

11 September 2018

Midwich Group plc
("Midwich" or the "Group")

Interim Results

Double digit revenue growth and strong profit contribution across all territories

Midwich, a specialist audio visual distributor to the trade market, today announces its interim results for the six-months ended 30 June 2018.

	Six months ended		
	30 June 2018	30 June 2017	% change
Revenue	264,099	211,564	25%
Gross profit	42,879	32,433	32%
<i>Gross profit %</i>	16.2%	15.3%	
Operating profit	11,026	8,729	26%
Adjusted operating profit	13,452	10,533	28%
<i>Adjusted operating profit %</i>	5.1%	5.0%	
Profit before tax	11,854	8,033	48%
Adjusted profit before tax	13,030	10,253	27%
<i>Adjusted profit before tax %</i>	4.9%	4.8%	
Profit after tax	9,118	5,812	57%
Adjusted profit after tax	9,783	8,032	22%
Reported EPS	11.32p	7.04p	61%
Adjusted EPS	12.09p	9.84p	23%
Interim dividend per share	4.60p	4.17p	10%

Financial highlights

- Revenue increased by 24.8% to £264.1 million (24.3% on constant currency basis)
- Gross profit margin of 16.2%, a 0.9 percentage point increase on H1 2017
- Adjusted operating profit increased by 27.7% to £13.5 million (27.4% on constant currency basis)
- Adjusted profit before tax improved by 27.1% to £13.0 million (26.7% on constant currency basis)
- Operating cash flow reflects planned investment in working capital to support organic growth and seasonal trends in working capital cycle
- Progressive dividend policy maintained with 10.3% increase in Interim dividend to 4.60 pence per share (H1 2017: 4.17 pence per share)

Operational highlights

- Double digit revenue and profit growth in all territories
- Investment in new geographies and development of specialist broadcast, lighting and audio segments enhancing both revenue growth and gross margin
- Recent acquisitions have performed well with a positive impact on the Group gross profit margin
- Strong acquisition pipeline across a number of regions

Post-period highlights

- August 2018 – Acquisition of Bauer & Trummer GmbH (trading as New Media), a leading distributor of professional video and broadcast equipment based in Nuremberg, Germany and operating across the German, Austrian and Swiss markets;
- September 2018 – Acquisition of Sound Directions France SAS (trading as Perfect Sound), a small specialist audio distributor based in St Etienne, France.

Stephen Fenby, Managing Director of Midwich Group plc, commented:

“The Group has had another strong first half and I am pleased with the performance across all of our territories. The increase in the Group’s gross margin percentage reflects both growth in the core business and a significant contribution from the three acquisitions made in 2017 in our displays and technical product categories. The more specialist nature of the acquired businesses ensures that our value add to customers and vendors continues to increase.

“We have been busy working on opportunities to extend the Group’s reach and capabilities through the period and were pleased to complete the acquisitions of New Media and Perfect Sound after the period end. The pipeline for strategic acquisitions across the territories in which we operate remains strong and we will continue our disciplined approach to add value while both strengthening and diversifying our product offering.

“The strong performance reported in the first half, coupled with positive sales momentum and strong contributions from recent acquisitions, gives the Board confidence that the Group will report full year results in line with its revised expectations, which were upgraded at the time of the Group's trading statement on 20 July 2018.”

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Notes to editors

Midwich is a specialist AV distributor to the trade market, with operations in the UK and Ireland, France, Germany, Iberia, Benelux, and Australasia. The Group's long-standing relationships with over 330 vendors, including blue-chip organisations such as Samsung, LG, Epson, and NEC, support a comprehensive product portfolio across major audio visual categories such as large format displays, projectors, digital signage and printers. The Group operates as the sole or largest in-country distributor for a number of its vendors in their respective product sets. The directors attribute this position to the Group's technical expertise, extensive product knowledge and strong customer service offering built up over a number of years. The Group has a large and diverse base of approximately 13,000 customers, most of which are professional AV integrators and IT resellers serving sectors such as corporate, education, retail, residential and hospitality. Although the Group does not sell directly to end users, it believes that the majority of its products are used by commercial and educational establishments rather than consumers.

