

Profit and loss account

For the six months ended 30 June 2018

	Notes	Unaudited 6 months to 30 June 2018 £000	Unaudited 6 months to 30 June 2017 £000	12 months to 31 December 2017 £000
Turnover		35,535	33,165	74,765
Operating expenses		(36,092)	(32,988)	(72,606)
Operating (loss)/profit before highlighted items		(557)	177	2,159
Highlighted items – operating expenses	2	–	(721)	(721)
Operating (loss)/profit		(557)	(544)	1,438
Profit on disposal of assets		44	526	671
(Loss)/profit on ordinary activities before interest and taxation		(513)	(18)	2,109
Interest		(228)	(137)	(309)
Other finance charge on pension scheme		(99)	(129)	(251)
(Loss)/profit on ordinary activities before taxation		(840)	(284)	1,549
Tax on profit on ordinary activities	3	148	30	(513)
(Loss)/profit for the financial year		(692)	(254)	1,036
(Loss)/earnings per share	5			
‘A’ Shares of 25p each, Inc. asset disposals (pence)		(36.7)p	(13.5)p	54.9p
‘B’ Shares of £1 each, Inc. asset disposals (pence)		(146.7)p	(53.9)p	219.6p
‘A’ Shares of 25p each, Exc. asset disposals (pence)		(38.6)p	(36.0)p	22.2p
‘B’ Shares of £1 each, Exc. asset disposals (pence)		(154.6)p	(144.1)p	88.8p

Balance sheet

As at 30 June 2018

	Unaudited 30 June 2018 £000	Unaudited 30 June 2017 £000	31 December 2017 £000
Fixed assets			
Tangible assets	46,257	43,371	46,535
Current assets			
Stocks	8,574	7,757	8,065
Debtors	9,378	8,933	10,085
Cash at bank and in hand	23	25	23
	17,975	16,715	18,173
Creditors: amounts falling due within one year	(18,229)	(13,868)	(17,185)
Net current (liabilities)/assets	(254)	2,847	988
Total assets less current liabilities	46,003	46,218	47,523
Creditors: amounts falling due after more than one year	(10,223)	(10,218)	(10,221)
Provision for liabilities	(462)	–	(437)
	(10,685)	(10,218)	(10,658)
Net assets excluding pension liability	35,318	36,000	36,865
Pension liability	(8,082)	(8,293)	(8,223)
Net assets including pension liability	27,236	27,707	28,642
Capital and reserves			
Called up share capital	472	472	472
Share premium	144	144	144
Profit and loss account	26,620	27,091	28,026
Equity shareholders’ funds	27,236	27,707	28,642

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 2017 full year accounts were audited.

2 Highlighted Items Non-recurring costs of £721,000 have been highlighted in the profit and loss account for 2017 to help shareholders to understand the continuing trading result. These costs mainly related to the removal of asbestos found on redevelopment of the Swan Hotel, and they also include the write off of some Swan Hotel assets that were not fully depreciated, but which have been replaced as part of the refurbishment.

3 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.

4 Dividend The interim dividend on ordinary shares will be unchanged from 2017 at £368,000 (78%) and will be paid on 1 October 2018 to those on the register at the close of business on 7 September 2018.

5 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.



INVESTING TO DELIVER,
GROW AND DELIGHT.

Adnams plc
Interim Accounts
30 June 2018



Chairman’s Statement



Results
After an exceptional year of investment in 2017 the first half of 2018 was a period of transition with the focus of the business being on developing the new capacity in our brewery and on building the proposition at the Swan. Turnover has continued to grow well and at £35.5m it is up by 7.1% on 2017. Adnams own beer volumes are up by 4.8% on 2017, and own spirits are up by 6.3%. The board has agreed an unchanged interim dividend of 78p per “B” share and 19.5p per “A” share.

We have observed in recent years that Adnams’ profits accrue in the second half of the year, particularly as we continue to develop our retail businesses and managed pubs.

Rent receipts from tenanted pubs are fairly evenly spread over the year, however the returns from managed pubs and hotels, are focussed during the Summer and Christmas. This trend is apparent in 2018 where we made a loss of £557,000 in the first half, compared to a profit of £177,000 in 2017. This reduction was flagged in our AGM statement and was partly attributable to the increase in retail business and partly to some substantial costs of bedding-in new investments, particularly in the brewery. Depreciation is £403,000 higher in the half year and at this early stage it is running ahead of the investment returns.

Sale of the King’s Head in Southwold produced the major part of the £526,000 of income from asset sales in 2017. In 2018 property profits were lower at £44,000.

