

Chapel Down Group Plc
(`CDG' or `the Company')
EPIC: CDGP

UNAUDITED RESULTS FOR THE SIX MONTHS ENDED 30th JUNE 2019

Chapel Down Group PLC is pleased to announce the Company's Interim Results for the six month period ended 30 June 2019.

Key highlights:

- Year on year combined sales up 21% to £6.744m (2018: £5.563m)*
 - Chapel Down Wine and Spirits sales up 19% to £4.748m (2018: £3.981m)
 - Beer and Cider sales, in Curious Drinks Limited, up 15% to £1.996m (2018: £1.735m)*
- Wines and Spirits gross profit up 26% at £1.973m (2018: £1.572m)
- Beer and Cider gross profit (in Curious Drinks Limited) up 25% at £0.680m (2018: £0.545m)
- EBITDA loss of £1.032m (2018: loss of £0.230m)** as we continue to invest in our brands, infrastructure and supply
- The extraordinary harvest in 2018 has enabled us to increase stocks by 37% to £8.256m (2018: £6.008m) reflecting the substantially higher levels of sparkling stock
- A Platinum medal and "Best in Show" at The Decanter World Wine 2019 Awards for our Kit's Coty Coeur de Cuvee 2014 and our Kit's Coty Chardonnay 2016 along with Golds for both wines at The International Wine Challenge 2019 Awards. Our Kit's Coty Bacchus 2017 also won a Platinum medal at The Decanter World Wine 2019 Awards
- Additional 154 acres of new vineyards planted on outstanding chalk terroir on the North Downs in Kent close to our Kit's Coty vineyard
- Our Bacchus Gin won Gold at The Gin Masters 2019 and our Chardonnay Vodka a Gold in The Vodka Masters 2019 in addition to the D&AD packaging award.
- Brewery build completed and opened to the public from 10 May 2019 with first trial brews commenced on 19 June and first commercial brews on 24 June 2019 with full brewing capacity available from Q4
- Stop Press - Curious Brewery won UK Brewer of the Year 2019

* *For the years ended 31 December 2016 and 2017 Curious Drinks Limited was accounted for as an associate company in the consolidated financial statements. Following changes during 2018 in the composition of the board of Curious Drinks Limited and a significant increase in funding from Chapel Down Group Plc, Financial Reporting Standard 102 requires us to report Curious Drinks Limited as a subsidiary in the consolidated accounts of Chapel Down Group Plc from 30 January 2018 onwards. The comparative 6 month period to 30 June 2018 has been restated to reflect Curious Drinks Limited being treated as a subsidiary from 30 January 2018.*

** *Excludes the effect of the FRS 102 Section 26 share option accounting adjustment of £23k (2018: £21k) which is a non-cash item.*

Frazer Thompson, Chief Executive, said:

“We operate in a highly competitive and challenging marketplace where change is a constant. We are seeing considerable change in grocery and off license retailing and the challenges on the High Street and in Casual dining are, if anything, increasing. We continue to see pubs and restaurants closing. The current market uncertainty means that we can see there is more change to come. At Chapel Down we believe that we must continue to provide consumers with more innovation and more excitement and provide our trade customers with more opportunity for premium pricing and great value from excellent brands than ever before.

Our focus remains delivering solid top line growth at good margins whilst we continue to invest ahead to ensure we continue to build strong and sustainable brands that our consumers and customers love. Brands that are relevant with which they can engage and that provide memorable experiences. To help us do that, we have invested in creating a Gin Works at Kings Cross and a modern visitor experience at our new brewery to complement the existing Vineyard at Tenterden.

It is encouraging that interest in English wines – and Chapel Down in particular – continues to grow. Awareness of English sparkling wine has grown to 78% with Chapel Down the “most powerful English sparkling wine brand in the UK” (Source: Sparkling Wine in the UK Market Report, Wine Intelligence, August 2019). Our strong and sustained programme of high profile marketing investment has enabled us to continue to improve our pricing and improve our margins with sales up 19% and gross profit up 26%. And interest is not just from the UK, but increasingly in sophisticated wine markets internationally as news of the excellence of our wines spreads. We believe we have a distinctive and compelling proposition to offer the traditional champagne export markets.

