



Half-year Report

For the six months ended 30 June 2020

News Release

Issued on behalf of Flowtech Fluidpower plc

Immediate Release

The information contained within this announcement is deemed by the Company to constitute inside information stipulated under the Market Abuse Regulation (EU) No. 596/2014. Upon the publication of this announcement via the Regulatory Information Service, this inside information is now considered to be in the public domain.

Tuesday, 8 September 2020

Flowtech Fluidpower plc

Specialist full-service supplier of technical fluid power products and services
(Flowtech, the Group or Company)



Half-year Report

For the six months ended 30 June 2020

"We are pleased that the trend in market conditions since April 2020 has been positive and we look forward to an improvement in performance in H2 2020 and into 2021"

Financial Highlights

	HY2020 30/06/20 Unaudited	HY2019 30/06/19 Unaudited	FY2019 31/12/19 Audited
Revenue	£46.6m	£59.6m	£112.4m
Gross profit %	35.1%	35.6%	35.7%
Operating (loss)/profit	(£0.5m)	£4.3m	£5.7m
Underlying operating profit (*)	£0.9m	£6.1m	£9.8m
(Loss)/profit before tax	(£0.9m)	£3.8m	£4.7m
Earnings per share (basic)	(1.37p)	5.00p	6.12p
Net bank debt	£14.5m**	£18.8m	£16.6m

(*) Underlying operating result is continuing operations' operating profit before separately disclosed items (note 3) and the impact of fair value adjustment to inventory acquired through business combinations (IFRS 3). The FY2019 comparative has been adjusted as explained in note 3.

**Net Debt excludes benefit obtained by deferring c.£1.6m (2019: £nil) of VAT linked to Government COVID-19 related support schemes.

- Resilient response to COVID-19
- Organic sales down 21.8% (Q1: -11%, Q2: -33%)
- Gross margin strong at 35.1% (H1 2019: 35.6%)
- Underlying operating profit of £0.9m (H1 2019: £6.1m)
- Strong cash generation and net debt down £2.1m, £4.3m lower than H1 2019
- Continued progress on reducing cost base

"I'm pleased with the way our team responded to the challenges presented by COVID-19. We were already engaged in a process of rationalising operating sites and reducing costs, but, given the ongoing uncertainty, it is now imperative we accelerate this activity. Our cash management has been good and, whilst we remain well funded, it is important to recognise that one of the keys to our success is inventory availability and that this must not be compromised. Looking forward, an important element of our future strategy is our digital and data capability; this is an area of close focus and ongoing investment. Given the impact of COVID-19, it is difficult to predict underlying levels of demand so, notwithstanding our plans to achieve further efficiency and organic growth, coupled with our inherent resilience, we will be affected by overall market conditions and will react appropriately."

Roger McDowell

Non-Executive Chair

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About Flowtech Fluidpower plc

Founded as Flowtech in 1983, the Flowtech Fluidpower Group is the UK's leading specialist supplier of technical fluid power products and services. The business joined AIM in 2014 (AIM: Symbol FLO). Today, the Group has two distinct divisions:

Components

What we do	Location
Supply of hydraulic and pneumatic consumables, predominantly through distribution for urgent maintenance and repair operations across all industry sectors. Additionally, support a broad range of original equipment manufacturers (OEMs) supplying off-the-shelf and tailored components and assemblies.	Flowtechnology Benelux (Deventer)
	Flowtechnology UK (Skelmersdale)
	Indequip (Skelmersdale)
	Beaumanor (Leicester)
	Hydravalve (Willenhall)
	Primary Fluid Power Components (Skelmersdale)
	Nelson Hydraulics (Dublin, Lisburn, Dungannon)
	HTL (Ludlow)
	Hi-Power Hydraulics (Cork, Dublin, Belfast, Knowsley)
	Hydroflex (Brussels, Rotterdam, OudBeijerland)
	Hydraulic Equipment Supermarkets (Gloucester, Leeds)
	Derek Lane & Co (Newton Abbot)
	Tractec (Gloucester)

Services

What we do	Location
Bespoke design, manufacturing, commissioning, installation and servicing of systems to manufacturers of specialised industrial and mobile hydraulic original equipment manufacturers (OEMs) and additionally a wide range of industrial end users.	Primary Fluid Power Systems (Knowsley)
	TSL (Knowsley)
	Branch Hydraulic Systems (Gloucester)
	Lubemec (Gloucester)
	Fluidpower Group Services (Spennymoor, Leeds, Gloucester)
	FlowConnect (Gloucester)
	Orange County (Spennymoor)

Both Group's divisions have overlapping product sets, allowing procurement synergies to be maximised.

