, reducing disruption. Appropriate precautions are taken in all factories and warehouses to safeguard against theft and fire. Operational sites are regularly asked to assess the quality of their continuity planning with action plans produced to address any weaknesses. The Group has long-standing relationships with its key suppliers and executives regularly visit. Luceco Quality Control colleagues operate on site at our key suppliers. The Group owns its own tooling and patents and OEM production could be transferred to other sites. The Group has business interruption and key supplier insurance in place. The Group has adequate headroom on its funding position.	Maximise manufacturing efficiency and effectiveness

Technology, information systems

The Group is reliant on its IT systems to ensure its operations function efficiently. Any loss of data could adversely impact the business.

Impact	Mitigation	Link to strategy
Release of commercially sensitive or personal data could impact on competitiveness, damage reputation and lead to criminal and civil sanction. Applies to paper records as well as electronic data.	The Group has an IT security policy and a disaster recovery plan in place to protect its operations.	Maintain best practice corporate governance
Operational sites are regularly asked to assess the quality of their IT security with action plans produced to address any weaknesses.		

Business relationships

Raw materials represent a significant cost to the Group. The Group faces risks from currency and copper price volatility as well as other key raw materials and is reliant on third parties to supply some of its products and components. The Group has a large number of customers but there is significant concentration within the customer base. This concentration presents a risk should one or more of the customers cease purchasing from the Group. Customer agreements are typically for a 6 to 12 month period. The Group could lose market share through the loss of one or more of its major customers with whom it does not have long-term contracts, or through erosion if it is unable to maintain its innovative edge, particularly in the competitive LED lighting market.

Impact	Mitigation	Link to strategy
Suppliers may increase product prices as a result of copper or other commodity price fluctuations, reducing profit margins. Tariffs may change following the UK's departure from the EU. Profitability will be negatively impacted if the Group is unable to pass rapid price fluctuations on to its customers or there is a time lag in achieving a price increase.	The Group has a clear currency and copper hedging strategy. The effectiveness of this strategy is closely monitored. This hedging eliminates fluctuations for the typical duration of fixed selling price agreements with customers. Price fluctuations are passed on to customers as soon as the agreements reach maturity.	Enter new product segments that are synergistic with our existing business Increase sales to professionals, particularly LED Increase sales to international customers and improve profitability
Suppliers may not fulfil order requirements or products may be of poor quality, negatively impacting the Group's reputation, financial position and contractual commitments.	The Group has long-term relationships with suppliers who are able to meet the Group's requirements. Quality control teams are in place at all key operational locations to ensure quality of supply.	
LED technology is constantly changing and customer demand rapidly evolving, giving risk of product obsolescence.	Continued expansion will lessen reliance on any particular economy or customer.	
A significant proportion of the Group's trade is with a small number of customers that are not committed to purchasing the Group's products on a long-term basis. Customers could cease trading or cease to purchase from the Group at relatively short notice, negatively impacting trading and working capital as there would be a lag in adjusting manufacturing volume.	The Group invests heavily in R&D to remain at the forefront of capturing and delivering changing customer requirements and market trends. The Group registers its designs with the design and patent office in the country of the market the product is sold in. The Group has long-standing relationships with many of its customers and works closely with them to meet their requirements. Rebate arrangements are used to increase the likelihood of customer retention. The Group's ability to rapidly embrace new consumer trends and its distribution flexibility make it a valued supplier. We closely monitor our competitors' product ranges.	

Team members

The business is reliant on key employees.

Impact	Mitigation	Link to strategy
Loss of key executives could result in damage to ongoing business relations or loss of knowledge.	Senior executive remuneration packages are reviewed regularly by the Remuneration Committee.	Increase sales to professionals, particularly LED
Failure to identify skills required in the future and/or develop these skills would lead to competitive disadvantage.	Long-term share schemes promote retention.	Increase sales to international customers and improve profitability Enter new product segments that are synergistic with our existing business Maximise manufacturing efficiency and effectiveness Maximise return on capital Seek targeted acquisitions Maintain best practice corporate governance

Strategy – acquisitions

The acquisition strategy may incur substantial expense and divert management attention from the day-to-day business. The ability to pursue such a strategy is dependent upon the retention of key personnel to ensure that there is no disruption to the Group's operations.

Misjudging key elements of an acquisition or failing to integrate it in an efficient and timely manner could disrupt existing operations.

Impact	Mitigation	Link to strategy
The cost and integration of an acquisition may reduce profit and increase indebtedness in the short term.	The Group has a clear acquisition strategy and process approved by the Board. The process is implemented by a dedicated and experienced acquisitions team. The Group has a clear capital structure policy that limits indebtedness.	Seek targeted acquisitions Maximise return on capital
Management are distracted from the effective operation of the existing business.	Detailed integration plan and dedicated integration teams in place prior to acquisition.	Enter new product segments that are synergistic with our existing business

Macroeconomic, political and environmental

Most of the Group's revenue is generated from the UK and profitability is directly influenced by the UK economic climate. Supply chain links to China are important for the business.

