

H&T Group plc

("H&T" or "the Group" or "the Company")

UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2016

H&T Group plc, which trades under the H&T Pawnbrokers and est1897 brands, today announces its interim results for the six months ended 30 June 2016.

John Nichols, chief executive, said: "This is a promising start to the year in the face of challenging trading conditions, with a strong operational performance aided by favourable market conditions around the gold price.

We have reinvigorated and widened our product range to capture the opportunities presented by the ongoing changes in the wider market. The continued growth in our Personal Loans products and the recent increases in gold price, if sustained, will benefit the Group during the second half of the year."

KEY FINANCIAL RESULTS

- Profit before tax up 42.3% to £3.7m (H1 2015: £2.6m)
- Basic EPS of 7.99p (H1 2015: 5.53p)
- Net debt reduced by 22.5% to £6.9m (30 June 2015: £8.9m)
- Pledge book increased by 4.3% to £39.0m (30 June 2015: £37.4m)
- Personal Loan book increased 85.3% to £6.3m (30 June 2015: £3.4m)
- Pawn Service Charge down 1.4% at £14.1m (H1 2015: £14.3m)
- Other Services income increased 68.8% to £2.7m (H1 2016: £1.6m)
- Interim dividend of 3.9p (2015 interim: 3.5p)

OPERATIONAL HIGHLIGHTS

- Launch of the new higher value, lower APR personal loan product to customers with good history
- Development of a new high-end operation on Old Bond Street, London
- Creation of a retail merchandising team to support stock efficiency and sales
- Enhancements to the field operations and leadership team to support new product development

Enquiries:

H&T Group plc

Tel: 0870 9022 600

John Nichols, chief executive

Steve Fenerty, finance director

Numis Securities (broker and nominated adviser)

Tel: 020 7260 1000

Mark Lander, corporate broking

Freddie Barnfield, nominated adviser

Haggie Partners (public relations)

Tel: 020 7562 4444

Damian Beeley

Brian Norris

INTERIM REPORT

Introduction

The trading environment remains challenging for the sector with most large businesses reporting losses and being forced to significantly restructure their operations. H&T had anticipated many of these changes and had adjusted its business model and investment approach accordingly. As a result, we have fared relatively well over the last two years.

The Group has made good progress realigning the business to capture the opportunities presented by the continuing changes in the wider market. In particular the developments in the Personal Loan and Buyback products support the core proposition of providing easy access to cash and extend our reach into new customer segments.

In the medium term we will develop these areas further by integrating the online and offline services to provide a clear proposition to the consumer irrespective of how they access our services.

Financial performance

Profit before tax increased by 42.3% to £3.7m (H1 2015: £2.6m) through a combination of strong operational performance and a rising gold price.

Gross profit increased by £2.3m with the majority of the growth from Personal Loans, Buyback and FX. The average sterling gold price during H1 2016 was £852 (H1 2015: £791), an increase of 7.7%; gross profits from Gold Purchasing and Pawnbroking Scrap activities increased by £0.9m as a result.

Total direct and administration expenses increased 6.0% to £21.2m (H1 2015: £20.0m) principally as a result of investment in people and systems to support product development.

The Group's balance sheet is strong with net debt at £6.9m (30 June 2015: £8.9m) and a leverage ratio of 0.57x (30 June 2016: 0.87x), well within the covenant test of 3.0x. The Group refinanced its existing facility on 12 February 2016 with Lloyds Bank plc; the new facility has a termination date of 30 April 2020. The £4.8m increase in net debt since year end is principally due to the planned increase in the Personal Loans and inventory balances.

The Group has closed three stores in H1 2016 resulting in 186 trading stores at 30 June 2016. The Group continues to assess underperforming stores and anticipates a small number of closures in the second half.

Dividend

The directors have approved an interim dividend of 3.9 pence (2015 interim: 3.5 pence). This will be payable on 7 October 2016 to all shareholders on the register at the close of business on 9 September 2016.

REVIEW OF OPERATIONS

Pawnbroking

The pledge book increased to £39.0m (30 June 2015: £37.4m) as a result of the development of a new distribution channel for pawnbroking services and a slight increase in the aged pledge.

The Pawn Service Charge was £14.1m (H1 2015: £14.3m); the interest component of the Pawn Service Charge was £14.1m (H1 2015: £14.2m) which more accurately reflects the underlying performance of the pawnbroking segment than the total Pawn Service Charge. The yield on the pledge book has marginally reduced due to the changing business mix and the increase in aged pledge.

