

## Profit and loss account

For the six months ended 30 June 2019

Notes	Unaudited 6 months to 30 June 2019 £000	Unaudited 6 months to 30 June 2018 £000	12 months to 31 December 2018 £000
<b>Turnover</b>	<b>34,704</b>	35,535	78,918
Operating expenses	(35,487)	(36,092)	(77,312)
<b>Operating (loss)/profit before highlighted items</b>	<b>(783)</b>	(557)	1,606
Highlighted items – operating expenses	2	–	(1,766)
<b>Operating loss</b>	<b>(783)</b>	(557)	(160)
Profit/(loss) on disposal of assets	–	44	(21)
<b>Loss on ordinary activities before interest and taxation</b>	<b>(783)</b>	(513)	(181)
Interest	(257)	(228)	(504)
Other finance charge on pension scheme	(112)	(99)	(192)
<b>Loss on ordinary activities before taxation</b>	<b>(1,152)</b>	(840)	(877)
Tax on loss on ordinary activities	3	213	148
<b>Loss for the financial year</b>	<b>(939)</b>	(692)	(785)
<b>Loss per share</b>	<b>5</b>		
'A' Shares of 25p each, Inc. asset disposals (pence)	(49.8)p	(36.7)p	(41.6)p
'B' Shares of £1 each, Inc. asset disposals (pence)	(199.0)p	(146.7)p	(166.4)p
'A' Shares of 25p each, Exc. asset disposals (pence)	(49.8)p	(38.6)p	(42.5)p
'B' Shares of £1 each, Exc. asset disposals (pence)	(199.0)p	(154.6)p	(169.9)p

## Balance sheet

As at 30 June 2019

	Unaudited 30 June 2019 £000	Unaudited 30 June 2018 £000	31 December 2018 £000
<b>Fixed assets</b>			
Tangible assets	45,129	46,257	45,181
<b>Current assets</b>			
Stocks	10,039	8,574	9,496
Debtors	10,475	9,378	10,654
Cash at bank and in hand	23	23	22
	20,537	17,975	20,172
<b>Creditors: amounts falling due within one year</b>	<b>(25,993)</b>	(18,229)	(18,883)
<b>Net current (liabilities)/assets</b>	<b>(5,456)</b>	(254)	1,289
<b>Total assets less current liabilities</b>	<b>39,673</b>	46,003	46,470
<b>Creditors: amounts falling due after more than one year</b>	<b>(5,196)</b>	(10,223)	(10,199)
<b>Provision for liabilities</b>	<b>(742)</b>	(462)	(720)
	(5,938)	(10,685)	(10,919)
<b>Net assets excluding pension liability</b>	<b>33,735</b>	35,318	35,551
Pension liability	(7,795)	(8,082)	(7,964)
<b>Net assets including pension liability</b>	<b>25,940</b>	27,236	27,587
<b>Capital and reserves</b>			
Called up share capital	472	472	472
Share premium	144	144	144
Profit and loss account	25,324	26,620	26,971
<b>Equity shareholders' funds</b>	<b>25,940</b>	27,236	27,587

### Notes

- Basis of preparation** The interim accounts, which have not been audited, have been prepared under the recognition and measurement principles of FRS 102. The 2018 full year accounts were audited. The accounting policies are unchanged from 2018.
- Highlighted items** Non-recurring costs of £1,766,000 have been highlighted in the profit and loss account for 2018 to help shareholders to understand the continuing trading result. These highlighted items represented the cost of property impairment of £766,000 and the estimated cost of adjustments to guaranteed minimum pensions of £1,000,000.
- 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.
- Dividend** The interim dividend on ordinary shares will be unchanged from 2018 at £368,000 (78%) and will be paid on 3 October 2019 to those on the register at the close of business on 6 September 2019.
- 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.

# ADNAMs.

SOUTHWOLD

## LONG-TERM STRENGTH THROUGH SYSTEMS RENEWAL

Adnams plc Interim Accounts 2019





## Chairman's Statement

### Results

The last few years have seen substantial change and considerable investment in the Adnams business as we have positioned ourselves in crowded and rapidly changing markets. The last, and vital, plank of this investment has been renewal of our core systems, the previous system having been in place for towards thirty years. Against this backdrop turnover was slightly lower than in 2018 and the half year operating loss rose from £557,000 to £783,000 as we needed to increase costs to deal with the business change.

