

ADNAMs. SOUTHWOLD

Adnams plc
Interim Accounts 2020

RESILIENT ADNAMs SPIRIT



Chairman's Statement

OUR FOCUS ON RESILIENCE, RECOVERY AND DOING THE RIGHT THING



RESULTS

The impact of the Covid-19 pandemic was just starting to become apparent as we finalised our 2019 full year Report & Accounts and we have since provided two updates on trading in 2020. The hospitality sector was one of the hardest hit as socialising became heavily restricted and pubs were required to close their doors. As a pub owner and pub operator ourselves, and with a drinks business heavily orientated towards the on-trade, our business was focussed on our online sales, to our supermarket partners and other shops. These sales represented only about one fifth of our normal trade.

The Government support schemes, particularly the Coronavirus Job Retention Scheme (furlough), discretionary grants, business rates relief and cut in VAT, have been enormously important to us. The Treasury should be commended for their urgent and timely response. However, there remain substantial hurdles ahead before UK pubs can return to anything like their previous trading on a sustainable basis.

I would like to thank my Board colleagues and senior management who volunteered to take up to a 50% pay cut from lockdown and through the depth of the crisis.

As we noted in our AGM announcement, this backdrop means that these half year accounts show a loss. EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation, a commonly used proxy for cash generation before capital expenditure) for the period was -£1.6m compared to £1.0m in 2019. Our 2020 operating loss was £3.5m against a loss of £0.8m in 2019, a year that was itself subject to disruption following a change to our core computer systems at the end of March 2019. 2020 first half turnover was £21.0m, which compares to £34.7m in 2019.

In light of the onset of Covid-19 no final dividend was paid for 2019 and no interim dividend is proposed for 2020. The company benefits from a hugely supportive and loyal shareholder base. The Directors will keep the dividend policy under continuous review and return to paying dividends as soon as is appropriate.

We were delighted in April 2020 to be awarded the Queen's Award for Enterprise in Sustainable Development. This is the third time that Adnams has won this award, a true testament to our continuing leadership in the field of sustainability.

THE DRINKS BUSINESS

The Adnams drinks business has seen good growth in recent years in its sales to supermarkets and shops (our "Take Home" business). The dominant element of our drinks sales remains sales to pubs and other on-trade outlets and the closure of these outlets from 23rd March until beyond the first half of the year had a serious impact on this business.

As at the end of February our beer volumes were running just under 3% behind the prior year, but March sales were 25% behind and April 34%. Our on-trade business became restricted to small deliveries to pubs running a takeaway operation. We saw very strong growth in our Take Home sales where April volumes were ahead of 2019 by 57%. In the first half of the year, volumes in Take Home were ahead by 25%, whereas overall beer volumes were down by 25%. These numbers compare to industry volumes which show the total beer market down by 15%, cask ale sales down by 62%, and sales of premium bottled ales up by 19%.

Our export business performed strongly in the first two months of the year but not surprisingly faced tough trading conditions, yet it is seeing demand grow in our established markets.

A similar picture is apparent in our spirits business where total volumes sold for the first half of the year were down by 17%, however Take Home volumes rose by 25%.

In terms of products sold, Ghost Ship remains our most popular beer, and Ghost Ship 0.5% continues to show strong growth. Likewise with spirits, Copper House Gin is our bestseller. We continue to see strong customer and trade reviews for our products in the press and online which helps build awareness and drive sales.

Our investment in new brewing equipment, allowing us to produce beer ready for bottling and canning, has proved its worth at a time when the beer market has moved to selling the vast majority of its products in these formats. The implementation of JD Edwards in 2019 enabled us to respond positively to the significant growth in online orders during lockdown.



3RD TIME

Esquire

The best gins you can drink in 2020

1ST Adnams Orange & Seabuckthorn

Adnams is so much more than just beer, and this limited-edition gin is a winner – fresh, zingy but dry nonetheless, with the only sweetness coming in the form of citrus and tropical fruit flavours (orange, mango, pineapple). Garnish with a fresh orange slice.



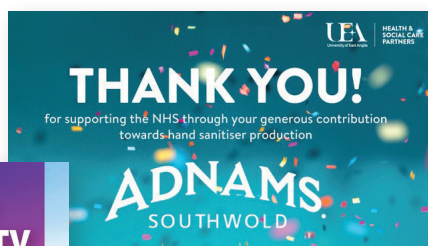
ADNAMS PROPERTIES

UK pubs were already experiencing potentially serious cost pressures before Covid-19 arrived, rates bills and increases in the National Living Wage substantially ahead of inflation being particularly notable. Enforced closure followed by restricted reopening requirements and customer caution in visiting hospitality venues will inevitably have far reaching effects on the pub landscape. At this point it is very difficult to know the extent of these changes; and the way in which government support evolves will undoubtedly also affect the position.

The Adnams property estate, managed, leased and tenanted, was all closed from 23rd March until beyond the end of the half year, though some of the leased and tenanted pubs have offered a takeaway business. Most staff employed in the Adnams managed properties were placed on furlough following closure in March.

In 2019 the Adnams managed estate gained the Cross Keys at Aldeburgh by transfer from our leased and tenanted estate whilst the Ship at Levington moved in the reverse direction. There were no changes to either estate in the first half of 2020. The Cardinal's Hat in Harleston was sold at the end of 2019, though the proceeds were received in 2020.

The half year result for our managed properties shows a loss, with full trading only possible up to March 23rd with costs of maintaining a closed estate continuing after that. The decision was taken that it was not appropriate or right to charge rents to our leased and tenanted estate whilst these properties were closed, so earnings here were reduced too.