Development of the pawnbroking product remains extremely challenging in this market. Over the last ten years a combination of increased competition, a reduction of gold in circulation and changing fashion have resulted in reducing numbers of customers using the service. Recent market trends have stabilised as the number of competitor stores reduces and gold purchasing activity reduces.

The Group has invested heavily in its existing stores and people to provide the highest standards of service to our customers. This investment together with enhancements to asset valuations, the Expert Eye central support and integration of our online and offline services will ultimately support the development of our pawnbroking product.

The expansion of the “we lend on anything” proposition continues with the launch of our H&T Finance branded location on Old Bond St, London. This provides a central London location to serve a more affluent customer and enables access to product experts to assist in valuation and disposition.

Pawnbroking scrap

Pawnbroking scrap produced gross profits of £0.6m (H1 2015: £0.1m profit) for the half year, on sales of £4.9m (H1 2015: £4.2m). This performance benefitted from the increased gold price during H1 2016.

The impact of the EU referendum on the US\$ exchange rate has increased the sterling price of gold: the average for July 2016 was £1,017 per troy oz vs a H1 2016 average of £852. This increase, if sustained, will benefit the Group during H2 2016.

Retail

The Group regards the High Street retail offering as a core part of its business. Pawnbroking and Gold Purchasing generate significant amounts of saleable jewellery which must be sold. The ability to retail items rather than scrap them provides a higher return and reduces the Group’s exposure to short term gold price volatility.

Retail sales increased by 1.5% to £13.6m (H1 2015: £13.4m) and gross profits were flat at £4.8m (H1 2015: £4.8m). During the H1 2016 the Group closed one standalone Discount Secondhand Jewellery store as we were unable to secure satisfactory lease terms.

The Group has invested in a merchandising team to provide a more focussed approach to sales and inventory management.

Gold Purchasing

Gold purchasing profits increased from £1.0m in H1 2015 to £1.5m in H1 2016. The additional profit and margin was mainly the result of the increasing gold price during H1 2016.

The impact of an increase in gold price to purchasing profits is relatively short lived. There is a delay between purchasing gold in store and realising the value through the market; if the gold price increases during this period then margins are enhanced. As the gold price stabilises, the rate that is paid for gold in store increases and ultimately we return to normal margins.

Personal Loans

Personal Loans gross profits increased by 25.0% to £1.5m (H1 2015: £1.2m); the loan book net of provisions at 30 June 2016 increased 85.3% to £6.3m (30 June 2015: £3.4m).

The development of the Personal Loan product in-store and online is a significant opportunity. H&T's Personal Loan allows for loans of up to £2,500 over any term of up to three years based on affordability. Approximately 80% of the loans issued by the Group fell under the definition of High-Cost Short-Term Credit (HCSTC) during H1 2016 and as such must comply with additional rules under the Financial Conduct Authority (FCA) regulatory regime.

The Group has positioned the Personal Loan product to be cheaper and more flexible than most comparable loans in the market and has applied robust affordability assessments including a manual review of each loan application. The Group intends to reduce the proportion of HCSTC loans over time as we expand our lower APR, longer term loans for our customers. During H1 2016 the Group lent £1.0m through its larger loan product to existing customers with good repayment history.

The increase in Personal Loans has been delivered principally through operational improvements in store, the store loan book represents approximately 95% of the total Personal Loans book. Online presents a significant opportunity for the Group: during H2 2016 we will complete the implementation of new underwriting systems to support the expansion of this segment.

Other Services

Other Services revenues increased 68.8% to £2.7m (H1 2016: £1.6m). Foreign Exchange, Buyback and Western Union have collectively contributed £2.3m in H1 2016 (H1 2015: £1.0m) and brought a significant number of new customers to H&T. FX and Buyback delivered the majority of the growth with an increase in gross profits of £0.8m and £0.4m respectively.

FX is a simple transactional product based around sales of retail foreign currency on the high street. Our experience demonstrates that there are low barriers to entry and customers show a willingness to shop around for the best rates. We believe that further expansion in this product is possible through keen pricing and increasing awareness. The larger providers typically charge a significantly higher margin than H&T while also capturing the vast majority of the market. As we become established in the market we believe that more customers will seek us out.

During H1 2016 sales of FX increased by 60.4% and purchases more than doubled delivering transactional profits of £1.2m (H1 2015: £0.7m). Exchange rate gains during H1 2016 were £0.1m (H1 2015: £0.2m loss), the Group introduced hedging of the foreign currency balances in June 2016 to manage this exposure. The recent weakness of sterling and travellers' concerns about safety may result in slower growth in the short term.