Impact	Mitigation	Link to strategy
The Group's international supply chain could be disrupted owing to geopolitical factors including Brexit.	Many of our products are essentials and have a "defensive" quality against slow macroeconomic growth.	Increase sales to professionals, particularly LED
Any downturn in the UK economy could adversely impact the Group's financial position if demand for its products reduces and there are limitations on its ability to increase or maintain its prices.	The economies and markets of all the Group's operations are reviewed regularly by the Board with mitigating action taken.	Increase sales to international customers and improve profitability
The Group's third-party supply chain in China may not meet the Group's ethical resourcing standards, compromising its reputation.	Continued international expansion will lessen reliance on any particular economy or customer.	Maintain best practice corporate governance
	The Group's capital structure policy and funding arrangements can accommodate temporary shortfalls in cash.	
	The Group has long-standing relationships with its suppliers and the Executive Directors frequently visit their operations. We have colleagues based on site at our key supplier sites.	
	Our stock levels in the EU have increased following the UK's departure from the EU. Supply routes have changed such that very little product now crosses the UK-EU border.	

Legal and regulatory

The risk of regulatory non-compliance is increasing as the Group is expanding rapidly into new territories, each with its own laws and regulations. Keeping up to date with changing laws and regulations is also a risk that the Group faces with its current operations.

Impact	Mitigation	Link to strategy
Any defence or claim against infringement of intellectual property ("IP") rights could be costly to instigate and pursue.	The Group registers its designs with the design and patent office in the country of the market the product is sold in.	Maintain best practice corporate governance
Infringement of third-party IP would limit the Group's product offering and ability to compete.	Management monitor the changing landscape of laws and regulations in the jurisdictions in which the Group operates.	
Changes in the laws and regulations in the countries the Group operates in could result in incurring costs and adversely impact its reputation should it be found to be non-compliant with any aspect.	Management seek appropriate advice before setting up operations in new territories and setting internal transfer prices.	
The Group's transfer pricing arrangements may be potentially challenged by local tax authorities, which could lead to increasing tax liabilities particularly in respect of its customer contracts, product supplied by the Group's Chinese factory and the performance of its sales operations.	We have corporate policies to ensure ongoing compliance with legal obligations (e.g. anti-bribery policy, employee and supplier codes of conduct). Management closely monitor research into potential health issues associated with our products.	
New technologies (e.g. LED lighting) may have unforeseen public health implications.	Management have taken professional advice and have benchmarking studies in place for the year.	

Finance and treasury

A significant proportion of the Group's revenue is invoiced in US dollars and the majority of costs are paid in RMB, exposing the Group to currency fluctuations.

The business also faces financial risk relating to liquidity, fraud and reporting error.

Impact	Mitigation	Link to strategy
The Group's funding arrangements include an invoice finance facility applicable to UK customers only. A downturn in UK sales may reduce funding liquidity.	The Group has set a prudent Capital Structure Policy that is designed to mitigate this risk. In 2018 the Group extended the maturity of its main banking facilities to 31 December 2021 on terms which have allowed the Group to improve its liquidity position by reducing reliance on invoice financing in favour of more committed and dependable traditional bilateral bank lending. It has also significantly reduced its use of invoice factoring.	Increase sales to professionals, particularly LED Increase sales to international customers and improve profitability
Any weakening of sterling relative to the RMB, or strengthening relative to the USD, could adversely affect profit.		Maintain best practice corporate governance
External or management reporting error may result in poor management decisions or misleading financial statements.		
Physical property may be stolen by an employee.	Currency fluctuations are mitigated by a hedging policy and selling prices changes.	
Money may be stolen, for example through Treasury or accounts payable fraud.	The finance leadership team has been further strengthened during the year. A Luceco Finance Manual has been rolled out globally that defines compliance standards. We continue to invest in finance systems.	

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The following statement will be contained in the 2019 Annual Report and Accounts.

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole.
- The Strategic Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation, taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

JOHN HORNBY

Chief Executive Officer

MATT WEBB

Chief Financial Officer

23 April 2020

Consolidated Income Statement

for the year ended 31 December 2019

	Note	Adjusted £m	Adjustments ¹ £m	2019 £m	Adjusted £m	Adjustments ¹ £m	2018 £m
Revenue	2	172.1	-	172.1	163.9	-	163.9
Cost of sales		(109.8)	2.3	(107.5)	(113.3)	(1.0)	(114.3)
Gross profit		62.3	2.3	64.6	50.6	(1.0)	49.6
Distribution expenses		(8.5)	-	(8.5)	(9.4)	-	(9.4)
Administrative expenses		(35.8)	(0.1)	(35.9)	(32.7)	(2.6)	(35.3)
Operating profit	3	18.0	2.2	20.2	8.5	(3.6)	4.9
Finance income		-	-	-	-	0.3	0.3
Finance expense		(2.2)	(0.9)	(3.1)	(2.2)	-	(2.2)
Net finance expense		(2.2)	(0.9)	(3.1)	(2.2)	0.3	(1.9)
Profit before tax		15.8	1.3	17.1	6.3	(3.3)	3.0
Taxation	4	(3.7)	(0.3)	(4.0)	(1.7)	0.2	(1.5)
Profit for the year		12.1	1.0	13.1	4.6	(3.1)	1.5
Earnings per share (pence)							
Basic	5	7.7p	0.6p	8.3p	2.9p	(2.0)p	0.9p
Fully Diluted	5	7.7p	0.6p	8.3p	2.9p	(2.0)p	0.9p