Our new system went live at the end of March and has unarguably been a major distraction during the past half year. However, the process of change is easing, and we are starting to be able to remove the additional costs required to facilitate and embed our new processes. For its size, Adnams is a complex business selling a large variety of products in many different ways through many different channels. This makes our system needs relatively onerous and the process of change particularly challenging.

£44,000 of property profits were realised in 2018, there were no property sales in 2019. Higher debt levels raised our interest costs to £257,000 from £228,000 in 2018 with the notional interest on our pension deficit rising from £99,000 to £112,000.

The board has agreed an unchanged interim dividend of 78p per "B" share and 19.5p per "A" share.

### The Drinks Business

Adnams beer volumes were ahead of the market for the first six months of 2019, showing an increase of 2% against a market fall of 1%. The relative importance to Adnams of cask ale, a sector down by 5%, made this a notably good performance. We have been particularly pleased by the success of our low alcohol product, Ghost Ship 0.5%, which we launched a little over a year ago. Ghost Ship 0.5% meets the fast-growing demand for low alcohol drinks. We are reducing the beer's alcohol by using reverse osmosis, a filtration method that does not damage the beer's flavour in the way that traditional alcohol evaporation techniques can do. Making a low alcohol version of our most successful product, Ghost Ship 4.5%, means that we can gain immediate recognition, however it also requires us to prove that the quality of the 0.5% product justifies the name of the 4.5% beer. We believe that we have done this, and strong sales growth led to our doubling the capacity of our low alcohol equipment at the start of this year.

Aside from the success of Ghost Ship 0.5% we have also seen a near doubling of export volumes as a consistent focus on key markets



**Our company values are rooted in making great products, without costing the earth. We are in it for the long-term and we will continue to invest, innovate and delight our customers at every opportunity to ensure that Adnams continues to be the best business it can be.**

bears fruit. Another promising development has been the launch of Adnams Wild Wave cider in March this year and customer feedback has been very good.

Gin volumes were down in the first half of 2019. We noted in our 2018 accounts that the UK has seen a huge boom in small distilleries in the last few years and the market has fragmented as new flavours of drink have been launched. Demand has continued to grow, but it has been spread over an ever greater range of products and producers and supermarkets are stocking fewer traditional gins as they cater for the ever-growing range of new flavours. We have launched special edition gin flavours in 2019 with Orange and Sea Buckthorn in March and Lemon and Tamarind in June.

Recent trends in the drinks market have been towards premiumisation, healthy lifestyles, authenticity and experience. Adnams' strategy plays strongly to these trends. We have some of the best manufacturing equipment in the business, a uniquely premium method for producing low alcohol ales, we are one of a handful of true grain to glass distillers and we possess leading sustainability credentials. We have a raft of awards and reviews to evidence these claims including recently winning the Energy Efficiency award at the highly regarded Footprint Awards 2019 and in February we collected the edie Sustainability Leaders Award for Water Management.

### Adnams Properties

The growth of the Adnams managed estate continued during 2019 with an important outlet in Aldeburgh, the Cross Keys, moving from tenancy to management in April. The estate now numbers nine properties.

The Swan Hotel, which was completely refurbished during 2017, has continued to build its business with turnover 11% up on 2018 leading to an improved bottom line and net cash generated 14% higher than the prior year. We carefully monitor customer feedback and we are pleased to note how well regarded the Swan has become. We have also seen better performance at most other managed properties, though the very unfortunate fire suffered at the Ship at Levington has impacted results, coming on top of a period of closure for refurbishment. With a growing group of properties, central costs have increased. Pubs, both managed and tenanted, have seen cost pressures most notably from the National Living Wage, which increased by another 4.9% in April. Nonetheless good pubs and hotels continue to perform well and through managing our own properties we are able to project the Adnams brand to our customers in the most powerful way.

Our award winning brewery and distillery tours business, based out of the Visitor Centre adjacent to the Swan Hotel, continues to do very well and brewery tour numbers are 3% ahead of 2018 and distillery tours are 16% ahead.

