Operational and financial review.

“Following a few years of significant organic and acquisitive growth, this year has been one of consolidation.”

Craig Muncaster
Chief Executive, Group Financial Director
& Company Secretary

Operational review

2024 Group Company Overview

FW Thorpe Plc encompasses individual companies that concentrate on particular market sectors and geographical locations. The companies provide the Group with diversity as well as risk mitigation; they do not compete with one another and are complementary.

The companies within the Group can be affected differently by trends and economic impacts within their respective markets. The continuing development and market adoption of LED lighting and controls technology allows Group companies to share the benefits of their product and technical expertise, differentiating themselves from competitors.

Following a few years of significant organic and acquisitive growth, this year has been one of consolidation. The standout performance was from Lightronics, which increased revenue and drove through margin improvements to deliver record operating results.

Performance at SchahlLED was reasonable, especially given the economic conditions in Germany and the company managing the consolidation of the Thorlux Germany business. Zemper also gave a solid performance, with further growth outside of Spain. Operating profit performance improved in the second half, following a slow first half.

The Group's other companies saw mixed results, with similar performance from most companies in the main, but with TRT suppressing results with an operating loss.

Supply chain challenges and material inflation eased this year. The Group procurement team delivered some impressive results at most companies, reversing the increases seen over the last two years. Stock has also been reduced; however, strategic stock levels of certain components are still carried for protection.

The Group's people costs have continued to rise, driven not only by inflationary pressures but also by consecutive significant increases in the minimum wage, which drove cost increases across all levels of the business. Within the Group, we continue to pride ourselves on paying above these minimum wage standards and rewarding success.

The success of the Group's strategic direction has been demonstrated. Diversification of Group revenue sources, either by territory or sector, has delivered solid revenue and, combined with a targeted reduction of material spend, resulted in a growth in operating profit despite selling price increases being limited this year, hampering the Group's ability to offset cost pressures.

The Group continues to invest in manufacturing, selling activities and associated support services, supported by the continued development of innovative lighting products as well as sustained improvement of overall service to customers.

The following is an overview of 2023/24 for each company.

Peckham Library, London, UK

Thorlux Lighting

Following a few years of growth, revenues remained steady this year. Orders surpassed those of last year, with the order book staying at the more typical levels expected.

There was another strong performance from the operational side of the business, delivering close to £50m of revenue in the second half of the year as well as driving stock levels lower. Supply chain challenges lessened; however, there has been some disruption to shipping routes in the Middle East, with knock-on increased costs.

SchahlLED Germany, which reports to Thorlux Lighting on a day-to-day basis, saw its performance slow during its first full year with the Group. The economic climate, with Germany being in recession, has not been helpful, with some projects being deferred. A new IT system was introduced and Thorlux Germany personnel integrated into SchahlLED, distracting effort for parts of the year. The outlook remains positive, with a developing pipeline of opportunities.

Ongoing investment in Thorlux selling and support personnel continues to solidify the business's growth in recent years. This is a targeted approach, both territory and sector driven, with a plan to continue to build the Thorlux sales presence and ultimately grow revenues.

Larger scale projects had less of an impact this year, although a number of healthcare and education projects boosted the final quarter results. Some target sectors perhaps did not deliver the hoped-for return, but investment in these areas will continue.

Revenue from outside the UK, excluding Germany, was more modest this year. Revenue from Australia moved forwards following a few years of being static, and that from Ireland also improved. Exports to some other areas were disappointing, making the overall total lower than last year.

Product innovation remains at the heart of the Thorlux business. SmartScan continues to evolve, with a host of new features and enhancements currently under development and planned for launch in 2024/25. New ranges include the Zipline Eco for warehousing applications and the Group-wide innovation of the popular emergency downlight Firefly. The Firefly project was a collaboration, led by Zemper in Spain, with engineers from all emergency lighting businesses in the Group.

Capital investment projects included the automation of the cardboard packaging process, reducing packaging costs and stock holding whilst improving sustainability. The business's first HVO (hydrogenated vegetable oil) fuelled vehicle was added to the fleet, with potentially more to come this year. With over 54% of the Thorlux car fleet now electric, investments in alternative fuel vehicles are further reducing the emissions and carbon intensity of the business.

Sustainability remains high on the agenda, with Thorlux achieving EcoVadis silver, a recognised measure both for customers and the industry. Investment is planned in gas-reducing technologies for the powder coating process and heating the business's facilities in the next few years to support the Group's net-zero journey.