Our Buyback offering supports the "we buy anything" proposition by expanding the range of assets we accept into high end consumer electronics. Demographically the Buyback customer base is younger and more likely to be male than a pawnbroking customer. Changing fashion also means that younger customers are more likely to own a high end phone than a piece of quality jewellery. The Buyback product allows us to address this changing market.

Buyback gross profit doubled to £0.8m (H1 2015: £0.4m), the value of goods purchased using the Buyback service increased 72.0% to £4.3m (H1 2015: £2.5m).

REGULATION

The Financial Conduct Authority

The regulation of Consumer Credit moved from the Office of Fair Trading (OFT) to the Financial Conduct Authority (FCA) on 1 April 2014. The Group obtained authorisation from the FCA on 11 February 2016 and we welcome the higher standards that this change will bring to our sector.

High-cost short-term cost cap

On 1 January 2015 the FCA implemented its cap on the interest rate and charges that apply to High-Cost Short-Term Credit (HCSTC). The FCA has stated that it will review the price cap during the first half of 2017.

The vast majority of H&T Personal Loans are well within the current cap; we therefore believe that this review will have a limited impact on our product.

THE MARKET

The market is now characterised by store closures and trading losses, with few exceptions. H&T had planned for many of the changes experienced by the market, particularly around HCSTC and the risk of a reducing gold price. We have stabilised the business, strengthened the balance sheet and reinvigorated and widened our product range.

There will be more store closures among our competitors and further regulatory pressure on the market, only those businesses with the right products and capabilities to address the market will prosper.

STRATEGY AND OUTLOOK

The demand for small-sum, short-term cash loans remains strong. By increasing the range of assets the Group accepts, by expanding Personal Loans and expanding our online services we will be ideally positioned to grow as the market adjusts in the future.

Current trading is in line with management's expectations. The recent increases in gold price, if sustained, will benefit the Group in the remainder of the year.

Interim Condensed Financial Statements

Unaudited statement of comprehensive income

For the 6 months ended 30 June 2016

		6 months ended 30 June 2016 Total Unaudited £'000	6 months ended 30 June 2015 Total Unaudited £'000	12 months ended 31 December 2015 Total Audited £'000
Revenue	2	42,385	40,848	89,355
Cost of sales		(17,192)	(17,922)	(41,782)
Gross profit	2	25,193	22,926	47,573
Other direct expenses		(15,841)	(15,802)	(32,079)
Administrative expenses		(5,398)	(4,167)	(7,976)
Operating profit	3	3,954	2,957	7,518
Investment revenues		-	1	1
Finance costs	5	(208)	(334)	(679)
Profit before taxation		3,746	2,624	6,840
Tax on profit	6	(857)	(626)	(1,462)
Total comprehensive income for the period		2,889	1,998	5,378
		Pence	Pence	Pence
Earnings per ordinary share - basic	7	7.99	5.53	14.88
Earnings per ordinary share - diluted	7	7.97	5.52	14.86

All results derive from continuing operations.

Unaudited condensed consolidated statement of changes in equity

For the 6 months ended 30 June 2016

	Note	6 months ended 30 June 2016 Unaudited £'000	6 months ended 30 June 2015 Unaudited £'000	12 months ended 31 December 2015 Audited £'000
Opening total equity		94,060	90,863	90,863
Total comprehensive income for the period		2,889	1,998	5,378
Share option credit taken directly to equity		16	70	104
Dividends paid	9	(1,666)	(996)	(2,285)
Closing total equity		95,299	91,935	94,060

Unaudited condensed consolidated balance sheet

At 30 June 2016

	Note	At 30 June 2016 Unaudited £'000	At 30 June 2015 Unaudited £'000	At 31 December 2015 Audited £'000
Non-current assets				
Goodwill		17,692	17,707	17,707
Other intangible assets		619	893	752
Property, plant and equipment		7,365	9,059	8,138
Deferred tax assets		542	528	542
		<hr/>	<hr/>	<hr/>
		26,218	28,187	27,139
Current assets				
Inventories		29,043	31,595	24,802
Trade and other receivables		53,889	48,187	50,893
Other current assets		834	493	646
Cash and cash equivalents		14,118	7,929	10,923
		<hr/>	<hr/>	<hr/>
		97,884	88,204	87,264
Total assets				
		<hr/>	<hr/>	<hr/>
		124,102	116,391	114,403
Current liabilities				
Trade and other payables		(6,081)	(5,825)	(5,482)
Current tax liabilities		(718)	(602)	(645)
Borrowings	4	-	(1,755)	-
		<hr/>	<hr/>	<hr/>
		(6,799)	(8,182)	(6,127)
Net current assets				
		<hr/>	<hr/>	<hr/>
		91,085	80,022	81,137
Non-current liabilities				
Borrowings	4	(20,667)	(14,835)	(12,911)
Provisions		(1,337)	(1,439)	(1,305)
		<hr/>	<hr/>	<hr/>
		(22,004)	(16,274)	(14,216)
Total liabilities				
		<hr/>	<hr/>	<hr/>
		(28,803)	(24,456)	(20,343)
Net assets				
		<hr/>	<hr/>	<hr/>
		95,299	91,935	94,060
EQUITY				
Share capital	8	1,843	1,843	1,843
Share premium account		25,409	25,409	25,409
Employee Benefit Trust share reserve		(35)	(35)	(35)
Retained earnings		68,082	64,718	66,843
		<hr/>	<hr/>	<hr/>
Total equity attributable to equity holders of the parent		<hr/>	<hr/>	<hr/>
		95,299	91,935	94,060