Our leased and tenanted estate has reduced in size in recent years and now comprises thirty-eight properties. There were no sales during the last six months, however the comparative period included profits from the King's Head, Laxfield, the Lord Nelson, Ipswich and the Bridge House, London. The first two were sold in 2018 and the lease on the latter expired just after the half year end last year. Nonetheless, despite the smaller estate results were close to those achieved in 2018.

### Adnams Shops and Online

Our shops performed well in the first half of 2019, with results ahead of 2018 with an unchanged estate. Our shops have an important role in helping to display our brand to a wider audience, in acting as a launch platform for our new products, and in providing a valuable sales channel through which we can directly sell product that we make or brand ourselves.

In April we launched a new website, linked to our new central system, and whilst the change caused some disruption, and our online sales were behind 2018 in the first half of this year, we are pleased with the design and responsiveness of the new website and are now converting many more visits to sales.

### Brand Marketing

We continue to invest in brand development and evolve the communication channels that we use. We have been very successful in launching products ahead of market trends and producing high quality drinks. The challenge has been to stay ahead when followed by other producers in very crowded markets. We are increasing our use of data to understand our opportunities and blending this with our feel for the market and our compelling stories. We have also been investing more in public relations to ensure that our voice can be heard.

### Finance

The disruption from our new systems had some inevitable impacts on our bank debt which at 30th June was £21.0m (30th June 2018: £18.6m). An important aspect of this was an increase in stock levels as we sought to minimise the chance of being out of stock as our systems changed. An element of the stock increase was planned higher stocking of Bitburger and some key wines to guard against possible Brexit disruption. The system change also led to debtor levels being temporarily higher.

Adnams banking facilities stand at £22m, £10m of which is in the form of term loans, though £5m of these are repayable within a year and so are required to be shown on the balance sheet as short-term. Adnams has been well supported by its bank during this period of disruption and the covenants, whose levels were set in a different environment, were waived in relation to March and June 2019.

In line with the policy adopted in 2018, and that adopted by many others, we have used the previous year end valuation for our pension scheme rather than seeking a mid-year value. These valuations are highly volatile, and we suspect that a separate mid-year valuation adds little to shareholder knowledge. A revised value will be produced at the 2019 year end and we expect the triennial pension scheme valuation result to be available for our full year report. The deficit at 31st December 2018 was £8.0 million and this is the basis of the deficit of £7.8m reported at 30th June 2019 (30th June 2018: £8.1m).

### The Future

Last year we observed that the future appeared particularly uncertain given the unknown shape of the impending exit from the European Union. This year the comment seems equally apt. Adnams is focussing on being flexible and agile to cope with the changes that will come. We have experienced a disrupted half year largely due to a major systems change.

Looking ahead, we have properties and products that are truly premium and award winning, a talented, loyal and determined workforce and a strong reputation for innovation and sustainability. The investments that we have made across our business leave us in good shape for the long term.

Jonathan Adnams OBE  
Chairman



Our Adnams Copper House Distillery was included in the Lonely Planet's Global Distillery Tour – these are the top recommended and reviewed Distilleries from 33 countries around the world. We were recognised for our prize-winning sustainable ethos.

## OUR REPUTATION

Forbes, Grazia, The Times, The Guardian, Harper's Bazaar, The Telegraph, Metro and many other publications both consumer, retail and trade continue to review our award-winning products, services and hotels:

"The Swan has proven itself as the ideal coastal destination. From its pitch perfect restaurants, to its on-point design and affable staff, this is a destination that gets every detail right."

Forbes

"One of the best gins EVER"

HELLO! Magazine

The coverage from the Adnams articles over the last six months has reached more than 500 million people.

## SUSTAINABILITY AT OUR CORE

We won the 2019 Footprint Award for Energy Efficiency, which recognises excellence for sustainable business practice. The Award was for our innovative heat and water recovery system which has saved around 10% of the energy and 85% of the cooling water needs in our Distillery. All the electricity used in making our spirits and beers is from 100% renewable sources.

"Adnams clearly has sustainability embedded throughout the organisation, sharing knowledge, collaboration and embracing the circular economy, achieving great things for the company, Suffolk and Britain"

Footprint Award judges