Whilst continuing to invest for growth, Thorlux managed to deliver a solid revenue result and, more pleasingly, improved operating profits, before acquisition adjustments. The business will continue to build on its targeted sector and territory approach and aim for growth again in 2024/25, mindful that the headwinds of a change of government in the UK could impact short term demand, delaying replacement programmes in certain sectors. Demand for energy saving technologies as well as carbon reporting should underpin revenues, however.

Revenue

£91.9m

2023: £92.7m, -1% (+10%), excluding SchahlLED adding £15.4m (9mths – £16.9m)

Operational and financial review. continued

Ypenburg Den Haag, Netherlands

Lightronics

Lightronics was the stand out performer for 2023/24 by a distance. Following below par but still respectable results last year, Lightronics returned to form with record operating results this year.

Targeted commercial activities in the wall and ceiling division, aimed at relighting projects in a particular sector, yielded dividends this year. The ability to survey, design and supply enabled Lightronics to secure projects across the Netherlands. Export revenues were generally lower this year, with reduced levels of business in both Germany and France. Growth in the wall and ceiling division and good management of both selling and procurement prices have supported the improvement in margins this year. The commercial team continues to evolve and target its core markets of street lighting, wall and ceiling lighting, and anti-vandal lighting.

There has also been some successful cross-Group selling this year, with the Lightronics wall and ceiling team introducing certain Thorlux UK made products to its customers. Lightronics will take on a number of TRT developments to sell into the Netherlands in the coming year, such as the Oaken and TRT's updated Aspect street light family.

Product development synergies are starting to take shape – collaborations with TRT in particular, which shares similar customer bases, and also Thorlux from a SmartScan lighting controls perspective.

Investments at Lightronics centred around new product tooling following product developments this year; the business looks to share these costs with other Group companies by tooling common components when the opportunity arises. Lightronics plans to invest even further during 2024/25 by stepping up product development innovations, with the appointment of an innovations director, to ensure it remains in a strong market position in the Netherlands, underpinned by renowned excellent quality products.

This year's figures will be tough to beat; however, the business starts the new financial year with a reasonable order book and good pipeline.

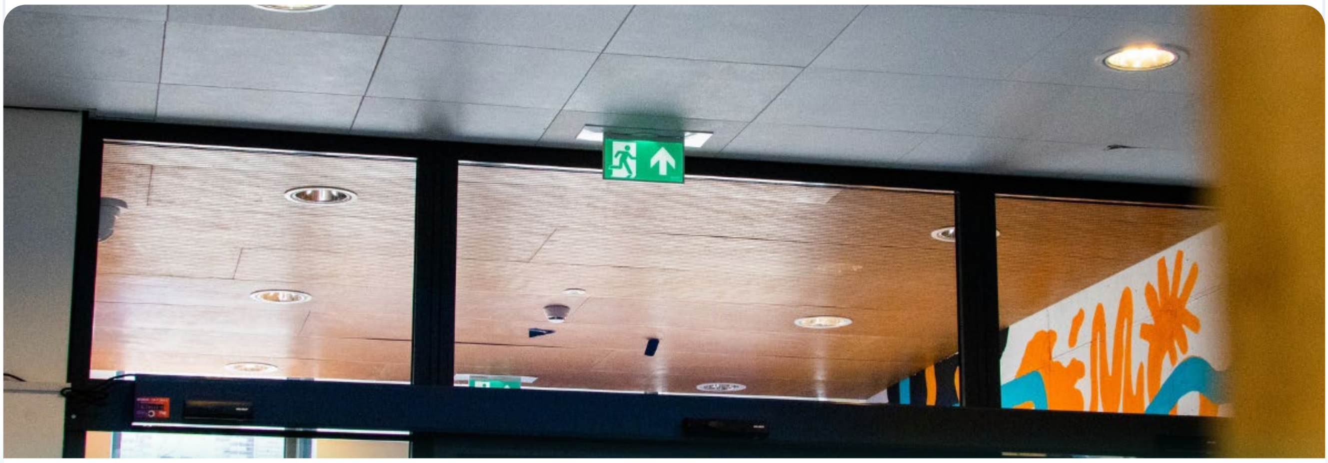
Revenue

£26.2m

2023: £24.8m, +6% (+13%) (constant currency +7% (+10%))[1]

[1] Constant currency shows percentage change in sales in the company's local currency.

Amadeus Lyceum, Netherlands



Famostar

This year, Famostar delivered another robust performance, which improved on last year's. Famostar continues to grow SmartScan-enabled revenues and further develop sales of Thorlux products into the Netherlands market, where further progress has been made this year.