With demand for our wines continuing to exceed our ability to supply, we are greatly encouraged by the prospect of another outstanding harvest with excellent yields and high quality fruit. We have been planting more vines on truly exceptional land to help meet future demand. We planted a further 154 acres of new vineyards in May 2019 taking our total supply acreage to 789 acres. The current planted acreage will be fully productive by 2023 and in an average year it should be producing some 2.2m bottles of wine.

And that wine needs to be better than good. It needs to be great. So we were delighted to scoop two Best in Show trophies, three platinums, three golds, seven silvers and ten bronze medals in the three major international wine awards competitions (Decanter, International Wine and Spirit Challenge and International Wine Challenge) – a testament to our people, our investment and our relentless pursuit of excellence.

In a crowded marketplace, we have also been encouraged by the results of our Chapel Down gin and vodka. We have a distinctive product, beautifully packaged (it won a highly prestigious D&AD accolade) and well priced. We have seen success not only in top end London bars and restaurants such as Selfridges, The Savoy, Browns, Roux at the Landau, Le Gavroche and Hotel du Vin but also in Majestic and other independent retailers. Spirits revenues grew by 46% to £441k (2018: £303k).

We have continued to invest ahead in our Curious beers and cider. We have completed the build of our iconic new brewery to great acclaim in the centre of Ashford, Kent. The new brewery will give us greater control over our growth and also bring improved margins and a highly visible point of difference. Sales growth has been frustrated by the loss of our contract brewing partner suddenly and the late completion of the brewing kit. Despite the disruption caused by this, the new brewery is a big and highly visible step forward in the brand's journey. We are building a strong franchise for the beer in the South East and the recent news of being awarded Brewer of the Year 2019 is great news. It's a tough environment and it is important that we continue to invest to ensure that the beer and cider are vital brands for our retail partners to enable them to premiumise their offering in a challenging on trade environment. It's a differentiated product that tastes great and is worth paying a little more for than other lagers!

I am privileged to work with fantastic people – curious, fearless and relentless – but more importantly a great team. It's the quality of those people, the excellence of our brands, the excitement of operating in growth markets and the support of an outstanding Board that makes us especially motivated about Chapel Down's prospects for the future. The Company is changing gear as we build our brands and invest for the future.

We will continue to work to build a better business that excites consumers and investors.”

Performance Review

The combined business continued to perform well in the first half of 2019, with growth in sales and gross profit of the combined businesses:

	Wines and Spirits			Beer and Cider			Combined Businesses		
	H1 2019	H1 2018	%age Variance	H1 2019	H1 2018	%age Variance	H1 2019	H1 2018	%age Variance
	£'000	£'000		£'000	£'000		£'000	£'000	
Turnover	4,748	3,981	+19%	1,996	1,735	+15%	6,744	5,716	+18%
Gross profit	1,973	1,572	+26%	680	545	+25%	2,653	2,117	+25%
Gross profit %age	42%	39%		34%	31%		39%	37%	

We made a conscious decision to continue investing ahead in our people, our systems and our brands. As a consequence, the total business reported an EBITDA loss of £1.032m, compared with a loss of £0.230m in the six months to 30 June 2018.

Wines and Spirits gross margins remain very healthy at 42% (H1 2018: 39%).

Beer and cider margins have improved following the opening of the restaurant and retail outlet at the Brewery in Ashford.

Total tangible assets were £27,367,075 (H1 2018: £12,431,143) which reflects the development of the brewery and associated equipment, development of the Gin Works at King's Cross and the planting and development of more vineyards.

Stocks increased by 37% to £8,256,441 (H1 2018: £6,008,393) reflecting the impact of the extraordinary 2018 harvest.