Awards
In most years Adnams’ beers and spirits win awards in competitions, but sometimes these are truly remarkable. In 2014 Adnams became the first distiller outside Russia, France, Poland or Scandinavia to win the top vodka award at the International Wine and Spirits Competition. We are more than delighted that the Adnams Longshore Vodka has again won this award in 2018. This is a mark of its truly exceptional quality and a real accolade to the quality of Adnams spirits. Our vodkas, aside from being exceptional drinks in their own right, are also the base for our excellent gins, including Adnams Copper House Gin, which was itself the winner of the 2013 Gin Guild Cup in the same competition, which underlies its claim to be the world’s best gin.

Beer Sales
Adnams beer sales continued to outperform the market in the first six months of 2018, with good growth in kegged, bottled and canned beers. Our 4.8% increase compares to an overall market increase of 1.3%. The cask beer market was 8.4% down in the first half of 2018 and our volumes too were lower, though we again saw good growth in Adnams Ghost Ship. Ghost Ship became our best selling beer in 2016 and remains the key driver of our volume increases, though we also saw encouraging growth from Mosaic Pale Ale and other recent products.

Most notable amongst our new products has been the acclaimed launch of Ghost Ship Alcohol Free. This beer is a statement of confidence by Adnams that we could make an alcohol free product with the taste to match our best-selling beer. We believe that we have succeeded, and many others agree. The alcohol free beer market is growing fast and we hold high hopes for the success of this drink.

Two particular issues have given greater profile to the beer market in recent news: the effects of the football World Cup and the impact of the significant shortage of carbon dioxide for food and drink packaging. We do not believe that the World Cup has a notable impact in our case. The carbon dioxide shortages have presented problems to the business and we have faced a number of production difficulties. We suspect it will be several months before its impacts have fully worked through.

The £7 million investment that we made in fermentation capacity, beer conditioning, filtration and automated kegging completed in 2017. This is vital for our ability to meet the changing demands of today’s customers and their growing interest in different styles of beer. This investment has required some process changes and has driven some extra costs in this half year, however it is also starting to save us costs as we are able to fulfil more of the packaged beer production process in Southwold and we anticipate growing benefits from this investment.

Two very important investment projects have continued in 2018. In March we completed installation of our innovative equipment to make alcohol free beers. Secondly, we have a major project in train to replace our core computer systems. Adnams’ operations are diverse, making this replacement a substantial project, however it is a key part of our growth and efficiency plans. The project is being carefully managed, though the attendant process changes are bound to create an element of disruption over the changeover period which is planned in the second half of the year.

We saw good growth in kegged beer sales to both directly delivered customers and to large national pub companies. Sales to supermarkets and other take home outlets continued to grow well, with good increases in sales of bottles and a very strong increase in canned sales. Sales of take home mini-kegs also improved in this half year. Our export business, having grown its volumes by about 15% in the first half of last year, had a very successful first half with volumes up by a further 28%, and comprises 3.6% of first half beer volumes.

Our sales of non-Adnams beers grew by 4.2% in the first half of this year with growth in almost all sales channels. Wine sales too saw an increase as did minerals. Bitburger, the German Pilsner for which we have the UK distribution rights grew its directly delivered sales, though overall saw a decline on the previous year.

The Adnams Copper House Distillery
Copper House Gin continued its growth in 2018, being up by 22.7%, with a particularly strong performance from our Copper House gin and tonic cans. Growth has slowed somewhat as the gin market has become more crowded with competitors and diverse styles. In response we will be growing our range of flavours and will shortly launch the Adnams Copper House Pink Gin and later this year a Quince Gin. Quince Gin was originally trialled through our Gin Club which brings the voice of the customer into our new product development process.

Having again won the “world’s best” trophy at this year’s vodka awards we are hopeful that Adnams vodkas will see a further revival. 2018 sales of whisky have shown substantial growth, with export volumes being particularly strong.

Adnams Properties
Foremost amongst the Adnams properties is the Swan Hotel, which was completely refurbished last year. Along with the adjacent John Adnams Visitor Centre, it reopened in October 2017. Since its reopening we have been focussed on building the Swan’s reputation as a premium destination for both accommodation and dining. We have received some first rate reviews and feedback and the Hotel is building well towards its aims, with occupancy rates and evening meals leading the way. In line with other managed properties, the profit is made in the second half of the year and the first half result was broadly break even. The Visitor Centre has given an attractive new focus to our brewery and distillery tours which have been growing visitor numbers year by year.

IT’S GHOST SHIP, BUT NOT AS YOU KNOW IT...