1. Definition of the adjustments made and reconciliations to the reported figures can be found in note 1.

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2019

	2019 £m	2018 £m
Profit for the year	13.1	1.5
Other comprehensive income – amounts that may be reclassified to profit or loss in the future:		
Foreign exchange translation differences – foreign operations	(2.3)	0.1
Total comprehensive income for the year	10.8	1.6

All results are from continuing operations.

The accompanying notes form an integral part of these financial statements.

Consolidated Balance Sheet

at 31 December 2019

	Note	2019 £m	2018 £m
Non-current assets			
Property, plant and equipment	7	17.0	21.5
Right of use asset	7	3.0	-
Intangible assets	8	22.6	23.3
		42.6	44.8
Current assets			
Inventories		32.2	32.8
Trade and other receivables		43.6	41.3
Financial assets held for trading		-	0.5
Cash and cash equivalents		1.4	4.2
		77.2	78.8
Total assets		119.8	123.6
Current liabilities			
Interest-bearing loans and borrowings	9	-	15.8
Trade and other payables		39.0	43.6
Current tax liabilities		2.8	1.5
Financial assets held for trading		0.3	-
Other financial liabilities		1.1	0.2
		43.2	61.1
Non-current liabilities			
Other interest-bearing loans and borrowings	9	26.0	20.0
Other financial liabilities		1.7	0.4
Deferred tax liability		1.0	0.9
Provisions		0.8	-
		29.5	21.3
Total liabilities		72.7	82.4
Net assets		47.1	41.2
Equity attributable to equity holders of the parent			
Share capital		0.1	0.1
Share premium		24.8	24.8
Translation reserve		(0.9)	1.4
Treasury reserve		(4.1)	(1.2)
Retained earnings		27.2	16.1
Total equity		47.1	41.2

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2019

	Share capital £m	Share premium £m	Translation reserve £m	Retained earnings £m	Treasury reserve £m	Total equity £m
Balance at 1 January 2018	0.1	24.8	1.3	14.5	(1.2)	39.5
Total comprehensive income						
Profit for the year	-	-	-	1.5	-	1.5
Currency translation differences	-	-	0.1	-	-	0.1
Total comprehensive income for the year	-	-	0.1	1.5	-	1.6
Transactions with owners in their capacity as owners:						
Share-based payments charge	-	-	-	0.1	-	0.1
Total transactions with owners in their capacity as owners	-	-	-	0.1	-	0.1
Balance at 31 December 2018	0.1	24.8	1.4	16.1	(1.2)	41.2
Adjustment on initial application of IFRS 16	-	-	-	(0.3)	-	(0.3)
Restated balance at 1 January 2019	0.1	24.8	1.4	15.8	(1.2)	40.9
Total comprehensive income						
Profit for the year	-	-	-	13.1	-	13.1
Foreign currency translation differences on investments in overseas entities	-	-	(1.4)	-	-	(1.4)
Currency translation differences	-	-	(0.9)	-	-	(0.9)
Total comprehensive income for the year	-	-	(2.3)	13.1	-	10.8
Transactions with owners in their capacity as owners:						
Distributions paid	-	-	-	(1.9)	-	(1.9)
Purchase of own shares	-	-	-	-	(2.9)	(2.9)
Share-based payments charge	-	-	-	0.2	-	0.2
Total transactions with owners in their capacity as owners	-	-	-	(1.7)	(2.9)	(4.6)
Balance at 31 December 2019	0.1	24.8	(0.9)	27.2	(4.1)	47.1