The above divisions are supported by a centralised back office team based in Wilmslow, Cheshire, UK and a procurement and quality control team in Shanghai, China. In total, the business employs c.600 people.

For more information please visit, www.flowtechfluidpower.com

COVID-19 Impact & Response

Since the COVID-19 lockdown, we have prioritised the health and wellbeing of our people. All our sites in the UK, Ireland and the Benelux have been adapted to become safer working environments, and whilst this has created some challenges in our larger facilities, we are extremely grateful to all our employees for the resilience and adaptability they have shown throughout recent months. This has ensured that high levels of customer service have been maintained.

All our key customers have returned and the recovery is encouraging; our revenue in August was 12% down on the comparative period, a much improved position from April which was down 41%. Over the last two months we have welcomed back most of our UK furloughed employees. 15 remain furloughed at the start of September, compared with a peak of 189 in April. Although most of our supplier base is located overseas, the quality of the working relationships we have with them has been invaluable throughout this period. Overall, it is pleasing to report that our supply chain has continued to function effectively, with only minor disruptions post lockdown.

Delivering on Operational Cost Savings

Despite COVID-19, we have continued with our plans to remove cost from our businesses, with most savings coming from a reduction in people and property. Highlights in the first half of 2020 include the move from Knowsley into Skelmersdale of the Primary Fluid Power Components function, and the transition of the logistics operations of Hydravalve from Willenhall on 1 May and 1 June respectively. Both have incorporated significant IT implementations, the establishment of an Engineering & Modifications Centre in the main logistics hub, and new ways of working to service different customer requirements. As well as the associated cost savings, we are already seeing benefits in the form of more efficient picking and delivery.

In Q2, we announced internally that our two Irish businesses – Nelson Hydraulics and Hi-Power – would merge their operations and relocate most warehousing functions to the UK. During the second half of the current year, we will also be undergoing a similar change process at Group HES, our Gloucester operation. When fully implemented, we expect further savings, with the removal of two properties and a further reduction in headcount.

Whilst certain projects have been slightly delayed due to lockdown restrictions, in some cases so we can take additional cost out, we remain confident of delivering annualised savings of at least £1.6m. We expect these savings to be fully reflected in 2021. These are in addition to the cost cutting we took in response to COVID-19, including the 25 redundancies actioned post this reporting date.

Continuing to De-leverage

We are pleased to see more progress in this area despite profitability having been materially affected by COVID-19. Net Debt reduced by £2.1m in H1 2020 and £4.3m in the 12-month period ended 30 June 2020.

Management of working capital has remained high on our list of priorities, and whilst debtor collections have slowed slightly, we have where necessary worked proactively with our customers and suppliers to ensure net cash generation.

We continually review inventory levels to ensure sufficient stock to service the demands of our customer base. We anticipate that further reductions in inventory are achievable, although at more modest levels than seen over the past 24-months. From a peak in June 2018 of £29.0m, inventories are now down to £22.6m.

Digital Capabilities

In 2019, we said we would use our market penetration and premium position with the leading global suppliers to develop a fully-fledged e-business operation. This year, a specialist team has been working on the next stage of this, and identified a clear strategy to redesign our IT architecture, create the most extensive Product Information System in the sector, and build a data-driven approach to sales development. When this is coupled with the integration of all the Group's legacy IT systems to create a single stock-holding framework, we will be in a very strong position to exploit the changing digital landscape. This initiative will also have input and support from our new Non-Executive Director, Paul Gedman, who joined us in August, having held senior positions including as Divisional CEO at The Hut Group. Paul has extensive experience in the global e-commerce industry and a wealth of practical knowledge in growing international businesses through leveraging data and digital capabilities.

Financial Statement

Half-year Financial Performance & Divisional Analysis

	Six months ended 30 June 2020	Six months ended 30 June 2019	Change	Year ended 31 December 2019
Revenue	£000	£000	%	£000
Components	39,124	50,001	-21.8%	96,348
Services	7,443	9,639	-22.8%	16,070
Total Group revenue	46,567	59,640	-21.9%	112,418
Gross profit %	35.1%	35.6%		35.7%

	Six months ended 30 June 2020	Six months ended 30 June 2019	Change	Year ended 31 December 2019
Underlying operating result (*)	£000	£000	£000	£000
Components	3,331	7,945	(4,614)	14,138
Services	(94)	241	(335)	(53)
Central costs	(2,305)	(2,091)	(214)	(4,331)
Underlying operating result (*)	932	6,095	(5,163)	9,754

(*) Underlying operating result is continuing operations' operating profit before separately disclosed items (note 3) and the impact of fair value adjustment to inventory acquired through business combinations (IFRS 3). The FY2019 comparative has been adjusted as explained in note 3.