100% taste at 0.5% abv, it’s a Win Win!
“Picnic on the beach with this little gem a stroke of genius @solebear_adnams”
Stevensquirrel

“Finally a decent alcohol free beer! Bravo!” *Amy.fulham*

“Have to say well done to your brewers, I tried the Ghost Ship Alcohol free today. For the first time there is an alcohol-free beer that looks and tastes great. Being duty driver is going to be a much more pleasant experience.” *Alan Carpenter*

Adnams managed properties numbered seven through most of the first half of 2018, having added the Bell, Walberswick, and the Harbour Inn, Southwold early in 2017. Just before the 2018 half year Adnams moved the Five Bells, Wrentham, from its tenanted estate to its managed estate, making a total of eight managed properties at the period end. We anticipate a slow continuing increase in the proportion of pubs that we manage. Management gives us full control over branding, presentation and customer service at these properties.

The weather has a very important impact on the performance of our properties, based as many of them are in parts of East Anglia reliant on visitors. This half year was an unusual mix of very poor weather through to the end of April, including “The Beast from the East”, and this was then followed by a hot and dry May and June. At the end of April like-for-like trading in the managed houses was behind 2017 and whilst May and June saw improvements the overall result remains below the prior year. Weather is an important influence, however increasing staff costs, rates bills, food costs and the apprenticeship levy, which started in April 2017, are also part of the picture.

The Plough at Wangford continues to grow its reputation and it had a particularly strong first half, others found trading more difficult particularly those facing increasing competition, including the Crown and Harbour Inn, Southwold.

Our leased and tenanted estate has reduced in size in recent years and year-on-year results reflected that in 2018, along with the more difficult trading conditions that we saw in managed pubs. Like-for-like profits were down by 1.7% in the six months to 30th June 2018. We sold two pubs in the first half year, the Bricklayer’s Arms, Colchester and the King’s Head, Laxfield. Four of our leased and tenanted pubs are leased by Adnams, the others are freeholds. One of these leased pubs was the Bridge House, Tower Bridge Road, London and the lease on that property expired just after the half year end and we have not renewed the lease.

Adnams Shops and Online
In the first half of 2018 our shops returned a result in line with the prior year. We have not added any new shops and we decided to close the small shop in Felixstowe. Our shops continue to 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. Our online sales grew by 8.5% in the first half of 2018 though net income was lower as we increased our investment and expanded our team. Our logistics are largely geared to bulk deliveries to pubs and ahead of Christmas 2018 we will be improving customer experience by engaging a specialist web delivery service. Our mail order business had a strong half year performance with our wine club and sales of fine wines doing well.

Brand Marketing
During the first half of 2018 we undertook a major reorganisation of our marketing and digital teams. We are moving our focus from event sponsorship and concentrating on developing a digital business, growing our online marketing and sales. We have been enhancing our understanding of customer experience and focussing on planning, tracking and measuring results, and creating a powerful alignment between marketing and sales. Alongside this we have further enhanced our strong creative team, a team with an excellent track record of communicating the Adnams brand.

In the second half of this year we will be launching a new website to enhance our brand presence, drive online sales and link the online and offline customer experience.

Finance
Our bank debt at 30th June was £18.6m (30th June 2017: £14.4m), an increase from our year end debt levels of £17.3m. The increase reflects our continuing investment programme in alcohol free beer and in new systems.

Adnams banking facilities stand at £22m, £10m of which is in the form of longer-term loans. A revised facility structure is expected to be agreed in the second half of 2018.

Shareholders will be used to the way in which changes in market values can cause swings in the position of our closed defined benefit pension scheme. In previous half years we have obtained pension liability valuations to give an updated guide at the six month end. We have now taken the view that this exercise is of limited value and we have instead adopted the route chosen by many others, of using the previous year end valuation. A revised value will be produced at the 2018 year end. The deficit at 31st December 2017 was £8.2 million and this is the basis of the deficit of £8.1m reported at 30th June 2018 (30th June 2017: £8.3m).

The Sterling: Euro exchange rate was less volatile this year than it had been following the June 2016 referendum. Purchases of Euros have on average been about 2% more costly this year.

The Future
The future appears particularly uncertain at the moment with the unknown shape of the impending exit from the European Union. Adnams is focussing on being flexible and agile to cope with the changes that will come. We have invested substantially in our brewery and are making a further major investment in new systems. We will continue to focus on the long term and on building a business for the future.

Jonathan Adnams OBE
Chairman

0.5%
How low can you go? Adnams launches new 0.5% wine range
New! A range of three varietal wines from Spain that have all the delicious flavours found in wine but without the alcohol content.