The accompanying notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2019

	Note	Adjusted £m	Adjust- ments ¹ £m	2019 £m	Adjusted £m	Adjust- ments ¹ £m	2018 £m
Cash flows from operating activities							
Profit for the year		12.1	1.0	13.1	4.6	(3.1)	1.5
Adjustments for:							
Depreciation and amortisation		7.9	0.4	8.3	6.5	0.7	7.2
Financial income		-	-	-	-	(0.3)	(0.3)
Financial expense		2.2	0.9	3.1	2.2	-	2.2
Taxation	4	3.7	0.3	4.0	1.7	(0.2)	1.5
Impairment provisions for credit losses		-	-	-	(0.5)	-	(0.5)
Loss on disposal of tangible assets		0.1	-	0.1	-	-	-
Share-based payments charge		0.2	-	0.2	0.1	-	0.1
Operating cash flow before movement in working capital		26.2	2.6	28.8	14.6	(2.9)	11.7
Decrease/(Increase) in trade and other receivables ²		4.7	(7.4)	(2.7)	4.2	-	4.2
Decrease/(Increase) in inventories		-	-	-	11.5	0.3	11.8
(Decrease)/Increase in trade and other payables		(3.7)	(1.1)	(4.8)	(14.4)	0.3	(14.1)
Cash from operations		27.2	(5.9)	21.3	15.9	(2.3)	13.6
Tax paid		(2.6)	-	(2.6)	(1.3)	-	(1.3)
Net cash from operating activities		24.6	(5.9)	18.7	14.6	(2.3)	12.3
Cash flows from investing activities							
Acquisition of property, plant and equipment	7	(2.0)	-	(2.0)	(3.2)	-	(3.2)
Acquisition of subsidiary		-	-	-	-	-	-
Acquisition of other intangible assets	8	(1.6)	-	(1.6)	(1.7)	-	(1.7)
Disposal of tangible assets		-	-	-	0.2	-	0.2
Net cash used in investing activities		(3.6)	-	(3.6)	(4.7)	-	(4.7)
Cash flows from financing activities							
Proceeds from new loans		5.0	-	5.0	20.0	-	20.0
Repayment of borrowings		(14.6)	-	(14.6)	(25.9)	-	(25.9)
Interest paid		(2.1)	-	(2.1)	(2.2)	-	(2.2)
Dividends paid		(1.9)	-	(1.9)	-	-	-
Finance lease liabilities		(1.3)	-	(1.3)	0.1	-	0.1
Purchase of treasury shares		(2.9)	-	(2.9)	-	-	-
Net cash from financing activities		(17.8)	-	(17.8)	(8.0)	-	(8.0)
Net increase/(decrease) in cash and cash equivalents		3.2	(5.9)	(2.7)	1.9	(2.3)	(0.4)
Cash and cash equivalents at 1 January				4.2			5.6
Effect of exchange rate fluctuations on cash held				(0.1)			(1.0)
Cash and cash equivalents at 31 December				1.4			4.2

1. The definitions of the adjustments made and reconciliations to the reported figures can be found in note 1.

2. The Group has treated as an Adjustment a £7.4m cash outflow in 2019 that arose from the gradual replacement of non-recourse debt factoring with traditional on-balance sheet financing. It has been treated as an Adjustment due to its unusual size and incidence and in order to illustrate the underlying cash generation of the business.

The accompanying notes form an integral part of these financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2019

1 Basis of preparation

Luceco plc (the 'Company') is a company incorporated and domiciled in the United Kingdom. These consolidated financial statements for the year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the 'Group'). The Group is primarily involved in the manufacturing and distributing of high quality and innovative LED lighting products and wiring accessories to global markets (see note 2).

The financial information is derived from the Group's consolidated financial statements for the year ended 31 December 2019, which have been prepared on the going concern basis in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements have been prepared on the historical cost basis except for certain financial instruments which are carried at fair value.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2019 and 31 December 2018 but is derived from those accounts. Statutory accounts for 2018 have been delivered to the Registrar of Companies, and those for 2019 will be delivered in due course. The Auditors have reported on those accounts; their report was (i) unqualified, (ii) contains a material uncertainty in respect of going concern to which the auditor drew attention by way of emphasis without modifying their report and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006. The text of the Auditors' report can be found in the Company's full 2019 Annual Report and Accounts.

The 2019 Annual Report and Accounts and the Notice of the 2020 Annual General Meeting will be published on the Company's website at <http://www.lucecoplc.com> as soon as practicable. They will also be submitted to the National Storage Mechanism where they will be available for inspection at <https://data.fca.org.uk/#/nsm/nationalstoragemechanism>.

The Group's accounting policies can be referred to in note 1 of the consolidated financial statements in the 2019 Annual Report and Accounts.

Going concern

The Directors have concluded that it is reasonable to adopt a going concern basis in preparing the financial statements. This is based on an expectation that the Company and the Group have adequate resources to continue in operational existence for twelve months from the date of signing these accounts. The Group has reported a profit before tax of £17.1m for the year to 31 December 2019 (2018: £3.0m), has net current assets £34.0m (2018: £17.7m) and net assets of £47.1m (2018: £41.2m).

The capital resources at the Group's disposal at 31 December 2019 and 31 March 2020 were as follows:

- a revolving credit facility of £30.0m, £24.8m drawn at 31 December 2019 and £25.0m drawn at 31 March 2020
- an invoice financing facility of £20.0m, £1.2m was drawn at 31 December 2019 and £0.6m drawn at 31 March 2020

Both bank facilities mature on 31 December 2021.

The revolving credit facility requires the Group to comply with the following quarterly financial covenants:

- Closing net debt of no more than 2.5 times Adjusted EBITDA for the preceding 12 month period
- Adjusted EBITDA of no less than 4.0 times Adjusted Net Finance Expense, both for the preceding 12 month period.

In arriving at its conclusion on going concern, the Directors have given due consideration to whether the funding and liquidity resources above are sufficient to accommodate the principal risks and uncertainties faced by the Group.

The Directors have given particular consideration to the risk and uncertainty caused by the coronavirus outbreak as a potential material uncertainty. It has developed a base case and severe but plausible downside case to assess how the virus could impact the Group in future.