Financial Statement

Revenue

Overall revenue was down 22% against prior year comparatives, 11% in Q1 and 33% in Q2. We had expected a modest decline in Q1 against a strong 2019 quarter, but COVID-19 further impacted on this and then affected the whole of Q2.

Gross Profit Margins

Although this can vary from period to period dependent on market conditions and mix of sales, in H1 it was virtually unchanged at 35.1%. This is higher than 2017 and 2018 and we are confident that our focus in this area will continue to see further improvements.

Operating Costs

Our operating costs in H1 2020 were £15.4m, marginally ahead of the comparative period in 2019. A significant factor contributing to this was the investment made in the business in mid-2019 when market conditions were far more favourable. The impact of this, and a number of COVID-19 related initiatives, will see operating costs in H2 2020 well below those in H2 2019. At the start of the year, headcount across the Group was 651, and at the time of writing this was down to 614, with further reductions expected in the second half.

Underlying Operating Profit

Our underlying operating result was impacted by COVID-19, reducing from £6.1m to £0.9m, the majority of which was in our Components businesses.

Financial Position Including Cash Flow & Bank Debt

We are pleased with the £4.6m of cash generated from operating activities (after discounting the £1.6m VAT deferral support from HMRC), which is in line with the comparative period. Our focus on managing working capital has enabled us to achieve this result despite the significant reduction in underlying profitability. This has allowed us to fund our restructuring activity as well as achieving a £2.1m reduction in Net Debt in H1 2020 and a position which is £4.3m lower than at the end of H1 2019.

We have recently agreed the renewal of our Banking facilities, with the £25m aggregate facilities in place for a further three years. These facilities are currently being documented by lawyers, a process which we hope will be complete by the end of September 2020.

Future Regulatory Reporting

Flowtech announces that following a review of its financial reporting practices it will no longer publish quarterly operational trading updates for Q1 and Q3 in addition to its regular financial reporting calendar. The Company will continue to provide, in conjunction with preliminary and interim reports, qualitative updates covering market and business developments. This change in reporting will take immediate effect. Shareholders will be able to view the financial calendar of events on our website: www.flowtechfluidpower.com/shareholder-information/financial-calendar

Outlook & Dividend

The fluid power sector has previously shown resilience in economic downturns and this characteristic, when coupled with the Group's wide mix of customers and sectors, has been evident in recent months. The trend in demand since the April nadir has been encouraging. If this pattern continues and is combined with our internal cost reduction programme, it leads us to expect an improvement in performance in H2 2020 and into 2021. However, as it still remains difficult to predict short term market conditions, we therefore consider it prudent to withhold both formal financial guidance and the payment of a dividend. We will keep this position under constant review and intend to reinstate both guidance and dividend as soon as is practicable.

Our priorities continue to be excellent customer service, careful management of cash, margin protection and the accelerated execution of our restructuring and cost reduction programme. We will also continue to invest in our digital capability and endeavour to maximise the opportunities offered by our strong market position through our high quality and committed team of people. We approach the future with measured optimism.

By order of the Board

08 September 2020

Consolidated Income Statement

For the six months ended 30 June 2020

	Notes	Unaudited Six months ended 30 June 2020 £000	Unaudited Six months ended 30 June 2019 £000	Audited Year ended 31 December 2019 £000
Continuing operations				
Revenue		46,567	59,640	112,418
Cost of sales		(30,226)	(38,395)	(72,235)
Gross profit		16,341	21,245	40,183
Distribution expenses		(2,081)	(2,139)	(4,547)
Administrative expenses before separately disclosed items:		(13,328)	(13,099)	(26,179)
— Separately disclosed items	3	(1,481)	(1,678)	(3,712)
Total administrative expenses		(14,809)	(14,777)	(29,891)
Operating (loss)/profit		(549)	4,329	5,745
Financial income		–	–	–
Financial expenses		(380)	(528)	(1,038)
Net financing costs		(380)	(528)	(1,038)
From continuing operations before tax		(929)	3,801	4,707
Taxation	4	88	(726)	(968)
(Loss)/profit from continuing operations		(841)	3,075	3,739
(Loss)/profit for the year attributable to:				
Non-controlling interest		–	22	–
Owners of the parent		(841)	3,053	3,739
Earnings per share				
Basic earnings per share – continuing operations	6	(1.37p)	5.00p	6.12p
Diluted earnings per share – continuing operations	6	(1.37p)	4.99p	6.10p

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2020

	Unaudited Six months ended 30 June 2020 £000	Unaudited Six months ended 30 June 2019 £000	Audited Year ended 31 December 2019 £000
(Loss)/profit for the period	(841)	3,076	3,739
Other comprehensive income			
– Exchange differences on translating foreign operations	334	71	(394)
Total comprehensive income in the period attributable to:	(507)	3,147	3,345
Non-controlling interest	–	22	–
Owners of the parent	(507)	3,125	3,345