We've helped clean 1.3 million pairs of hands by supplying alcohol to the UEA. Over 5000 care packages have been delivered to front line workers and the local community.

ADNAMS SHOPS AND ONLINE

As drinks retailers Adnams was not required to close its shop estate when other properties closed in March, however we took the decision to do this in the interests of staff and customer welfare and because our online offering provided a strong alternative. We started reopening our shops in early June and whilst they are still building towards the turnover levels of last year, early signs are promising.

The Adnams online sales have represented a true highlight in a difficult half year. We have seen sales rise four fold compared to 2019 and whilst the reopening of other retail outlets, including pubs, will present a challenge in maintaining these sales, we have served many new customers and will have the opportunity to firmly establish this business in its improved position.

“AS EVER, IF ADNAMS DOES SOMETHING, IT DOES IT WELL”

MELISSA COLE, TELEGRAPH

FINANCE

Covid-19 struck at a point when Adnams was looking to harness the benefits of its relatively recent capital investments.

Our bank debt at 30th June 2020 was £14m compared to 30th June 2019 debt of £21.0m. The improvement is driven by strong cost and working capital management as well as utilising opportunities in deferring various taxes and duties.

Focused control of cash and spending has ensured that Adnams banking facilities, which are all provided through Barclays Bank, have remained at £22m, £10m of which is in the form of term loans whose maturity has been extended to over a year as at 30th June 2020.

The pension scheme valuation has been updated for movements in the six months since the year end valuation. No revaluation is undertaken at the half year. The half year deficit is £6.2m which compares to £8.0m at 30th June 2019 and £6.2m at 31st December 2019. However, the triennial valuation, on which company contributions are based, showed a small surplus as at 31st March 2019 and the contributions have been adjusted accordingly with our trading levels.

THE FUTURE

Our diversified strategy has enabled the business to pivot and adapt to the changing environment quickly. Through controlling costs, maximising opportunities, and delivering operational excellence at pace has ensured that we have continued to grow the parts of the business that could operate. Our focus on resilience, recovery and doing the right thing has continued to grow our social capital with our incredible team, customers and others – as we approach the Adnams' 150th anniversary in 2022 we can look forward to building back better.

Jonathan Adnams OBE
Chairman

PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2020		Unaudited 6 months to 30 June 2020 £000	Unaudited 6 months to 30 June 2019 £000	12 months to 31 December 2019 £000
	Notes			
Turnover		20,951	34,704	74,749
Operating expenses		(24,462)	(35,487)	(74,030)
Operating loss		(3,511)	(783)	719
Profit/(loss) on disposal of assets		-	-	62
Profit/(loss) on ordinary activities before interest and taxation		(3,511)	(783)	781
Interest		(303)	(257)	(525)
Other finance charge on pension scheme		(59)	(112)	(217)
Loss on ordinary activities before taxation		(3,873)	(1,152)	39
Tax on profit on ordinary activities	2	667	213	(10)
Profit/(loss) for the financial year		(3,206)	(939)	29
(Loss)/earnings per share basic and diluted	3			
'A' Shares of 25p each		(169.8)p	(49.8)p	1.5p
'B' Shares of £1 each		(679.4)p	(199.0)p	6.1p

BALANCE SHEET

As at 30 June 2020		Unaudited 30 June 2020 £000	Unaudited 30 June 2019 £000	31 December 2019 £000
Fixed assets				
Tangible assets		42,014	45,129	43,791
Current assets				
Stocks		8,688	10,039	9,185
Debtors		6,063	10,475	9,706
Cash at bank and in hand		2	23	24
		14,753	20,537	18,915
Creditors: amounts falling due within one year		(14,793)	(25,993)	(17,411)
Net current assets		(40)	(5,456)	1,504
Total assets less current liabilities		41,974	39,673	45,290
Creditors: amounts falling due after more than one year		(10,198)	(5,196)	(10,196)
Provision for liabilities		(996)	(742)	(1,114)
		(11,194)	(5,938)	(11,310)
Net assets excluding pension liability		30,870	33,735	33,985
Pension liability		(6,157)	(7,795)	(6,198)
Net assets including pension liability		24,623	25,940	27,787
Capital and reserves				
Called up share capital		472	472	472
Share premium		144	144	144
Profit and loss account		24,007	25,324	27,171
Equity shareholders' funds		24,623	25,940	27,787

Notes

1 Basis of preparation

The interim accounts, which have not been audited, have been prepared under the recognition and measurement principles of FRS 102. The 2019 full year accounts were audited. The accounting policies are unchanged from 2019.

Given the major uncertainties at this time, few businesses can have absolute confidence in their long-term position. We continue to manage cash carefully in the business and have concluded, based on our cashflow management over the past few months and our current projections, that Adnams continues to be soundly based thus the adoption of the going concern basis in these accounts is justified.

2 Taxation

The taxation charge is based on the estimated tax rate for the year. Profit on sale of assets includes property profits which are assumed to be reinvested and the tax rolled-over.

3 Earnings per share

Earnings per share is calculated by dividing the earnings available to ordinary shareholders by the issued ordinary share capital of £471,842. The earnings per share calculation is the same for basic and diluted earnings.

4 Impairment review

At the reporting date, our pubs, after 3 months of closure, were planning to reopen following changes to government guidelines. We considered the carrying value of our estate and due to the subsequent trading being ahead of internal forecasts, no impairment was deemed necessary.