

Chairman's Statement



Mike Allcock
Chairman &
Joint Group Chief Executive



“Our revenue exceeded the £100m milestone for the first time, reaching £105.4m, an 18.6% increase.”

FW Thorpe Plc performed very well during the 2016/17 financial year and saw the handover of the chairman role to me from 1 July. It gives me pleasure to report on such an excellent year's trading.

This is an opportune moment to thank Andrew Thorpe for his long service as Chairman and Joint Chief Executive in a period that has seen your company transition successfully through the LED revolution as well as achieve numerous other significant milestones. The whole Board welcomes Andrew's continued support and guidance as he remains an executive on a part-time basis.

Craig Muncaster's financial capabilities, now supplemented by his operational experience, with him having served on the boards of all of our companies for the past seven years, make him the ideal and natural Joint Chief Executive. Craig's skills are complementary to mine and put us in a strong position to share the management of the day-to-day complexities of FW Thorpe's growing group of companies.

I joined the company as a technical apprentice in 1984. I have been a director since 1997, starting with a non-executive role on the board of one of our subsidiaries. During my career at FW Thorpe Plc I have served under four chairmen, and I hope to continue with a similar philosophy to my predecessors. That does not mean the business will remain the same – after all, we have changed so much in recent years – it just means that the core values will remain unchanged.

Group Results

In the financial year 2016/17, our revenue exceeded the £100m milestone for the first time, reaching £105.4m, an 18.6% increase, and operating profit was £18.4m, up 13.8%.

All companies in the Group showed improved trading performances, with excellent results at Thorlux Lighting and Lightronics in the Netherlands in particular. It is also pleasing to recognise the increasing contribution to Group profits from the other subsidiary companies this year.

A good proportion of revenue is now generated from overseas operations, reducing our reliance on the UK economy and helping to offset one of our business risks.

Performance as a whole for the year to 30 June 2017 allows your Board to recommend a final dividend of 3.55p per share (2016: 2.85p), which gives a total for the year of 4.90p (2016: 4.05p excluding special dividend). This is an increase of 21.0%.

Around the Group

Thorlux is our largest company, producing the most extensive range of lighting products for the widest market sectors. It is a product-led business offering solutions with key features and benefits. Thorlux never targets being the lowest capital cost supplier, instead it targets the lowest cost to the end user through the lifetime of a project after energy and maintenance costs are taken into consideration.

2016/17 was a busy year, with Thorlux generating £69.1m in revenue and increasing profits by 21.1%. Following its successful transition through the LED lighting revolution, and in its subsequent strengthened position, Thorlux has now entered the wireless lighting controls arena, having fully launched its SmartScan system. Developed in-house and on sale since September 2016, SmartScan delivered sales that grew rapidly and became a significant part of the year's success. SmartScan's features have found favour with existing and new clients. Understanding and reacting to these technological times, Thorlux continues to invest in research and development. Having launched phase 1 of SmartScan last year, Thorlux will launch phases 2 and 3 in this new financial year, with exciting and desirable new features.

The factory floor re-organisation, mentioned in the last annual report, is now complete and has been enhanced with anti-static floor protection to further protect electronic devices during the handling and assembly process. A total of 50 test and assembly stations are now operational, providing a significant boost in capacity for the foreseeable future.

The Thorlux SMT (surface mount technology) electronics assembly lines are in the process of being upgraded, which will vastly increase their speed and resultant capacity, and further investments are being made to duplicate the facility at the TRT Lighting site to add further capacity and disaster recovery capability. The Board considers risks on a regular basis.

Group product development is centred around Thorlux; however, there has been noticeable cooperation and input this year from Luxintec in Spain, primarily for lens technology, and Lightronics in the Netherlands, for outdoor products. Sharing resources and intellectual property and the benefits that result is a trend that I would like to see continue.

UK, Ireland and export markets all performed well, with sales into Australasia and the UAE increasing substantially and making valuable contributions to the overall result.

Compact Lighting has traded for 26 years, servicing the retail and display markets. The company has never quite made the breakthrough that was expected of it, and after due consideration the Board has decided to rebrand Compact as Thorlux during this new financial year.

Thorlux Lighting will now also address the retail and display markets, previously largely left to the efforts of Compact. The Thorlux and Compact sales forces have been merged, and Compact's latest highly tooled, high quality products have now been added to the Thorlux portfolio. The Compact Lighting factory, in Portsmouth, UK, will become a further manufacturing location for Thorlux Lighting, operated using Thorlux manufacturing IT and quality systems.

Compact customers are now ordering from Thorlux, and a renewed sales effort combining the general Thorlux range, including lighting controls, and display-lighting-specific Compact products has already found favour with certain large retail brands. We are confident that the new arrangement will realise better potential in the future than Compact has realised alone in the past. This is the last time I shall report on Compact Lighting as an entity within our Group.

I would like to thank the management and staff at Compact Lighting for their continued support during this transitional process, and I hope that increased orders will keep them busy in the future.