Consolidated Statement of Financial Position

As at 30 June 2020

	Unaudited Six months ended 30 June 2020 £000	Unaudited Six months ended 30 June 2019 £000	Audited Year ended 31 December 2019 £000
Assets			
Non-current assets			
Goodwill	63,216	62,959	63,014
Other intangible assets	6,047	7,089	6,573
Property, plant and equipment	6,957	6,717	6,528
Right-of-use assets	7,385	8,752	8,228
Total non-current assets	83,605	85,517	84,343
Current assets			
Inventories	22,639	28,130	24,000
Trade and other receivables	20,050	27,034	21,377
Prepayments	1,672	1,057	759
Cash and cash equivalents	7,082	3,881	3,446
Total current assets	51,443	60,102	49,582
Liabilities			
Current liabilities			
Interest-bearing borrowings	16,000	18,605	16,055
Lease liabilities – current	1,845	1,426	1,635
Trade and other payables	18,344	18,403	15,510
Deferred and contingent consideration	–	1,005	214
Tax payable	–	1,659	298
Total current liabilities	36,189	41,098	33,712
Net current assets	15,254	19,004	15,870
Non-current liabilities			
Interest-bearing borrowings	4,000	4,000	4,008
Lease liabilities – non-current	5,773	7,394	6,735
Provisions	363	411	417
Deferred tax liabilities	1,417	1,709	1,519
Total non-current liabilities	11,553	13,514	12,679
Net assets	87,306	91,007	87,534
Equity directly attributable to owners of the Parent			
Share capital	30,747	30,564	30,579
Share premium	60,959	60,959	60,959
Other reserves	187	187	187
Shares owned by the Employee Benefit Trust (EBT)	(372)	(400)	(372)
Merger reserve	293	293	293
Merger relief reserve	3,645	3,575	3,599
Currency translation reserve	711	727	244
Retained losses	(8,864)	(4,940)	(7,955)
Total equity attributable to the owners of the Parent	87,306	90,965	87,534
Non-controlling interest	–	42	–
Total equity	87,306	91,007	87,534

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	Share capital £000	Share premium £000	Other reserve £000	Shares owned by the EBT £000	Merger reserve £000	Merger relief reserve £000	Currency translation reserve £000	Retained losses £000	Non-controlling interest £000	Total equity £000
Six months ended 30 June 2020, unaudited										
Balance at 1 January 2020	30,579	60,959	187	(372)	293	3,599	244	(7,955)	–	87,534
Profit for the period	–	–	–	–	–	–	–	(841)	–	(841)
Other comprehensive income	–	–	–	–	–	–	467	(133)	–	334
Total comprehensive income for the period	–	–	–	–	–	–	467	(974)	–	(507)
Transactions with owners										
Issue of share capital	168	–	–	–	–	46	–	–	–	214
Share-based payment charge	–	–	–	–	–	–	–	65	–	65
Total transactions with owners	168	–	–	–	–	46	–	65	–	279
Balance at 30 June 2020	30,747	60,959	187	(372)	293	3,645	711	(8,864)	–	87,306

For the six months ended 30 June 2019

	Share capital £000	Share premium £000	Other reserve £000	Shares owned by the EBT £000	Merger reserve £000	Merger relief reserve £000	Currency translation reserve £000	Retained losses £000	Non-controlling interest £000	Total equity £000
Six months ended 30 June 2019, unaudited										
Balance at 1 January 2019	30,460	60,793	187	(413)	293	3,575	664	(8,146)	20	87,433
Profit for the period	–	–	–	–	–	–	–	3,053	22	3,075
Other comprehensive income	–	–	–	–	–	–	63	8	–	71
Total comprehensive income for the period	–	–	–	–	–	–	63	3,061	22	3,146
Transactions with owners										
Issue of share capital	104	166	–	–	–	–	–	–	–	270
Share-based payment charge	–	–	–	–	–	–	–	96	–	96
Share options settled	–	–	–	13	–	–	–	49	–	62
Total transactions with owners	104	166	–	13	–	–	–	145	–	428
Balance at 30 June 2019	30,564	60,959	187	(400)	293	3,575	727	(4,940)	42	91,007