Initially a UK only distributor, the Group now has over 750 employees across the UK and Ireland, Germany, France, Iberia, Benelux, and Australasia. In the six months to 30 June 2018, 42% of the Group's revenues were derived

Midwich Group plc

from outside the UK & Ireland. A core component of the Group's growth strategy is further expansion of its international operations and footprint into strategically targeted jurisdictions.

For further information, please visit www.midwichgroupplc.com

Managing Director's Report

Overview

The Group has performed strongly in the first six months of 2018 with double digit revenue and profit growth in all geographies.

Prior year acquisitions are performing well and delivered a significant boost to the Group's gross profit margin. These acquisitions have helped to grow the Group's presence in Europe as well as strengthening our professional audio capabilities and establishing a presence in the lighting market.

The Group continues to experience growth in the displays (particularly large format and interactive displays), broadcast, audio and technical video categories.

Strategy

The Group's strategy for growth continues to be both organic and inorganic, reflecting the contributors to the successful growth track record in recent years.

The Group's organic growth strategy is focused on the provision of market leading support to its customers and vendors. As a distributor, the Group neither develops product nor does it sell to the end-users of those products. The Group's expertise is the provision of specialist and technical services which provide the greatest assistance to vendors in supplying product into the market, and to help customers provide the highest level of support to their end-users.

Underpinning the Group's growth strategy is its success in sourcing, executing and integrating acquisitions. The Group takes a disciplined approach to acquisitions, seeking to add capital value without an adverse impact on the existing business. Acquisitions remain a fundamental aspect of the Group's strategy and it continues to pursue a strong pipeline of opportunities across a number of regions.

Board

Hilary Wright was appointed as Non-Executive Director on 9 March 2018. Hilary is currently the Group HR Director of Domino Printing Sciences plc, having joined in 2016.

Anthony Bailey resigned from the position of Group Finance Director on 29 June 2018 and left the Group.

Stephen Lamb was appointed Group Finance Director on 31 July 2018. Stephen was most recently Senior Vice President and Chief Financial Officer International for Iron Mountain's international business having previously held a number of previous Chief Financial Officer positions for international businesses.

Acquisitions

Post period end, on 23 August 2018 the Group completed the acquisition of Bauer & Trummer GmbH (trading as New Media), a leading distributor of professional video and broadcast equipment based in Nuremberg, Germany and operating across the German, Austrian and Swiss markets.

On 6th September 2018 the Group completed the acquisition of Sound Directions France SAS (trading as Perfect Sound), a small specialist audio distributor based in St Etienne, France.

The Group's strong balance sheet means it is well placed to continue its buy and build strategy both in new and existing territories.

Simplified segmental reporting

The Board has taken the decision to amend the presentation of segmental information to more closely fit the management structure of the Group. Accordingly, our mainland European businesses have now been amalgamated for presentation purposes. The amended segmental information for the current and prior periods is set out in note 4 of the notes to the interim consolidated financial information.

Trading and financial review

Group revenue increased by 24.8% to £264.1 million for the period (H1 2017: £211.6 million).

The Group achieved a gross profit margin for the half year of 16.2%, a 0.9 percentage point increase on H1 2017 and a 0.7 percentage point increase on FY 2017. The growth in margin is attributable to both a positive mix effect from the higher gross profit margin earned in businesses acquired in 2017 and continued gross profit improvement in the UK & Ireland and Australasia.

Operating profit increased by 26.3% to £11.0 million (H1 2017: £8.7 million). Adjusting for acquisition costs, share based payments, and amortisation the Group achieved an Adjusted operating profit of £13.5 million, which represents growth of 27.7%. The growth in operating profit reflects the overall increase in revenue and gross profit partially offset by the impact of the prior year acquisitions which have a larger overhead cost base relative to revenue.