The base case assumes that Group revenue remains at circa 50% of normal levels until the end of June 2020, gradually recovering to 80% by August 2020, then 100% from January 2021. It also assumed that the mitigating actions described in the Chief Executive Officer's Review remain in place to an appropriate extent for the duration of the downturn.

The severe but plausible downside case assumes a second virus-driven lockdown from September to November 2020, which leaves Group revenue at 25% of normal levels for its duration, gradually recovering to 100% of normal levels by February 2021. All other assumptions remain the same as the base case, including the application of the same mitigating actions for the duration of the second downturn.

In both scenarios, the Group has sufficient liquidity and adequate headroom in the bank facilities above to fund itself. In the severe but plausible downside case only, the Group exceeds the quarterly financial covenants described above in Q4 2020 and Q1 2021. In this scenario, the revolving credit facility would become repayable on demand.

The Group has therefore agreed with its relationship bank to reset the covenant limits applicable for the remainder of 2020. The new limits are as follows:

Financial covenant	Existing limit	Reset limit
Net debt : Adjusted EBITDA:		
Q2 2020	<2.5	<2.5
Q3 2020	<2.5	<3.5
Q4 2020	<2.5	<5.5
Adjusted EBITDA : Net Finance Expense:		
Q2 2020	>4.0	>4.0
Q3 2020	>4.0	>3.7
Q4 2020	>4.0	>2.9

These changes have been approved by the lender's Credit Committee but not yet contractually committed. The Directors fully expect amended loan documentation to be signed by early May 2020. The covenant limit for Q1 2021 has not been reset. The Group plans to refinance in the ordinary course of business in H2 2020 and the Board has a reasonable expectation that, if needed, this remaining covenant will be reset at that point.

The absence of amended loan documentation as at the date of these accounts and the Group's ability to reset the remaining Q1 2021 covenant, whether through refinancing or otherwise, before its due date gives rise to a material uncertainty as defined in auditing and accounting standards, related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and in such circumstances, it may therefore be unable to realise its assets and discharge its liabilities in the normal course of business.

Despite this, the Board is confident that the Company and the Group have adequate resources to continue in operational existence for twelve months from the date of signing these accounts. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Statutory and non-statutory measures of performance

The financial statements contain all the information and disclosures required by the relevant accounting standards and regulatory obligations that apply to the Group.

The Group's performance is assessed using a number of financial measures which are not defined under IFRS (the financial reporting framework applied by the Group). Management uses the adjusted or alternative performance measures (APMs) as a part of their internal financial performance monitoring and when assessing the future impact of operating decisions. The APMs disclose the adjusted performance of the Group excluding specific items. The measures allow a more effective year-on-year comparison and identification of core business trends by removing the impact of items occurring either outside the normal course of operations or as a result of intermittent activities such as a corporate acquisition. The Group separately reports acquisition costs, other exceptional items and other specific items in the Consolidated Income Statement which, in the Director's judgement, need to be disclosed separately by virtue of their nature, size and incidence in order for users of the financial statements to obtain a balanced view of the financial information and the underlying performance of the business.

In following the guidelines on Alternative Performance Measures (APMs) issued by the European Securities and Markets Authorities, the Group has included a Consolidated Income Statement and Consolidated Cash Flow Statement that have both Statutory and Adjusted performance measures. The definitions of the measures used in this results announcement can be found in note 1 of the consolidated financial statements in the Annual Report and Accounts 2019. The definition of EBITDA used in the net debt : EBITDA measure on the Highlights page is shown in note 20 of the consolidated financial statements in the Annual Report and Accounts 2019.

The following table reconciles all adjustments from the reported to adjusted figures in the income statement:

	2019	Closure of US operations ¹	Amortisation of acquired intangibles and related acquisition costs ²	Re-measurement to fair value of hedging portfolio ³	Cost recovery ⁴	VAT repayment ⁵	2019 Adjustments	2019 Adjusted
	£m	£m	£m	£m	£m	£m	£m	£m
Revenue	172.1	-	-	-	-	-	-	172.1
Cost of sales	(107.5)	-	-	-	(1.4)	(0.9)	(2.3)	(109.8)
Gross profit	64.6	-	-	-	(1.4)	(0.9)	(2.3)	62.3
Distribution expenses	(8.5)	-	-	-	-	-	-	(8.5)
Administrative expenses	(35.9)	(0.3)	0.4	-	-	-	0.1	(35.8)
Operating profit	20.2	(0.3)	0.4	-	(1.4)	(0.9)	(2.2)	18.0
Finance income	-	-	-	-	-	-	-	-
Finance expense	(3.1)	-	-	0.9	-	-	0.9	(2.2)
Net finance expense	(3.1)	-	-	0.9	-	-	0.9	(2.2)
Profit before tax	17.1	(0.3)	0.4	0.9	(1.4)	(0.9)	(1.3)	15.8
Taxation	(4.0)	-	(0.1)	(0.2)	0.4	0.2	0.3	(3.7)
Profit for the year	13.1	(0.3)	0.3	0.7	(1.0)	(0.7)	(1.0)	12.1