Consolidated Statement of Changes in Equity

For the twelve months ended 31 December 2019

	Share capital £000	Share premium £000	Other reserve £000	Shares owned by the EBT £000	Merger reserve £000	Merger relief reserve £000	Currency translation reserve £000	Retained losses £000	Non-controlling interest £000	Total equity £000
Twelve months ended 31 December 2019, audited										
Balance at 1 January 2019	30,460	60,793	187	(413)	293	3,575	664	(8,146)	20	87,433
Profit for the year	–	–	–	–	–	–	–	3,739	–	3,739
Other comprehensive income	–	–	–	–	–	–	(420)	26	–	(394)
Total comprehensive income for the year	–	–	–	–	–	–	(420)	3,765	–	3,345
Transactions with owners										
Issue of share capital	25	45	–	–	–	–	–	–	–	70
Purchase of minority shares	–	–	–	–	–	–	–	(270)	(20)	(290)
Shares issued in consideration	94	121	–	–	–	24	–	–	–	239
Other movements in share capital	–	–	–	–	–	–	–	133	–	133
Share-based payment charge	–	–	–	–	–	–	–	143	–	143
Share options settled	–	–	–	41	–	–	–	169	–	210
Equity dividends paid	–	–	–	–	–	–	–	(3,749)	–	(3,749)
Total transactions with owners	119	166	–	41	293	24	–	(3,574)	(20)	(3,244)
Balance at 31 December 2019	30,579	60,959	187	(372)	293	3,599	244	(7,955)	–	87,534

Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	Notes	Unaudited Six months ended 30 June 2020 £000	Unaudited Six months ended 30 June 2019 £000	Audited Year ended 31 December 2019 £000
Net cash from operating activities	8	6,203	4,443	13,246
Cash flow from investing activities				
Acquisition of property, plant and equipment		(1,221)	(519)	(756)
Proceeds from sale of property, plant and equipment		189	24	39
Acquisition of subsidiary		(202)	–	(38)
Payment of deferred and contingent consideration		(218)	(1,630)	(2,635)
Net cash used in investing activities		(1,452)	(2,125)	(3,390)
Cash flows from financing activities				
Net proceeds from the issue of share capital		–	70	70
Repayment of lease liabilities		(792)	(778)	(1,632)
Net cash settled share options		–	(47)	–
Interest on right of use leases		(131)	(141)	(282)
Other interest paid		(249)	(387)	(756)
Repayment of loan by EBT		–	15	47
Dividends paid	5	–	–	(3,749)
Share option payments to staff		–	–	(61)
Net cash generated from/(used in) financing activities		(1,172)	(1,268)	(6,363)
Net change in cash and cash equivalents		3,579	1,050	3,493
Cash and cash equivalents at start of period		3,446	253	253
Exchange differences on cash and cash equivalents		57	78	(300)
Cash and cash equivalents at end of period		7,082	1,381	3,446
Cash and cash equivalents		7,082	3,881	3,446
Bank overdraft		–	(2,500)	–
Cash and cash equivalents at end of period		7,082	1,381	3,446

Reconciliation of liabilities arising from financing activities

The changes in the Group's liabilities arising from financing activities can be classified as follows:

	Long-term borrowings £000	Short term borrowings £000	Lease liabilities £000	Total £000
At 1 January 2020	4,000	16,000	8,433	28,433
Cash flows:				
Repayment	–	–	(792)	(792)
Proceeds	–	–	–	–
Other lease movements	–	–	(67)	(67)
Non cash:				
Acquisition	–	–	44	44
At 30 June 2020	4,000	16,000	7,618	27,618

Notes to the Half-year Report

For the six months ended 30 June 2020

1. General Information

The principal activity of Flowtech Fluidpower plc (the 'Company') and its subsidiaries (together, the 'Group') is the distribution of engineering components and assemblies, concentrating on the fluid power industry. The Company is a public limited company, incorporated and domiciled in the United Kingdom. The address of its registered office is Bollin House, Wilmslow, SK9 1DP. The registered number is 09010519.

As permitted, this Half-year Report has been prepared in accordance with the AIM rules and not in accordance with IAS 34 'Interim Financial Reporting'. The consolidated financial statements are prepared under the historical cost convention, as modified by the revaluation of certain financial instruments.

This consolidated half-year Report and the financial information for the six months ended 30 June 2020 does not constitute full statutory accounts within the meaning of section 434 of the Companies Act 2006 and are unaudited. This unaudited Half-year Report was approved by the Board of Directors on 08 September 2020.

The Group's financial statements for the year ended 31 December 2019 have been filed with the Registrar of Companies. The Group's auditor's report on these financial statements was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Electronic communications

The Company is not proposing to bulk print and distribute hard copies of this Half-year Report unless specifically requested by individual shareholders. The Board believes that by utilising electronic communication it delivers savings to the Company in terms of administration, printing and postage, and environmental benefits through reduced consumption of paper and inks, as well as speeding up the provision of information to shareholders.

News updates, regulatory news, and financial statements can be viewed and downloaded from the Group's website: www.flowtechfluidpower.com.