Based on a constant currency analysis using the current period exchange rates across both periods, the Group revenue grew by 24.3% and Group Adjusted operating profit grew by 27.4%. The Group received only a marginal benefit from movements in foreign exchange rates in the period to 30 June 2018.

UK & Ireland

Revenue in the UK & Ireland increased by 10.1%, including the benefit of the acquisition of Sound Technology Limited, which joined the Group on 30 November 2017 and performed strongly in the period. Excluding the impact of acquisitions, the UK and Ireland segment showed positive growth despite more challenging general market conditions in the period.

The UK & Ireland segment's gross profit margin increased to 17.1%, a 1.3 percentage point increase on H1 2017 and a 0.9 percentage point increase on FY 2017. The UK & Ireland has benefitted from the sales of professional audio, musical and lighting products through Sound Technology Limited and has also been aided by an increase in the proportion of technical video and display sales in the product mix.

Adjusted operating profit increased by 19.7% in the UK & Ireland.

Continental Europe

Revenue in Continental Europe increased by 62.5% due to the impact of prior year acquisitions and strong performances in France and Germany. Organic growth was achieved in all major product categories, with particularly strong growth in displays. Earpro SA in Iberia and Gebroeders van Domburg BV in Benelux were acquired in Continental Europe in March 2017 and September 2017 respectively. Since acquisition the businesses have traded well and, through a different product mix, contributed to an increase in the region's gross profit margin to 14.2% compared with 13.6% in the first half of 2017.

Adjusted operating profit in Continental Europe grew by 49.7% benefitting from both acquisitions and strong organic growth from market share gains in other categories.

Australasia

The businesses in Australasia continued to grow with the recent addition of new technical vendors and achieved a 16.6% increase in revenue compared to H1 2017.

The gross profit margin in Australasia continued to improve as a result of the development of its technical vendor base. The Australasia gross profit margin was 20.0%, which is a 2.6 percentage point increase on H1 2017 and a 2.3 percentage point increase on FY 2017.

The Adjusted operating profit in Australasia grew by 81.6% aided by the development of technical vendors.

Taxation

The tax charge for the period was £2.7 million (H1 2017: £2.2 million). The Adjusted effective tax rate for the period is 24.9% (H1 2017: 21.7%) calculated based on the Adjusted tax charge for the period divided by Adjusted profit before tax.

Governance code

Upon formation at IPO, the Board resolved to establish a strong governance culture using the Quoted Companies Alliance (QCA) code as the basis for its governance framework.

In line with the London Stock Exchange's recent changes to the AIM rules, requiring all AIM-listed companies to adopt and comply with a recognised corporate governance code, the Board has adopted the updated QCA corporate governance code for Midwich. The statement of QCA code compliance is available on the Midwich plc website.

Financial position

The Group had a net cash inflow from operations before tax of £0.2 million for the period (H1 2017: £3.5 million) which reflects the traditionally more working capital intensive first half when compared with the full year. The Board is comfortable that the Group's long term average conversion rate remains unchanged.

Net debt at 30 June 2018 was £41.5 million (£22.8 million at 30 June 2017).

Dividend

The Board is pleased to declare an interim dividend of 4.60 pence per share (H1 2017: 4.17 pence per share), which will be paid on 26 October 2018 to those shareholders on the Company's register as at 21 September 2018.

The Board continues to adopt a progressive dividend policy to reflect the Group's strong earnings and cash flow while maintaining an appropriate level of dividend cover to allow for investment in longer-term growth.

Outlook

The performance reported in the first half year coupled with indications of positive sales momentum and strong contributions from recent acquisitions gives the Board confidence that the Group will report full year results in line with its revised expectations, which were upgraded at the time of the Group's trading statement on 20 July 2018.