	2018	Closure of US operations ¹	Amortisation of acquired intangibles and related acquisition costs ²	Re-measurement to fair value of hedging portfolio ³	Restructuring costs ⁶	2018 Adjustments	2018 Adjusted
	£m	£m	£m	£m	£m	£m	£m
Revenue	163.9	-	-	-	-	-	163.9
Cost of sales	(114.3)	1.0	-	-	-	1.0	(113.3)
Gross profit	49.6	1.0	-	-	-	1.0	50.6
Distribution expenses	(9.4)	-	-	-	-	-	(9.4)
Administrative expenses	(35.3)	1.0	0.8	-	0.8	2.6	(32.7)
Operating profit	4.9	2.0	0.8	-	0.8	3.6	8.5
Finance income	0.3	-	-	(0.3)	-	(0.3)	-
Finance expense	(2.2)	-	-	-	-	-	(2.2)
Net finance expense	(1.9)	-	-	(0.3)	-	(0.3)	(2.2)
Profit before tax	3.0	2.0	0.8	(0.3)	0.8	3.3	6.3
Taxation	(1.5)	-	(0.1)	-	(0.1)	(0.2)	(1.7)
Profit for the year	1.5	2.0	0.7	(0.3)	0.7	3.1	4.6

1. Costs of closing US operations comprising inventory provision, severance costs and asset write-downs and onerous lease costs (partially released in 2019).
2. Relating to Kingfisher Lighting.
3. Relating to currency hedges.
4. The recovery of amounts owed to the Group's Chinese subsidiary by two former employees. These amounts relate to the historic overpayment of salary and under-recovery of asset sale proceeds from third parties.
5. HMRC VAT repayment of overpaid output tax arising from settlement discounts taken by customers.
6. 2018 costs relating to one-off restructuring costs and advisory fees relating to the finance function.

Standards and interpretations issued

At the date of the approval of these financial statements, the following Standards and Interpretations, which have not yet been applied in these financial statements, were in issue, but not yet effective:

- Amendments to References to the Conceptual Framework in IFRS Standards – Not yet endorsed.
- Amendment to IFRS 3 Business Combinations – Not yet endorsed.
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Endorsed 29 November 2019.
- IFRS 17 Insurance Contracts – Not yet endorsed

Based on their initial assessments, the Directors anticipate that adoption of these Standards and Interpretations in future periods will not have a material impact on the financial statements of the Group.

Critical accounting judgements and estimates

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. The following are the key judgements and key estimates used in these financial statements.

Key judgements

The Group applies judgement in how it applies its accounting policies, which do not involve estimation, which could materially affect the numbers disclosed in these financial statements. The key judgements, without estimation, that could have the most significant effect on the amounts recognised in these financial statements are as follows:

- Development capitalisation - see note 10 of the Annual Report and Accounts

Significant estimates

The preparation of financial statements in conformity with adopted IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The Directors consider the following to be the key estimates applicable to the financial statements, which have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year or in the long term:

- Amortisation of intangible assets – see note 10 of the Annual Report and Accounts
- Inventory valuation – see note 12 of the Annual Report and Accounts

2 Operating segments

The Group's principal activities are in the manufacturing and supply of wiring accessories, LED lighting, portable power equipment and Ross (home entertainment products). For the purposes of management reporting to the Chief Operating Decision-Maker (the Board), the Group consists of four operating segments which are the product categories that the Group manufactures and distributes. The Board does not review the Group's assets and liabilities on a segmental basis and, therefore, no segmental disclosure is included. Inter-segment sales are not material. Revenue and operating profit are reported under IFRS 8 Operating Segments.

	Adjusted 2019 £m	Adjustment £m	Reported 2019 £m	Adjusted 2018 £m	Adjustment £m	Reported 2018 £m
Revenue						
Wiring Accessories	70.1	-	70.1	65.8	-	65.8
Portable Power	42.6	-	42.6	41.1	-	41.1
LED Lighting	54.2	-	54.2	51.8	-	51.8
Ross and other	5.2	-	5.2	5.2	-	5.2
	172.1	-	172.1	163.9	-	163.9
Operating profit						
Wiring Accessories	12.7	1.6	14.3	6.5	(0.3)	6.2
Portable Power	4.1	-	4.1	1.5	(1.2)	0.3
LED Lighting	1.2	0.5	1.7	0.5	(2.1)	(1.6)
Ross and other	-	0.1	0.1	-	-	-
Operating profit	18.0	2.2	20.2	8.5	(3.6)	4.9