There is little to report on the capital investment front this year, given recent investments in buildings and the introduction of a new enterprise resource planning system. Famostar will switch some of its attention to managing a technology shift in terms of batteries that the Group is already well positioned to achieve, given its investments in the UK and Spain in recent years.

Thorlux's product sales via Famostar increased marginally; orders exceeded €1m this year. Successful projects include sectors well known to the Group, such as education and healthcare. At the time of writing, Famostar is on the cusp of winning a project over a three-year period in the education sector in the Netherlands.

Growth is still on the agenda for Famostar, both in the local Dutch market and by exploring export markets with support from other Group companies. The SmartScan solution is now fully integrated into the existing portfolio, and the distribution of Thorlux products continues to gather momentum.

Revenue

£12.0m

2023: £11.5m, +4% (+4%) (constant currency +5% (+3%))[1]

Operational and financial review. continued

Palace of Justice, Namur, Belgium

Zemper

As Zemper completed another full year with the Group, revenue and operating profits were broadly in line with last year's. Zemper supplies its product into the three main territories of Spain, France and Belgium, previously untapped by the Group, with additional business from a number of other countries.

The domestic Spanish market was slow this year, but this was largely offset by sales growth in France and Belgium. Supply chain challenges from previous years have now subsided, stock is returning to normal levels, and price increases are starting to reverse. Zemper experienced some shipping disruption during the year, with some temporary uplift in cost.

Operational performance of the business this year should not be the only measurement of Zemper's contribution to the Group. Zemper is the most prolific and enthusiastic contributor to Group synergy projects which should result in significant savings in various Group companies over the next few years.

Zemper's recent investment into injection moulding capacity has started to come to the fore in recent projects. Certain Group components, which would have been sourced externally, are now starting to be manufactured at Zemper, reducing both the cost and certain risk factors to the Group.

The business continues to deliver a solid EBITDA return, and its synergy projects are starting to deliver but will take a little time to come to full fruition. The challenge for Zemper remains: to achieve sustainable profitable growth as per its medium-term projections, building on the foundations of a number of projects that have started following the Group's acquisition of the business.

Revenue

£19.4m

2023: £19.3m, -% (+37%) (constant currency +1% (+33%))[1]

[1] Constant currency shows percentage change in sales in the company's local currency.

Soldier's Bridge, Fort William, UK

TRT Lighting

Having bounced back last year, unfortunately TRT dropped back this year. Some good orders from tunnels were not enough to offset the fall in street lighting revenues.

The sales side of the business has been subject to a complete overhaul, with new sales leadership in place and new personnel covering territories across the UK to improve the depth of coverage. Some shared selling resource with Portland will be introduced in the new financial year, as Portland targets a similar customer base with street/road safety lighting products, as well as the reinvigoration of cross-selling opportunities with Thorlux.

The operational and technical side of the business continued to perform well, not only delivering the complicated mix of both tunnel and street lighting but also supporting Group companies with manufacturing and technical product testing requirements from its facilities in Redditch.

In terms of innovation, TRT is proud to have completed the development of its most sustainable street light, Oaken; this product was recognised by an independent testing house as the most sustainable light it had ever tested in the UK lighting industry. Oaken, a wooden street and amenity light, scored an impressive 3.1 in a TM66 sustainability rating in April 2024. (TM66 takes into account aspects such as material sourcing, embedded CO_2 and recyclability; see more on page 33).

TRT's solid operational base combined with a reinvigorated sales team and innovative product portfolio give cause for some optimism for 2024/25.

Revenue

£8.5m

2023: £10.1m, -15% (+16%)

Operational and financial review. continued

Wuxi Biologics, Dundalk, Ireland

Solite

Following a few years of growth, Solite fell back this year. Orders remained buoyant, with larger scale projects secured, but some of these deliveries have been deferred into the next financial year. Operating results were still reasonable and not far off the levels of last year.

Operational performance certainly improved. Management of both selling and material cost prices supported margin improvement. Reorganisation of the manufacturing process continues so that Solite can improve its ability to deliver larger scale projects. Solite is also pioneering the use of new powder coating ovens which should result in an estimated 70% reduction in gas usage, supporting the Group's net-zero ambitions.

The ability of Solite to deliver bespoke products for specific projects is one of the fundamental pillars of its success. The business continues to invest in improving its product portfolio as well as adding new ranges such as a specialist exit sign for cleanroom environments and developing a highly efficient cleanroom luminaire, improving efficiencies by over 50% in some applications.