Stephen Fenby
Managing Director

Unaudited consolidated income statement for the 6 months ended 30 June 2018

	Note	30 June 2018 Unaudited £'000	30 June 2017 Unaudited £'000	31 December 2017 Audited £'000
Revenue		264,099	211,564	471,937
Cost of sales		<u>(221,220)</u>	<u>(179,131)</u>	<u>(398,810)</u>
Gross profit		42,879	32,433	73,127
Distribution costs		(26,803)	(20,841)	(45,679)
Total administrative expenses		(6,495)	(4,364)	(9,470)
Other operating income		<u>1,445</u>	<u>1,501</u>	<u>2,831</u>
Operating profit		11,026	8,729	20,809
Comprising				
Adjusted operating profit		13,452	10,533	25,044
Costs of acquisitions		(43)	(146)	(336)
Share based payments		(410)	(136)	(551)
Employer taxes on share based payments		(145)	-	(118)
Amortisation		<u>(1,828)</u>	<u>(1,522)</u>	<u>(3,230)</u>
		11,026	8,729	20,809
Finance income		7	14	5
Finance costs	5	<u>821</u>	<u>(710)</u>	<u>(1,916)</u>
Profit before taxation		11,854	8,033	18,898
Taxation		<u>(2,736)</u>	<u>(2,221)</u>	<u>(4,919)</u>
Profit after taxation		<u>9,118</u>	<u>5,812</u>	<u>13,979</u>
Profit for the financial period/year attributable to:				
The Company's equity shareholders		8,990	5,595	13,557
Non-controlling interest		<u>128</u>	<u>217</u>	<u>422</u>
		<u>9,118</u>	<u>5,812</u>	<u>13,979</u>
Basic earnings per share	3	11.32p	7.04p	17.06p
Diluted earnings per share	3	11.23p	7.03p	17.00p

Unaudited consolidated statement of comprehensive income for 6 months ended 30 June 2018

	30 June 2018 Unaudited £'000	30 June 2017 Unaudited £'000	31 December 2017 Audited £'000
Profit for the period/financial year	9,118	5,812	13,979
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss:			
Foreign exchange gains on consolidation	(300)	435	974
Other comprehensive income for the financial period/year, net of tax	(300)	435	974
Total comprehensive income for the period/financial year	<u>8,818</u>	<u>6,247</u>	<u>14,953</u>
Attributable to:			
Owners of the Parent Company	8,697	6,030	14,531
Non-controlling interests	121	217	422
	<u>8,818</u>	<u>6,247</u>	<u>14,953</u>

Unaudited consolidated statement of financial position as at 30 June 2018

	30 June 2018 Unaudited £'000	30 June 2017 Unaudited £'000	31 December 2017 Audited £'000
Assets			
Non-current assets			
Goodwill	9,068	5,568	9,094
Intangible assets	20,720	19,725	22,310
Property, plant and equipment	7,990	5,978	7,692
Deferred tax assets	930	-	387
	<u>38,708</u>	<u>31,271</u>	<u>39,483</u>
Current assets			
Inventories	74,015	56,514	62,984
Trade and other receivables	84,704	61,862	76,361
Cash and cash equivalents	24,806	20,597	28,203
	<u>183,525</u>	<u>138,973</u>	<u>167,548</u>
Current liabilities			
Trade and other payables	(89,529)	(64,786)	(84,617)
Derivative financial instruments	-	-	(93)
Put option liabilities	-	(734)	-
Deferred consideration	(384)	(4,939)	(4,841)
Borrowings and financial liabilities	(66,015)	(43,426)	(50,176)
Current tax	(2,785)	(2,260)	(2,873)
	<u>(158,713)</u>	<u>(116,145)</u>	<u>(142,600)</u>
Net current assets	<u>24,812</u>	<u>22,828</u>	<u>24,948</u>
Total assets less current liabilities	<u>63,520</u>	<u>54,099</u>	<u>64,431</u>
Non-current liabilities:			
Trade and other payables	(156)	-	(181)
Put option liabilities	(4,092)	(2,853)	(5,195)
Deferred consideration	-	-	(1,197)
Borrowings and financial liabilities	(324)	-	(321)
Deferred tax liabilities	(4,091)	(3,817)	(4,445)
	<u>(8,663)</u>	<u>(6,670)</u>	<u>(11,339)</u>
Net assets	<u>54,857</u>	<u>47,429</u>	<u>53,092</u>
Equity			
Share capital	794	794	794
Share premium	25,855	25,855	25,855
Share based payment reserve	1,338	233	751
Investment in own shares	(5)	(5)	(5)
Retained earnings	25,681	19,753	24,331
Translation reserve	1,398	1,152	1,691
Put option reserve	(3,638)	(2,803)	(3,638)
Capital redemption reserve	50	50	50
Other reserve	150	150	150
Equity attributable to owners of Parent Company	<u>51,623</u>	<u>45,179</u>	<u>49,979</u>
Non-controlling interests	3,234	2,250	3,113
Total equity	<u>54,857</u>	<u>47,429</u>	<u>53,092</u>