Included within Creditors falling due within one year are bank borrowings of £6,450,000 (H1 2018: £nil) which have enabled the development of the brewery building and the associated brewery kit. These borrowings will be converted to an agreed asset finance and mortgage facility with HSBC during the second half of the year.

The Group's net tangible assets were £33,504,952 (H1 2018: £35,180,764) and represent 99.6% of total equity (H1 2018: 99.7%). Net tangible assets per share were £0.23 per share (2018 H1: £0.25 per share).

Wines and Spirits

Wines and Spirits sales grew 19% in the first half, to £4.748m (2018: £3.981m). The Gin Works contributed £622k of revenue in H1 and spirits grew by 46% to £441k (2018: £303k). Wine volumes were 10% ahead reflecting the higher volumes of still wine available from the 2018 harvest, although revenues were only inline with prior year, reflecting a lower sparkling wine stock availability in 2019. 2020 will see substantial growth in sparkling volumes when the sparkling wines from the 2018 harvest come on stream.

With a strong programme of sponsorships and support – The Boat Races, London Symphony Orchestra, Royal Opera House and The Donmar – as well as high social media engagement and extraordinary PR presence, our brands continue to thrive.

Beer and Cider

Our activity has been focused on premium accounts and we see continuing progress in top end restaurants, bars, hotels and premium off-trade. We have national distribution through Majestic, Waitrose and Tesco, and a network of wholesalers including Matthew Clark.

Beer and cider sales rose 15% to £1.996m in the first half. Gross profit rose by 25% due to the opening of the Brewery restaurant and retail outlet from 10 May.

We have experienced some commissioning and supply challenges as we have moved the brewing activity in-house, which has held back growth in the short term.

Outlook

We operate in three exciting markets – English wines, premium craft beer and premium gin/vodka. We expect all three markets to continue to out-perform the drinks industry. We will continue to invest and look to make the most of these opportunities over the coming years.

We have a growing experiential attraction at Tenterden, a newly opened brewery in Ashford, Kent only 38 minutes by train from our exciting new Gin Works in Kings Cross.

We are looking forward to another high volume and high quality harvest.

We have invested wisely in developing good brands and outstanding people.

We have a highly supportive Board to guide us and a small army of engaged and enthusiastic shareholders.

Thank you for your faith, your continued encouragement and your enthusiastic support. It makes a difference!

Contact

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The information communicated in this announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) No. 596/2014.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE 6 MONTHS TO 30TH JUNE 2019

	Unaudited 6 Months 30.06.2019	<i>Unaudited 6 Months 30.06.2018</i>	<i>Audited 12 Months 31.12.2018</i>
	£	£	£
	1	2	3
Turnover	6,743,596	5,563,292	12,863,428
Cost of sales	(4,090,825)	(3,502,831)	(8,065,725)
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Gross profit	2,652,771	2,060,461	4,797,703
Administrative expenses	(4,327,656)	(2,585,441)	(5,574,326)
Share based payment	(23,247)	(21,093)	(57,161)
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Operating (loss)/profit	(1,698,132)	(546,073)	(833,784)
Income from participating interests	-	(47,873)	(47,873)
Interest receivable and similar income	19,151	22,809	63,183
Interest payable and expenses	(92,551)	(10,714)	(31,854)
	-----	-----	-----
(Loss)/profit before tax	(1,771,532)	(581,851)	(850,328)
Tax on (loss)/profit	-	-	(63,250)
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(Loss)/profit for the financial year	(1,771,532)	(581,851)	(913,578)
	=====	=====	=====
Loss for the year attributable to:			
Non-controlling interests	(564,779)	(268,613)	(747,066)
Owners of the parent company	(1,206,753)	(313,238)	(166,512)
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	(1,771,532)	(581,851)	(913,578)
Adjusted performance measures			
Adjusted EBITDA			
Operating (loss)/profit	(1,698,132)	(546,073)	(833,784)
Share based payment	23,247	21,093	57,161
Depreciation and amortisation	643,179	294,955	621,227
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EBITDA excluding share based payment	(1,031,706)	(230,025)	(155,396)
	=====	=====	=====
(Loss)/Profit per share – diluted (pence)	(0.84)	(0.21)	(0.12)

There was no other comprehensive income for the 6 months to 30 June 2019 (2018 - £Nil).