Projects this year included the delivery of products for a UK battery plant for electric vehicles, as well as many notable pharmaceutical, healthcare and transport projects. Successful collaboration with Thorlux continues, both in the UK and Ireland.

The order book remains healthy as Solite starts the new financial year, which will support the continued development of commercial activities. Solite will continue to evolve its product portfolio from both an efficiency and sustainability perspective during the next financial year.

Revenue

£4.0m

2023: £4.4m, -8% (+12%)

Shifnal, Shropshire, UK

Portland Lighting

There will be elements of *déjà vu* in this year's report for Portland. Revenues improved compared with those of a disappointing prior year, driven by the traffic division (road safety sign lighting) of the business.

Although revenue from the traditional sign lighting business remained low, the traffic division, whilst only just starting, accounted for over 20% of revenues this year, supporting the decision to invest in targeting this market. The operating costs of developing this part of the business continue to have an impact; however, the division is starting to deliver promising results.

Product innovation and investment continued, mainly in road safety products. A mid-post beacon was launched and Portland's first significant order of 3,000 Hydra, a safety sign luminaire, was secured, with further opportunities to follow.

Traditional markets – retail and hospitality sign lighting – remained subdued. Portland continues to refine its product offering for these markets as well as look for opportunities to sell into overseas territories via existing distribution channels open to the Group.

Portland starts 2024/25 with a strong pipeline of opportunities for the traffic division spanning the next few years. The combination of traditional sign lighting and a new market opportunity with traffic products should enable Portland to deliver growth in the future.

Revenue

£3.5m

2023: £3.2m, +12% (-17%)

Operational and financial review. continued

Raffles Hotel, London, UK

Philip Payne

Solid results this year followed a return to typical business levels in 2022/23. Although investment in selling activities continues to weigh on underlying operating results, this is still a reasonable operating return but with room for improvement.

The Philip Payne business is now refocused on its traditional homegrown market of architectural emergency lighting, with additional channels into certain targeted end users and contractors supported by the Group's products from Zemper and Famostar. Philip Payne has also revitalised its channel into hospital safety signage with an updated product portfolio.

Philip Payne will benefit from the Group-wide update of the emergency downlight project, as mentioned in the Thorlux section and in a separate article in this annual report. Further developments completed by Philip Payne this year include ION – the new, high quality exit sign – and the ultimate sustainable exit sign, Arden, supported by the Group innovation team (another example of collaboration and the Group's search for alternative sustainable materials).

Of course, the Group would not be able to sign off a year without mentioning Philip Payne's projects of distinction. This year, the business supplied products into the Dorchester and Raffles hotels in London and Ivy restaurants nationwide.

This year has been one of consolidation, focusing on redefining routes to market and refreshing the product portfolio. Investment in product development, sales and marketing will take some time to come to fruition; however, next year should see those investments starting to deliver.

Revenue

£3.9m

2023: £3.9m, -% (+20%)

Raffles Hotel, London, UK
Philip Payne supplied bespoke lighting solutions to Raffles London, to address the unique challenges presented by the building's diverse spaces.

Operational and financial review. continued

Financial review

The directors have pleasure in submitting their annual report and the audited consolidated financial statements of the Group and the Company for the year ended 30 June 2024.

Results and dividends

Revenue remained relatively flat at £175.8m with operating profit increasing by 10.1% to £30.6m, supplemented by an additional three months contribution from Schahl, acquired in September 2022. Any additional contribution by recent acquisitions are dampened by IFRS related adjustments as disclosed in our segmental analysis.

The increase in Group profitability has been driven by a solid year from Thorlux and growth from our Netherlands companies, in particular Lightronics. Robust results from Zemper and the majority of other UK companies this year also supported the overall result. Operating profit before acquisition adjustments reached £32.4m[1] (2023: £29.8m), up 8.7%.

Both of our most recent acquisitions, Zemper and Schahl, made positive contributions of £4.8m (2023: £4.1m), before amortisation of acquisition, related intangible assets. Given the Group has committed to acquiring the remaining shares over the next few years, we account for 100% of the revenue derived by these companies but adjust the operating profit for intangibles valued at acquisition and profit before tax to reflect the minority shareholding. For added complexity, Schahl predominantly distribute Thorlux products, so there are further adjustments at a revenue and operating profit level.

The remaining UK companies all posted solid contributions with improvements in all except for TRT, however, the overall results for the other companies continues to be dampened by the results from our overseas sales offices in the UAE and Australia, although the latter did generate a small profit this year.

Net finance expense is impacted by both the Zemper and Schahl acquisitions; however, the recent upturn in interest rates have seen returns on our significant cash holding improve.