Unaudited consolidated statement of changes in equity for 6 months ended 30 June 2018

For the period ended 30 June 2018

	Share capital	Share premium	Investment in own shares	Share based payment reserve	Retained earnings	Translation reserve	Put option reserve	Capital redemption reserve	Other reserve	Equity attributable to owners of the Parent	Non-controlling interests	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2018	794	25,855	(5)	751	24,331	1,691	(3,638)	50	150	49,979	3,113	53,092
Profit for the period	-	-	-	-	8,990	-	-	-	-	8,990	128	9,118
Other comprehensive income	-	-	-	-	-	(293)	-	-	-	(293)	(7)	(300)
Total comprehensive income for the period	-	-	-	-	8,990	(293)	-	-	-	8,697	121	8,818
Share based payments	-	-	-	409	-	-	-	-	-	409	-	409
Deferred tax on share based payments	-	-	-	178	-	-	-	-	-	178	-	178
Dividends paid	-	-	-	-	(7,640)	-	-	-	-	(7,640)	-	(7,640)
Balance at 30 June 2018 (Unaudited)	794	25,855	(5)	1,338	25,681	1,398	(3,638)	50	150	51,623	3,234	54,857

For the period ended 30 June 2017

	Share capital	Share premium	Investment in own shares	Share based payment reserve	Retained earnings	Translation reserve	Put option reserve	Capital redemption reserve	Other reserve	Equity attributable to owners of the Parent	Non-controlling interests	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2017	794	25,855	(5)	84	19,765	717	(1,770)	50	150	45,640	952	46,592
Profit for the period	-	-	-	-	5,595	-	-	-	-	5,595	217	5,812
Other comprehensive income	-	-	-	-	-	435	-	-	-	435	-	435
Total comprehensive income for the period	-	-	-	-	5,595	435	-	-	-	6,030	217	6,247
Share based payments	-	-	-	136	-	-	-	-	-	136	-	136
Deferred tax on share based payments	-	-	-	13	-	-	-	-	-	13	-	13
Acquisition of Earpro SA (note 7)	-	-	-	-	-	-	(1,033)	-	-	(1,033)	1,081	48
Dividends paid	-	-	-	-	(5,607)	-	-	-	-	(5,607)	-	(5,607)
Balance at 30 June 2017 (Unaudited)	794	25,855	(5)	233	19,753	1,152	(2,803)	50	150	45,179	2,250	47,429

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For the year ended 30 December 2017