1. Represents the consolidated unaudited results for Chapel Down Group Company, English Wines Plc and Curious Drinks Limited for the period 01 January 2019 to 30 June 2019

2. Represents the restated consolidated unaudited results for Chapel Down Group Company, English Wines Plc and Curious Drinks Limited for the period 31 January 2018 to 30 June 2018 and the share of loss from Curious Drinks Limited, for the period 01 January 2018 to 30 January 2018

3. Represents the consolidated audited results for Chapel Down Group Company, English Wines Plc and Curious Drinks Limited for the period 31 January 2018 to 31 December 2018 and the share of loss from Curious Drinks Limited, for the period 01 January 2018 to 30 January 2018

CONSOLIDATED BALANCE SHEET FOR THE 6 MONTHS ENDED 30TH JUNE 2019

	Unaudited As At 30.06.2019 £	Unaudited As At 30.06.2018 £	Audited As At 31.12.2018 £
Fixed assets			
Intangible assets	119,408	98,014	126,380
Tangible assets	27,367,075	12,431,143	18,515,540
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	27,486,483	12,529,157	18,641,920
Current assets			
Stocks	8,256,441	6,008,393	7,679,702
Debtors due within one year	4,029,397	2,875,720	3,610,758
Cash at bank and in hand	5,191,940	17,901,525	12,829,910
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	17,477,778	26,785,638	24,120,370
Creditors: amounts falling due within one year	(11,102,485)	(3,799,331)	(7,496,467)
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Net current assets	6,375,293	22,986,307	16,623,903
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Total assets less current liabilities	33,861,776	35,515,464	35,265,823
Creditors: amounts falling due after more than one year	(12,638)	(14,307)	(23,815)
Provisions for liabilities			
Deferred tax	(224,778)	(222,379)	(224,778)
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Net assets	33,624,360	35,278,778	35,017,230
	=====	=====	=====
Capital and reserves			
Called up share capital	7,205,379	7,060,073	7,073,473
Share premium account	26,036,438	25,792,216	25,812,929
Revaluation reserve	1,086,706	1,125,336	1,106,021
Non-controlling Interests	(819,703)	223,529	(254,924)
Profit and loss account	115,540	1,077,624	1,279,731
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	33,624,360	35,278,778	35,017,230
	=====	=====	=====

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE 6 MONTHS ENDED 30TH JUNE 2019