The taxation charge represents an effective rate of 18.6% (2023: 18.6%). The rate is similar to the previous year driven by the addition of profits from Germany and Spain with a higher headline rate and the substantively enacted higher future UK tax rate. The effective tax rate for UK companies is lower than the current corporation tax rate due to patent box relief driven by the Group's product innovations.

Cash balance remained strong following significant investments during the year.

In April 2024, the Company paid an interim dividend of 1.70p per share (2023: 1.62p) amounting to £1,994,000 (2023: £1,898,000). A final dividend of 5.08p (2023: 4.84p) per ordinary share is proposed amounting to £5,961,000 (2023: £5,674,000), a special dividend of 2.5p per share (2023: nil) amounting to £2,934,000 (2023: nil). If approved, the dividends will be paid on 29 November 2024. Total dividends paid during the year amounted to £7,668,000 in aggregate (2023: £7,301,000). The final dividend for 2023 was paid on 24 November 2023.

Cash and liquidity management

The Group's cash is managed in accordance with the treasury policy. Cash is managed centrally on a daily basis to ensure that the Group has sufficient funds available to meet its needs and invest the remainder. The majority of cash is placed with approved counterparties either on overnight deposit or time deposit. There are a series of time deposits that are maturing on a rolling cycle in order to meet regular business payments, with a margin for larger regular and one-off payments as well as seasonal variation in cash requirements.

The Group primarily trades in sterling. There is an exposure to foreign currency as the Group buys and sells in foreign currencies and maintains currency bank accounts in US dollars, Australian dollars, UAE dirhams and euros. The activities of buying and selling in foreign currency are broadly matched with currencies bought and sold as required in order to minimise currency exposures. Larger exposures would be hedged in order to reduce the risk of adverse exchange rate movement. There were no currency hedging derivatives in place as at 30 June 2024 or 30 June 2023.

Pension scheme position and funding

The latest triennial actuarial valuation was completed as at 30 June 2021. This valuation showed that the pension scheme position remains in surplus and a funding level for the future has been agreed between the trustees of the scheme and the directors of the Company. The directors consider it unlikely that any changes to the present funding levels will have any significant effect on the strength of the Company's statement of financial position.

1 Refer to note 2 on page 130.

Group research and development activities

The Group is committed to research and development activities in order to maintain its market share in the sectors and territories we operate. These activities encompass constant development of both new and existing products to ensure that a leading position in the lighting market is maintained. During the year the Group spent £2,019,000 (2023: £1,874,000) on capitalised development costs, which includes internal labour.

Property, plant and equipment

The directors are of the opinion that the market value of the freehold land and buildings is in excess of their net book value. While it is considered that the market value is significantly greater than the net book value for many of the Group's properties as a result of being acquired between one and over 20 years ago, management considers that undertaking formal valuation exercises would be costly for limited value and, consequently, no formal exercise has been undertaken.

Investment this year was at a lower level compared with previous years. Capital expenditure included an investment in land to further develop our carbon offset programme and replacement of company cars with electric vehicles, as well as further solar at Ratio UK, all continuing to solidify our sustainability credentials.

Creditor payment policy

The Group's policy concerning the payment of its trade creditors is to accept and follow the normal terms of payment among suppliers to the lighting industry. Payments are made when they fall due, which is usually on the day after the end of the calendar month following the month in which delivery of goods or services is made. Where reasonable settlement discount terms are offered for early payment, these terms are usually taken up. The number of days represented by the Company's year-end trade payables is 47 (2023: 45). The Group continues to report on payment practices and performance as per UK legislation.

Internal financial control

During the year, a member of the Group finance department has visited all operating sites to assess their compliance with a selection of key control procedures and any non-compliance reported to the Group Board. Any areas of non-compliance noted as part of this process have been addressed.

In addition, the executive directors regularly visit all operating sites and review with local management financial and commercial issues affecting the Group's operations. Regular financial reporting includes rolling forecasts and monthly financial reports comparing performance against plan as well as the previous year. These reports are reviewed locally with a Group representative and monitored by the Group Board. Accordingly, the directors do not consider that an internal audit department is required.

Craig Muncaster
Chief Executive, Group Financial Director and Company Secretary

3 October 2024

Group total revenue (£m)
£175.8m
-0.5% (2023: +23.0%)

Group operating profit (£m)
£30.6m
+10.1% (2023: +12.6%)

Net cash generated from operations (£m)
£41.4m
+29.8% (2023: +61.5%)

Net assets (£m)
£176.8
+10.2% (2023: +10.3%)