Analysis of adjustments	2019					2018				
	Total £m	Closure of US business ¹ £m	Amortisation of acquired intangibles and related costs ² £m	Cost recovery ³ £m	VAT Repayment ⁴ £m	Total £m	Closure of US operations ¹ £m	Amortisation of acquired intangibles and related costs ² £m	Restructuring costs ⁵ £m	
Cost of sales										
Wiring	1.6	-	-	1.0	0.6	-	-	-	-	
Accessories										
Portable Power	-	-	-	-	-	(0.5)	(0.5)	-	-	
LED Lighting	0.6	-	-	0.3	0.3	(0.5)	(0.5)	-	-	
Ross and other	0.1	-	-	0.1	-	-	-	-	-	
Gross profit	2.3	-	-	1.4	0.9	(1.0)	(1.0)	-	-	
Administrative expenses										
Wiring	-	-	-	-	-	(0.3)	-	-	(0.3)	
Accessories										
Portable Power	-	-	-	-	-	(0.7)	(0.5)	-	(0.2)	
LED Lighting	(0.1)	0.3	(0.4)	-	-	(1.6)	(0.5)	(0.8)	(0.3)	
Ross and other	-	-	-	-	-	-	-	-	-	
Total	(0.1)	0.3	(0.4)	-	-	(2.6)	(1.0)	(0.8)	(0.8)	
Operating profit	2.2	0.3	(0.4)	1.4	0.9	(3.6)	(2.0)	(0.8)	(0.8)	
Operating profit:										
Wiring	1.6	-	-	1.0	0.6	(0.3)	-	-	(0.3)	
Accessories										
Portable Power	-	-	-	-	-	(1.2)	(1.0)	-	(0.2)	
LED Lighting	0.5	0.3	(0.4)	0.3	0.3	(2.1)	(1.0)	(0.8)	(0.3)	
Ross and other	0.1	-	-	0.1	-	-	-	-	-	
Operating profit	2.2	0.3	(0.4)	1.4	0.9	(3.6)	(2.0)	(0.8)	(0.8)	

- Costs of closing US operations comprising inventory provisions, severance costs and asset write-downs and onerous lease costs (partially released in 2019).
- Relating to Kingfisher Lighting.
- The recovery of amounts owed to the Group's Chinese subsidiary by two former employees. These amounts relate to the historic overpayment of salary and under-recovery of asset sale proceeds from third parties.
- HMRC VAT repayment of overpaid output tax arising from settlement discounts taken by customers.
- 2018 costs relating to one-off restructuring costs and advisory fees relating to the finance function.

Revenue by location of customer	2019 £m	2018 £m
UK	137.6	130.1
Europe	17.8	15.5
Middle East and Africa	9.0	9.1
Asia Pacific	4.2	5.3
Americas	3.5	3.9
Total revenue	172.1	163.9

One customer represents more than 10% of revenue. This customer's revenue represents 23% (2018: 26%) of total revenue and is across all operating segments.

Non-current assets by location	2019 £m	2018 £m
UK	26.9	28.0
China	13.9	16.7
Other	1.8	0.1
Total non-current assets	42.6	44.8

3 Expenses

Included in the Consolidated Income Statement are the following:

	2018	2018
	£m	£m
Research and development costs expensed as incurred	2.4	2.9
Depreciation of property, plant and equipment	6.0	5.1
Amortisation of intangible assets	2.3	2.1

4 Taxation

	2019	2018
	£m	£m
Current tax expense		
Current year – UK	2.8	1.0
Current year – overseas	1.6	1.0
Adjustment in respect of prior years	(0.5)	(0.1)
Current tax expense	3.9	1.9
Deferred tax expense/(credit)		
Origination and reversal of temporary differences	(0.1)	(0.1)
Adjustment in respect of prior years	0.2	(0.3)
Deferred tax expense/(credit)	0.1	(0.4)
Total tax expense	4.0	1.5

	2019	2018
	£m	£m
Reconciliation of effective tax rate		
Profit for the year	13.1	1.5
Total tax expense	4.0	1.5
Profit before tax	17.1	3.0
Tax using the UK corporation tax rate of 19.00% (2018: 19.25%)	3.2	0.6
Effect of tax rates in foreign jurisdictions	1.1	(0.3)
Non-deductible expenses	0.5	0.2
Income not taxable	(0.4)	-
Adjustment in respect of previous periods	(0.2)	(0.4)
Recognition of previously not recognised deferred tax	(0.2)	1.4
Total tax expense	4.0	1.5

A tax reduction of £0.5m within UK tax occurred in the period due to the utilisation of brought forward UK trading losses previously not recognised as a deferred tax asset due to it being deemed unlikely that they could be utilised.

Factors which may affect future current and total tax charges

UK corporation tax rate in 2019 was 19.0%. In the Budget on 11 March 2020 it was announced that the rate applicable from 1 April 2020 would remain at 19.0%. As the Finance Bill has yet to be passed the previous substantively enacted rate of 17.0% for 2020 was used in calculating the deferred tax at 31 December 2019. Had 19.0% been used in the calculation the impact on the deferred tax asset would have been to increase it by £0.1m.

5 Earnings per share

Earnings per share is calculated based on the profit for the year attributable to the owners of the Group. Adjusted earnings per share is calculated based on the adjusted profit for the year, as detailed below, attributable to the owners of the Group. These measures are divided by the weighted average number of shares outstanding during the period.