Copies can also be requested from:

The Company Secretary, Flowtech Fluidpower plc, Bollin House, Bollin Walk, Wilmslow, SK9 1DP.
email: info@flowtechfluidpower.com.

2. Accounting Policies

2.1 Basis of preparation

The financial information set out in this consolidated Half-year Report has been prepared under International Financial Reporting Standards (IFRS) as adopted by the European Union and in accordance with the accounting policies which will be adopted in presenting the Group's Annual Report and Financial Statements for the year ended 31 December 2020. These are consistent with the accounting policies used in the Financial Statements for the year ended 31 December 2019.

2.2 Going concern

The financial statements are prepared on a going concern basis. The Directors believe this to be the most appropriate basis for the following reasons:

- The Group generated underlying operating profit of £0.9m in a half-year period which was materially affected by the unprecedented, unforeseen circumstances of COVID-19;
- July and August have seen improving trends in terms of Revenue and profitability;
- The Group has achieved significant debt reduction over the last 18 months and has been consistently operating with significant headroom against the £25m banking facilities.

In addition, we have recently agreed the renewal of our Banking facilities which will see our aggregate £25m facilities in place for a further three-year period; the facilities are currently being documented by lawyers and we expect this to be complete by the end of September. As part of this, we have refreshed our Banking covenants to reflect the unexpected reduction in our level of profitability as a result of COVID-19; as a result of this we expect to continue to satisfy all covenant and other requirements within the Banking agreement.

As referred to our 2019 Report & Accounts, we continue to recognise that the potential prolonged impact of the COVID-19 pandemic presents a material uncertainty that could potentially cast doubt on the Group and Parent Company's ability to continue as a going concern. Nevertheless, taking all factors into consideration, the Directors have a reasonable expectation that the Group and Parent Company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, the Directors continue to adopt the going concern basis in preparing the half year report and accounts. These financial statements do not reflect any adjustments which would result from the going concern basis of preparation proving to be inappropriate.

Notes to the Half-year Report

For the six months ended 30 June 2020

3. Operating Segments

The Group comprises the following two operating segments which are defined by trading activity:

- **Components** – Supply of hydraulic and pneumatic consumables, predominantly through distribution for maintenance and repair operations across all industry sectors, supported by supply agreements direct to a broad range of OEMs.
- **Services** – Bespoke design, manufacturing, commissioning, installation and servicing of systems to manufacturers of specialised industrial and mobile hydraulic OEMs and additionally a wide range of industrial end users.

The Board is the chief operating decision maker (CODM). The CODM manages the business using an underlying profit figure. Only finance income and costs secured on the assets of the operating segment are included in the segment results. Finance income and costs relating to loans held by the Company are not included in the segment result that is assessed by the CODM. Transfer prices between operating segments are on an arm's length basis.

The Directors believe that the underlying operating profit provides additional useful information on key performance trends to Shareholders. The term 'underlying' is not a defined term under IFRS and may not be comparable with similarly titled profit measurements reported by other companies. A reconciliation of the underlying operating result to operating profit/(loss) from continuing operations is shown below. The principal adjustments made are in respect of the separately disclosed items and are as detailed at the end of this note.

Segment information for the reporting periods is as follows:

	Components £000	Services £000	Inter-segmental transactions £000	Central costs £000	Total continuing operations £000
Six months ended 30 June 2020					
Income statement – continuing operations:					
Revenue from external customers	39,124	7,443	–	–	46,567
Inter-segment revenue	2,490	504	(2,994)	–	–
Total revenue	41,614	7,947	(2,994)	–	46,567
Underlying operating result	3,331	(94)	–	(2,305)	932
Net financing costs	(131)	(3)	–	(246)	(380)
Underlying segment result	3,200	(97)	–	(2,551)	552
Separately disclosed items	(683)	–	–	(798)	(1,481)
Profit/(loss) before tax	2,517	(97)	–	(3,349)	(929)
Specific disclosure items					
Depreciation	1,169	132	–	46	1,347
Amortisation	463	63	–	–	526
Reconciliation of underlying operating result to operating profit:					
Underlying operating result (*)	3,331	(94)	–	(2,305)	932
Separately disclosed items	(683)	–	–	(798)	(1,481)
Operating profit/(loss)	2,648	(94)	–	(3,103)	(549)

(*) Underlying operating result is continuing operations' operating profit before separately disclosed items (note 3).