Philip Payne products find favour with architects who wish to select products that enhance a building's appearance rather than spoil it. Philip Payne continues to be a very stable business providing consistently good returns.

In 2016/17, Payne's trading in the UK and in the UAE has been very good, with record profit levels achieved. UAE revenues have been derived from emergency lighting products that have undergone rigorous local approval and testing, and therefore this return on investment is pleasing. Further investment has now commenced to develop these same emergency lighting products to encompass SmartScan technology for wireless reporting of emergency lighting test status, which is important for compliance with local regulations.

Solite manufactures from its factory in Stockport. The company's products have been exclusively centred on the clean area market, for example pharmaceutical and microchip production areas. In recent months, Solite has started developing into new market segments, to include specialist healthcare and custodial lighting. These niche areas will fit Solite's manufacturing processes and provide increased opportunities beyond clean area projects.

Solite has had an extremely busy year and produced record results. The new factory and investments in new machinery in recent years have enabled Solite to cope with increased demands, albeit with increased lead times on occasion.

One notable success of Solite has been in Ireland, together with the Thorlux Dublin office. Solite has provided the specialist clean area knowledge for projects, whilst Thorlux has offered general lighting and controls expertise – an example of further Group collaboration going well. In 2016, we purchased an office in Dublin to further cement roots in Ireland and support ongoing success there.

21%



Dividend Increase

(excluding special dividends)

Total for the year of 4.90p

Chairman's Statement continued



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We acquired Portland Lighting in 2011, anticipating that external lighting would adapt quite quickly to the reduced maintenance and energy usage of LED technology. We were right, and in recent years Portland Lighting has flourished.

Portland Lighting remains, by the measure of operating profit margin, our highest achiever. Orders plateaued in the last year, and whilst we do not expect great strides forward, we are looking for further growth abroad into mainland Europe over the next few years.

TRT Lighting manufactures exclusively LED street and tunnel lighting. Founded in 2013, it now employs 60 people and has seen rapid growth.

With such expansion has come challenges, and this year saw the purchase of a new factory, not far from TRT's existing site and that of Thorlux Lighting in Redditch, UK. TRT moved in during June and is now fully operational. TRT will be managing a new second clean room and SMT line shortly, and further investments are underway to extend the factory to provide an onsite powder-coating facility which will also act as part of a disaster recovery plan for other members of the Group. TRT's existing factory will remain unused for now and will offer further Group expansion possibilities should the need arise in the future.

TRT faces ongoing challenges from pressure in the market to reduce selling prices, and it is important that, like other Group companies, it finds features and benefits that customers will select and pay more for. Creating new product innovations is a high priority, together with tackling other growing pains. TRT's revenue increased 4.8% in 2016/17, but profits were slightly lower. The new year has started with an excellent order book.

Lightronics B.V., based in the Netherlands, focuses on three market sectors: street lighting, bulkhead lighting for housing establishments, and highly vandal-resistant lighting. Orders, revenue and profits were all substantially up in the year. It has been a pleasure to welcome Lightronics to the Group and, as I mentioned to the workforce on the day that we acquired our majority stake, I see our relationship as a partnership.

We acquired Lightronics to obtain a stronger foothold in mainland Europe, via their own operations but also, importantly, to grow Thorlux sales abroad too. On this point we have faltered, and a renewed effort will commence this year. Whilst we have seen some small successes through Lightronics' routes to market, we are confident that with the right sales engineers we can find customers with similar needs to those in the UK. We have been here before several times, and we recognise that in the early days in new regions it can take some time to find the right sales people.

Our investment in Luxintec in Spain during 2016 gives us the opportunity to share product developments and the potential to grow our revenues in the Spanish market. The focus for 2016/17 has been the development of new products, the building of a new factory and lens development for the Group. Trading has not improved significantly since we invested, but we are laying the foundations for a successful future.

Personnel

We were proud to host the visit of HRH the Duke of Kent to officially open our new assembly area designed, developed and completed in the large by former apprentices. It was very pleasing for our apprentices past and present to be recognised with such a prestigious occasion, an acknowledgement of our continued efforts to invest in developing our people for the future.

During the next few years, we will continue to invest in our selling presence and conduct further training to improve the operational management of the business and develop the leadership for the future.

The results for this year have been achieved by the combined efforts of all our personnel. It has been challenging at times for all of us, but I would like to express my gratitude to all staff and I will rely on their continued support as we endeavour to grow the business in the future.

Outlook

This year's excellent performance will be difficult to replicate, as we will have to contend with ongoing economic uncertainty from Brexit, government instability and exchange rate variations.

We see ourselves better placed to respond to these issues nowadays, with manufacturing facilities in the UK and in mainland Europe, as well as revenue generated in a number of different countries from our own local sales offices.

We continue to review options for further acquisitions. We have the financial capacity, so it could be said that it is easy to acquire, and there are indeed frequent options for us to review. To find the right acquisition – one that meets our criteria and does not become a future liability – is not as easy as it might seem.

The general management team remains the same experienced group, and our intention is to continue on the same path of steady, sustainable growth.



Mike Allcock
Chairman