	Unaudited 6 Months 30.06.2019 £	<i>Unaudited 6 Months 30.06.2018 £</i>	<i>Audited 12 Months 31.12.2018 £</i>
Cash flows from operating activities			
(Loss)/profit for the financial year	(1,771,532)	<i>(581,851)</i>	<i>(913,578)</i>
Adjustments for:			
Amortisation of intangible assets	6,972	<i>8,113</i>	<i>16,948</i>
Depreciation of tangible fixed assets	636,207	<i>286,842</i>	<i>604,279</i>
Disposal of tangible fixed assets	526	<i>-</i>	<i>-</i>
Share of operating loss in associate	-	<i>47,873</i>	<i>47,873</i>
Share based payments	23,247	<i>21,093</i>	<i>57,161</i>
Interest payable	92,551	<i>10,714</i>	<i>31,854</i>
Interest receivable	(19,151)	<i>(22,809)</i>	<i>(63,183)</i>
Taxation charge	-	<i>-</i>	<i>63,250</i>
(Increase)/decrease in stocks	(576,739)	<i>(1,447,193)</i>	<i>(2,502,658)</i>
(Increase)/decrease in debtors	(418,639)	<i>(320,622)</i>	<i>(934,529)</i>
Increase/(decrease) in creditors	714,841	<i>451,026</i>	<i>483,044</i>
Corporation tax (paid)	-	<i>-</i>	<i>(26,014)</i>
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Net cash generated from operating activities	(1,311,717)	<i>(1,546,814)</i>	<i>(3,135,553)</i>
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Cash flows from investing activities			
Purchase of intangible assets	-	<i>-</i>	<i>(37,200)</i>
Purchase of tangible fixed assets	(9,488,268)	<i>(1,297,463)</i>	<i>(8,366,485)</i>
Cash acquired on consolidation of Curious Drinks Limited	-	<i>1,554,559</i>	<i>1,554,559</i>
Interest received	19,151	<i>19,698</i>	<i>60,072</i>
Interest received from associate undertaking	-	<i>3,111</i>	<i>3,111</i>
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Net cash from investing activities	(9,469,117)	<i>279,905</i>	<i>(6,785,943)</i>
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Cash flows from financing activities			
Issue of shares	355,415	<i>1,432,500</i>	<i>1,466,612</i>
New secured bank loans	2,880,000	<i>-</i>	<i>3,570,000</i>
Repayment of bank loans	-	<i>(1,969,937)</i>	<i>(1,969,937)</i>
Interest paid	(92,551)	<i>(10,714)</i>	<i>(31,854)</i>
	-----	-----	-----
Net cash used in financing activities	3,142,864	<i>(548,151)</i>	<i>3,034,821</i>
	-----	-----	-----
Net (decrease)/increase in cash and cash equivalents	(7,637,970)	<i>(1,815,060)</i>	<i>(6,886,675)</i>
Cash and cash equivalents at beginning of year	12,829,910	<i>19,716,585</i>	<i>19,716,585</i>
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Cash and cash equivalents at the end of year	5,191,940	<i>17,901,525</i>	<i>12,829,910</i>
	=====	=====	=====

Cash and cash equivalents at the end of year comprise:			
Cash at bank and in hand	5,191,940	<i>17,901,525</i>	<i>12,829,910</i>
	=====	=====	=====

1. BASIS OF PREPARATION/ACCOUNTING POLICIES

The Company's report for the 6 months ended 30 June 2019 was authorised for issue by the directors on 30 September 2019. The financial information does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 31 December 2018, which was prepared in accordance with the Company's reporting standard (FRS102) that was in effect at that time.

The accounting standard requires the Company to restate its profit to attribute a notional cost of non-cash share option agreements to the business. After adopting the standard, the accounts show a decrease in profit of £23,247 (2018: £21,093) resulting in a Group pre-tax loss of £1,771,532 (2018: pre-tax loss of £581,851).

The Company is required to value net assets in accordance with the Company's reporting standard (UK GAAP). The assets (wine stock, land, vineyard) are held at cost which the Directors believe is considerably less than the realisable value.

The statutory accounts for the year ended 31 December 2018, prepared under UK GAAP, have been reported on by the Company's auditors, received an unqualified audit report and have been filed with the registrar of companies at Companies House. The unaudited interim financial statements for the six months ended 30 June 2019 and 30 June 2018 have been drawn up using accounting policies and presentation adopted in the Company's full financial statements for the year ending 31 December 2018 being FRS102.

2. BALANCE SHEET REVIEW

The net asset value of the Company as at 30 June 2019 was £33,624,360 which includes:

- Fixed assets of £27,486,483 includes the 2015 market value of the sites at Tenterden and Kit's Coty as well as the vineyard development expenditure at Kit's Coty and at Court Lodge and Street Farm, Boxley which is capitalised at cost.
- £8,256,441 of stock is valued at cost being the lower of cost or net realisable value.

3. PROFIT PER SHARE

The calculation of the loss per share for the 6 months ended 30 June 2019 is based on the loss for the period attributable to the owners of the parent of £1,206,753 and the weighted average number of shares in issue during the period of 143,024,117

4. DISTRIBUTION OF THE INTERIM STATEMENT

Copies of this statement will be available for collection free of charge from the Company's registered office at Chapel Down Winery, Small Hythe Road, Tenterden TN30 7NG. An electronic version will be available on the Company's website, www.chapeldown.com.