	2019	2018
	£m	£m
Earnings for calculating basic earnings per share	13.1	1.5
Adjusted for:		
VAT repayment	(0.9)	-
Cost recovery in Chinese subsidiary	(1.4)	-
Restructuring costs	-	0.8
Closure of US operations	(0.3)	2.0
Amortisation of acquired intangibles and related acquisition costs	0.4	0.8
Remeasurement to fair value of hedging portfolio	0.9	(0.3)
Income tax on above items	0.3	(0.2)
Adjusted earnings for calculating adjusted basic earnings per share	12.1	4.6

	2019	2018
	Number	Number
	Million	million
Weighted average number of ordinary shares		
Basic	156.9	160.3
Dilutive effect of share options on potential ordinary shares	1.1	0.5
Diluted	158.0	160.8

	2019	2018
	Pence	Pence
Basic earnings per share	8.3	0.9
Diluted earnings per share	8.3	0.9
Adjusted basic earnings per share	7.7	2.9
Adjusted diluted earnings per share	7.7	2.9

6 Dividends

In respect of the year ended 31 December 2018, a final dividend of 0.6 pence per share, amounting to £0.9m, was paid to shareholders on 31 May 2019.

An interim dividend of 0.6 pence per share for the year ended 31 December 2019, totalling £1.0m, was paid to shareholders on 25 October 2019. The Board is not proposing a final dividend for the year ended 31 December 2019 due to the economic uncertainty arising from the coronavirus pandemic.

7 Property, plant and equipment

During the year, the Group purchased assets at a cost of £2.0m (2018: £3.2m). The majority of the expenditure related to plant and equipment and tooling at the manufacturing facility in China. Total depreciation for the year was £5.1m (2018: £5.1m). Assets with net book value of £0.1m (2018: £0.2m) were disposed of in the year for net proceeds of £nil (2017: £0.2m). Net book value at 31 December 2019 was £17.0m (31 December 2018: £21.5m).

Following the adoption of IFRS 16 the Group has a carrying value of £3.0m for right of use assets (2018: £nil).

The Group has not included any borrowing costs within additions in 2019 (2018: £nil). There were no funds specifically borrowed for the assets and the amount eligible as part of the general debt instruments pool (after applying the appropriate capitalisation rate) is not considered material.

For further information refer to note 9 of the consolidated financial statements in the Annual Report and Accounts 2019.

8 Intangible assets and goodwill

Development expenditure is capitalised and included in intangible assets when it meets the criteria laid out in IAS 38, "Intangible Assets". During the year, the Group incurred internally generated development costs of £1.6m (2018: £1.7m). The Group has not included any borrowing costs within capitalised development costs. There were no funds specifically borrowed for this asset and the amount eligible as part of the general debt instruments pool (after applying the appropriate capitalisation rate) is not considered material. Amortisation totalled £2.3m (2018: £2.1m) with the increase arising from Development cost charges. Net book value at 31 December 2019 was £22.6m (31 December 2018: £23.3m)

Goodwill is reviewed annually impairment. Further details on the review conducted at 31 December 2019 can be found in note 10 to the Annual Report and Accounts 2019. No impairment charge was recorded in either 2019 or 2018.

9 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 19 in the Annual Report and Accounts 2019.

	2019 £m	2018 £m
Non-current liabilities		
Revolving credit facility	24.8	20.0
Secured bank loans – Invoice financing	1.2	-
	26.0	20.0
Current liabilities		
Secured bank loans – Invoice financing	-	15.8
	-	15.8

Bank loans and overdrafts are secured by a fixed and floating charge over the assets of the Group. Bank loans and overdrafts include funds advanced under invoice financing arrangements from HSBC Finance (UK) Limited of £1.2m (2018: £15.8m), which are secured by legal charges over the Group's book debts.

10 Exchange rates

The following significant exchange rates were applied during the year:

	Average rate		Reporting date spot rate	
	2019	2018	2019	2018
USD	1.28	1.33	1.32	1.27
EUR	1.14	1.13	1.18	1.11
RMB	8.80	8.84	9.19	8.75

11 Related party transactions

The Group has a related party relationship with its subsidiaries and its Directors. Transactions between Group companies, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Transactions with key personnel

Key personnel include executive and non-executive Board members and the senior management team. The compensation of key management personnel, including executive Directors, is as follows:

	2019 £m	2018 £m
Remuneration (including benefits in kind)	3.6	2.6
Element of share-based payments expense	0.2	0.2
	3.8	2.8

Defined contribution pension scheme retirement benefits are accruing to one Director at the year-end (2018: one).

12 Annual General Meeting

The 2020 AGM will take place on 4 June 2020 at the Group's registered office. The notice of AGM and any related documents will be sent to shareholders within the prescribed timescales. Under the UK Government's current guidance on social distancing and prohibiting gatherings it will not be possible for shareholders to attend the AGM in person. Shareholders will be encouraged to submit their proxy votes online.

13 Date of approval of financial information

The financial information covers the year 1 January 2019 to 31 December 2019 and was approved by the Board on 23 April 2020. A copy of the 2019 Annual Report and Accounts will be published on the Luceco plc investor relations website, www.lucecoplc.com as soon as practicable.