Notes to the Half-year Report

For the six months ended 30 June 2020

3. Operating Segments continued

	Components £000	Services £000	Inter-segmental transactions £000	Central costs £000	Total continuing operations £000
Six months ended 30 June 2019					
Income statement – continuing operations:					
Revenue from external customers	50,001	9,639	–	–	59,640
Inter-segment revenue	1,224	10	(1,234)	–	–
Total revenue	51,225	9,649	(1,234)	–	59,640
Underlying operating result*	7,945	241	–	(2,091)	6,095
Net financing costs	(33)	–	–	(494)	(528)
Underlying segment result	7,912	241	–	(2,585)	5,567
Impact of fair value adjustment to inventory	(88)	–	–	–	(88)
Separately disclosed items	(767)	(20)	–	(892)	(1,678)
Profit/(loss) before tax	7,058	221	–	(3,477)	3,801
Specific disclosure items					
Depreciation	1,212	90	–	21	1,323
Amortisation	473	62	–	–	535
Reconciliation of underlying operating result to operating profit:					
Underlying operating result*	7,945	241	–	(2,091)	6,095
Impact of fair value adjustment to inventory	(88)	–	–	–	(88)
Separately disclosed items	(767)	(20)	–	(891)	(1,678)
Operating profit/(loss)	7,090	221	–	(2,982)	4,329

*Underlying operating result is continuing operations' operating profit before separately disclosed items (note 3) and the impact of fair value adjustment to inventory acquired through business combinations (IFRS 3).

Notes to the Half-year Report

For the six months ended 30 June 2020

3. Operating Segments continued

	Components £000	Services £000	Inter-segmental transactions £000	Central costs £000	Total continuing operations £000
Year ended 31 December 2019					
Income statement – continuing operations:					
Revenue from external customers	96,348	16,070	–	–	112,418
Inter-segment revenue	3,199	232	(3,431)	–	–
Total revenue	99,547	16,302	(3,431)	–	112,418
Underlying operating result	13,995	(59)	–	(4,329)	9,607
Net financing costs	(46)	(2)	–	(708)	(756)
Underlying segment result*	13,949	(61)	–	(5,037)	8,851
Impact of fair value adjustment to inventory	(297)	–	–	–	(297)
Impact of re-statement under IFRS 16 on profit before tax	(126)	1	–	(10)	(135)
Separately disclosed items	(1,114)	(689)	–	(1,909)	(3,712)
Profit/(loss) before tax	12,412	(749)	–	(6,956)	4,707
Specific disclosure items					
Depreciation	2,266	245	–	106	2,617
Amortisation	927	124	–	–	1,051
Reconciliation of underlying operating result to operating profit:					
Underlying operating result*	13,995	(59)	–	(4,329)	9,607
Impact of fair value adjustment to inventory	(297)	–	–	–	(297)
Impact of re-statement under IFRS 16 on operating profit	143	6	–	(2)	147
Separately disclosed items	(1,114)	(689)	–	(1,909)	(3,712)
Operating profit/(loss)	12,727	(742)	–	(6,240)	5,745

*Underlying operating result is continuing operations' operating profit before separately disclosed items (note 3), the impact of fair value adjustment to inventory acquired through business combinations (IFRS 3) and IFRS 16 adjustments to operating lease rental costs.

Reconciliation of Underlying Operating Result in Note 3 to Financial Highlights on Page 1

	Total continuing operations £000
Underlying operating result (*) shown above	9,607
Add back impact of re-statements under IFRS 16 on operating profit	147
Underlying operating profit (*) shown on Page 1 of RNS	9,754

*Underlying operating result is continuing operations' operating profit before separately disclosed items (note 3), the impact of fair value adjustment to inventory acquired through business combinations (IFRS 3) and IFRS 16 adjustments to operating lease rental costs. The inclusion of the IFRS16 adjustment was necessary to compare 2019 to prior periods because, as permitted by the standard, prior periods were not restated for the introduction of IFRS16. In order to compare 2019 with future periods, this adjustment is now unnecessary. Accordingly, the 2019 comparative in the table on page 1 and page 5 have been adjusted.

Notes to the Half-year Report

For the six months ended 30 June 2020

3. Operating Segments continued

Separately Disclosed Items

- Acquisition costs include stamp duty, due diligence, legal fees, finance fees and other professional costs incurred in the acquisition of businesses
- Share-based payment costs relate to the provision made in accordance with IFRS 2 'Share-based payment' following the issue of share options to employees
- Restructuring costs related to restructuring activities of an operational nature following acquisition of business units and other restructuring activities in established businesses. Costs include restructuring advice, asset write downs, employee redundancies and IT integration.

	Six months ended 30 June 2020	Six months ended 30 June 2019	Year ended 31 December 2019
	£000	£000	£000
Share based payment costs	65	96	143
Amortisation of acquired intangibles	526	535	1,051
Changes in amounts accrued for contingent and deferred consideration	218	596	596
Restructuring costs	644	394	1,739
Acquisition costs	28	57	183
Total	1,481	1,678	3,712

4. Taxation

	Six months ended 30 June 2020	Six months ended 30 June 2019	Year ended 31 December 2019
	£000	£000	£000
Current tax on income for the period – continuing operations:			
UK tax	(57)	907	888
Overseas tax	69	–	324
Deferred tax credit	(100)	(40)	(232)
Adjustments in respect of prior years	–	(141)	(12)
Total taxation	(88)	726	968

The taxation for the period has been calculated by applying the estimated tax rate for the financial year ending 31 December 2020.