Unaudited condensed consolidated cash flow statement

For the 6 months ended 30 June 2016

	Note	6 months ended 30 June 2016 Unaudited £'000	6 months ended 30 June 2015 Unaudited £'000	12 months ended 31 December 2015 Audited £'000
Cash flows from operating activities				
Profit for the period		2,889	1,998	5,378
Adjustments for:				
Investment revenues		-	(1)	(1)
Finance costs		208	334	679
Movement in provisions		32	(51)	(216)
Income tax expense		857	626	1,462
Depreciation of property, plant and equipment		1,419	1,454	2,897
Amortisation of intangible assets		133	163	321
Share based payment expense		16	70	104
Loss on disposal of fixed assets		172	16	75
Operating cash inflows before movements in working capital		5,726	4,609	10,699
(Increase)/decrease in inventories		(4,241)	(2,324)	4,469
Increase in other current assets		(188)	(264)	(417)
(Increase)/decrease in receivables		(3,036)	1,236	(1,367)
Increase/(decrease) in payables		340	(222)	(507)
Cash (used in)/generated from operations		(1,399)	3,035	12,877
Income taxes paid		(785)	(352)	(1,160)
Debt restructuring cost		(326)	-	-
Interest paid		(138)	(222)	(508)
Net cash (used in)/generated from operating activities		(2,648)	2,461	11,209
Investing activities				
Interest received		-	1	1
Purchases of property, plant and equipment		(572)	(540)	(1,207)
Proceeds on disposal of property, plant and equipment		81	-	-
Acquisition of trade and assets of business		-	-	(120)
Net cash used in investing activities		(491)	(539)	(1,326)
Financing activities				
Dividends paid	9	(1,666)	(996)	(2,285)
Net increase /(decrease) in borrowings		8,000	(1,247)	(3,000)
Decrease in Bank overdraft		-	-	(1,925)
Net cash generated from/(used in) financing activities		6,334	(2,243)	(7,210)
Net increase/(decrease) in cash and cash equivalents		3,195	(321)	2,673
Cash and cash equivalents at beginning of period		10,923	8,250	8,250
Cash and cash equivalents at end of period		14,118	7,929	10,923

Unaudited notes to the condensed interim financial statements

For the 6 months ended 30 June 2016

Note 1 Basis of preparation

The interim financial statements of the Group for the six months ended 30 June 2016, which are unaudited, have been prepared in accordance with the International Financial Reporting Standards ('IFRS') accounting policies adopted by the Group and set out in the annual report and accounts for the year ended 31 December 2015. The Group does not anticipate any change in these accounting policies for the year ended 31 December 2016. As permitted, this interim report has been prepared in accordance with the AIM rules and not in accordance with IAS 34 "*Interim financial reporting*". While the financial figures included in this preliminary interim earnings announcement have been computed in accordance with IFRSs applicable to interim periods, this announcement does not contain sufficient information to constitute an interim financial report as that term is defined in IFRSs.

The financial information contained in the interim report also does not constitute statutory accounts for the purposes of section 434 of the Companies Act 2006. The financial information for the year ended 31 December 2015 is based on the statutory accounts for the year ended 31 December 2015. The auditors reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

After conducting a further review of the Group's forecasts of earnings and cash over the next twelve months and after making appropriate enquiries as considered necessary, the directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the half yearly condensed financial statements.

Note 2 Segmental Reporting (continued)

2015 Revenue	Pawnbroking £'000	Gold Purchasing £'000	Retail £'000	Pawnbroking Scrap £'000	Personal Loans £'000	Other Services £'000	Consolidated
							For the year ended 2015 Audited £'000
External sales	28,437	15,260	29,543	9,718	2,389	4,008	89,355
Total revenue	28,437	15,260	29,543	9,718	2,389	4,008	89,355
Segment result – gross profit	28,437	2,297	10,326	116	2,389	4,008	47,573
Other direct expenses							(32,079)
Administrative expenses							(7,976)
Operating profit							7,518
Investment revenues							1
Finance costs							(679)
Profit before taxation							6,840
Tax charge on profit							(1,462)
Profit for the financial year and total comprehensive income							5,378

Note 3 Operating profit and EBITDA

EBITDA

The Board considers EBITDA as a key measure of the Group's financial performance.

EBITDA is defined as Earnings Before Interest, Taxation, Depreciation and Amortisation. It is calculated by adding back depreciation and amortisation to the operating profit as follows:

6 months ended 30 June 2016 Unaudited	6 months ended 30 June 2016 Unaudited	6 months ended 30 June 2015 Unaudited	12 months ended 31 December 2015 Audited
	Total £'000	Total £'000	Total £'000
Operating profit	3,954	2,957	7,518
Depreciation and amortisation	1,552	1,617	3,218
EBITDA	5,506	4,574	10,736

Unaudited notes to the condensed interim financial statements (continued)

For the 6 months ended 30 June 2016

Note 4 Borrowings

	6 months ended 30 June 2016 Unaudited £'000	6 months ended 30 June 2015 Unaudited £'000	12 months ended 31 December 2015 Audited £'000
Secured borrowing at amortised cost			
Short term portion of bank loan	-	1,755	-
	<hr/>	<hr/>	<hr/>
Amount due for settlement within one year	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Long term portion of bank loan	21,000	15,000	13,000
Unamortised issue costs	(333)	(165)	(89)
	<hr/>	<hr/>	<hr/>
Amount due for settlement after more than one year	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Note 5 Finance costs

	6 months ended 30 June 2016 Unaudited £'000	6 months ended 30 June 2015 Unaudited £'000	12 months ended 31 December 2015 Audited £'000
Interest payable on bank loans and overdraft	126	258	524
Other interest	-	-	2
Amortisation of debt issue costs	82	76	153
	<hr/>	<hr/>	<hr/>
Total finance costs	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Unaudited notes to the condensed interim financial statements (continued)

For the 6 months ended 30 June 2016

Note 6 Tax on profit

The taxation charge for the 6 months ended 30 June 2016 has been calculated by reference to the expected effective corporation tax and deferred tax rates for the full financial year to end on 31 December 2016. The underlying effective full year tax charge is estimated to be 20% (six months ended 30 June 2015: 20.3%).

Note 7 Earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to equity shareholders by the weighted average number of ordinary shares in issue during the period.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. With respect to the Group these represent 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.

Reconciliations of the earnings per ordinary share and weighted average number of shares used in the calculations are set out below:

	Unaudited 6 months ended 30 June 2016			Unaudited 6 months ended 30 June 2015			Audited 12 months ended 31 December 2015		
	Earnings £'000	Weighted average number of shares	Per-share amount pence	Earnings £'000	Weighted average number of shares	Per-share amount pence	Earnings £'000	Weighted average number of shares	Per-share amount pence
Earnings per share - basic	2,889	36,154,799	7.99	1,998	36,154,799	5.53	5,378	36,154,799	14.88
Effect of dilutive securities									
Options	-	74,159	(0.02)	-	29,533	(0.01)	-	34,805	(0.02)
Earnings per share diluted	2,889	36,228,958	7.97	1,998	36,184,332	5.52	5,378	36,189,604	14.86

Unaudited notes to the condensed interim financial statements (continued)

For the 6 months ended 30 June 2016

Note 8 Share capital

	At 30 June 2016 Unaudited	At 30 June 2015 Unaudited	At 31 December 2015 Audited
Allotted, called up and fully paid (Ordinary Shares of £0.05 each)			
£'000 Sterling	1,843	1,843	1,843
Number	36,856,264	36,856,264	36,856,264

Note 9 Dividends

On 11 August 2016, the directors approved a 3.9 pence interim dividend (30 June 2015: 3.5 pence) which equates to a dividend payment of £1,440,000 (30 June 2015: £1,290,000). The dividend will be paid on 7 October 2016 to shareholders on the share register at the close of business on 9 September 2016 and has not been provided for in the 2016 interim results. The shares will be marked ex-dividend on 8 September 2016.

On 28 April 2016, the shareholders approved the payment of a 4.5 pence final dividend for 2015 which equates to a dividend payment of £1,666,000 (2014: £996,000). The dividend was paid on 6 June 2016.