Notes to the Half-year Report

For the six months ended 30 June 2020

5. Dividends

	Six months ended 30 June 2020 £000	Six months ended 30 June 2019 £000	Year ended 31 December 2019 £000
Final dividend (2019: 4.04p) per share	–	–	2,453
Interim dividend (2019: 2.13p) per share	–	–	1,296
Total dividends	–	–	3,749

In the light of economic uncertainty due to Covid-19, the Directors have suspended all dividend payments.

6. Earnings per Share

Basic earnings/(loss) per share is calculated by dividing the earnings/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

For diluted earnings/(loss) per share the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The dilutive shares are those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the period. For diluted loss per share, the weighted average number of ordinary shares in issue is not adjusted.

	Six months ended 30 June 2020			Six months ended 30 June 2019			Year ended 31 December 2019		
	Earnings £000	Weighted average number of shares 000s	Earnings per share Pence	Earnings £000	Weighted average number of shares 000s	Earnings per share Pence	Earnings £000	Weighted average number of shares 000s	Earnings per share Pence
Basic earnings per share									
Continuing operations	(841)	61,354	(1.37p)	3,054	61,091	5.00p	3,739	61,067	6.12p
Diluted earnings per share									
Continuing operations	(841)	61,354	(1.37p)	3,054	61,218	4.99p	3,739	61,286	6.10p

	Six months ended 30 June 2020 £000	Six months ended 30 June 2019 £000	Year ended 31 December 2019 £000
Weighted average number of ordinary shares for basic and diluted earnings per share	61,354	61,091	61,067
Impact of share options	–	127	219
Weighted average number of ordinary shares for diluted earnings per share	61,354	61,218	61,286

7. Subsequent Events

Since the end of June 2020, we have announced further restructuring activity involving our Group HES business in Gloucester. We have also made progress in extending our Banking facilities, terms having been agreed with the Bank and documentation currently being progressed by lawyers; we expect this to be formally in place by the end of September 2020.

Notes to the Half-year Report

For the six months ended 30 June 2020

8. Net Cash from Operating Activities

	Six months ended 30 June 2020 £000	Six months ended 30 June 2019 £000	Year ended 31 December 2019 £000
Reconciliation of profit before taxation to net cash flows from operations:			
Profit from continuing operations before tax	(929)	3,802	4,707
Depreciation on property, plant and equipment	533	507	916
Depreciation on right-of-use assets (IFRS 16)	814	816	1,701
Financial expense	249	387	756
Finance cost on right-of-use assets (IFRS 16)	131	141	282
(Profit)/Loss on sale of plant and equipment	70	7	6
Amortisation of intangible assets	526	535	1,051
Brought forward gain on sale of shares by EBT, released to reserves	–	140	140
Other financial items	–	–	123
FV Adjustment of stock	–	–	12
Equity settled share-based payment charge	65	96	143
Change in amounts accrued for contingent and deferred consideration	218	596	596
Operating cashflow before changes in working capital and provisions	1,677	7,027	10,433
Change in trade and other receivables	642	(1,949)	4,006
Change in stocks	1,578	537	4,667
Change in trade and other payables	2,705	30	(2,862)
Change in provisions	(51)	12	18
Cash generated from operations	6,551	5,657	16,262
Tax paid	(348)	(1,215)	(3,016)
Net cash generated from operating activities	6,203	4,442	13,246

Principal Risks & Uncertainties

In common with all organisations, Flowtech faces risks which may affect its performance. The Group operates a system of internal control and risk management to provide assurance that we are managing risk whilst achieving our business objectives.

No system can fully eliminate risk and therefore the understanding of operational risk is central to management processes. The long-term success of the Group depends on the continual review, assessment and control of the key business risks it faces.

The Directors set out in the 2019 Annual Report and Financial Statements the principal risks identified during this exercise, including quality control, systems and site disruption and employee retention. The Board does not consider that these risks have changed materially in the last six months.

Forward-looking Statements

This document contains certain forward-looking statements which reflect the knowledge and information available to the Company during the preparation and up to the publication of this document.

By their very nature, these statements depend upon circumstances and relate to events that may occur in the future thereby involving a degree of uncertainty. Although the Group believes that the expectations reflected in these statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Given that these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

The Group undertakes no obligation to update any forward-looking statements whether because of new information, future events or otherwise.