	Share capital	Share premium	Investment in own shares	Share based payment reserve	Retained earnings	Translation reserve	Put option reserve	Capital redemption reserve	Other reserve	Equity attributable to owners of the Parent	Non-controlling interests	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2017	794	25,855	(5)	84	19,765	717	(1,770)	50	150	45,640	952	46,592
Profit for the year	-	-	-	-	13,557	-	-	-	-	13,557	422	13,979
Other comprehensive income	-	-	-	-	-	974	-	-	-	974	-	974
Total comprehensive income for the year	-	-	-	-	13,557	974	-	-	-	14,531	422	14,953
Acquisition of non-controlling interest (note 8)	-	-	-	-	(79)	-	681	-	-	602	(602)	-
Share based payments	-	-	-	551	-	-	-	-	-	551	-	551
Deferred tax on share based payments	-	-	-	116	-	-	-	-	-	116	-	116
Acquisition of subsidiary (note 7)	-	-	-	-	-	-	(2,549)	-	-	(2,549)	2,341	(208)
Dividends paid	-	-	-	-	(8,912)	-	-	-	-	(8,912)	-	(8,912)
Balance at 31 December 2017	794	25,855	(5)	751	24,331	1,691	(3,638)	50	150	49,979	3,113	53,092

Unaudited consolidated cashflow statement for 6 months ended 30 June 2018

	30 June 2018 Unaudited £'000	30 June 2017 Unaudited £'000	31 December 2017 Audited £'000
Cash flows from operating activities			
Profit before tax	11,854	8,033	18,898
Depreciation	1,201	733	1,793
Amortisation	1,828	1,522	3,230
Gain on disposal of assets	(4)	(153)	(21)
Share based payments	409	136	551
Foreign exchange losses	195	154	156
Finance income	(7)	(14)	(5)
Finance costs	(821)	710	1,916
Adjusted profit from operations before changes in working capital	<u>14,655</u>	<u>11,121</u>	<u>26,518</u>
Increase in inventories	(11,031)	(6,319)	(7,217)
Increase in trade and other receivables	(8,343)	(5,114)	(11,954)
Increase in trade and other payables	4,888	3,830	14,724
Cash inflow from operations	<u>169</u>	<u>3,518</u>	<u>22,071</u>
Income tax paid	(3,543)	(2,186)	(4,784)
Net cash (outflow)/inflow from operating activities	<u>(3,374)</u>	<u>1,332</u>	<u>17,287</u>
Cash flows from investing activities			
Acquisition of businesses	-	(4,986)	(9,108)
Deferred consideration paid	(5,507)	(11)	(1,511)
Cash acquired within business combinations	-	2,972	2,854
Purchase of intangible assets	(357)	(43)	(48)
Purchase of plant and equipment	(1,734)	(1,820)	(3,064)
Proceeds on disposal of plant and equipment	219	368	528
Interest received	7	14	5
Net cash outflow from investing activities	<u>(7,372)</u>	<u>(3,506)</u>	<u>(10,344)</u>
Cash from financing activities			
Acquisition of non-controlling interest	-	-	(751)
Dividends paid	(7,640)	(5,607)	(8,912)
Invoice financing inflows	9,678	7,380	5,673
Proceeds from borrowings	159	-	-
Repayment of loans	(9)	(14)	(26)
Interest paid	(522)	(295)	(647)
Interest on finance leases	(7)	-	(4)
Capital element of finance lease payments	(72)	(65)	(121)
Net cash inflow/(outflow) from financing activities	<u>1,587</u>	<u>1,399</u>	<u>(4,788)</u>
Net (decrease)/increase in cash and cash equivalents	<u>(9,159)</u>	<u>(775)</u>	<u>2,155</u>
Cash and cash equivalents at beginning of period/year	20,010	17,201	17,201
Effects of exchange rate changes	(331)	280	654
Cash and cash equivalents at end of period/year	<u><u>10,520</u></u>	<u><u>16,706</u></u>	<u><u>20,010</u></u>
Comprising:			
Cash at bank	24,806	20,597	28,203
Bank overdrafts	(14,286)	(3,891)	(8,193)
	<u><u>10,520</u></u>	<u><u>16,706</u></u>	<u><u>20,010</u></u>

Notes to the interim consolidated financial information

1. General information

The interim financial information for the period to 30 June 2018 is unaudited and does not constitute statutory financial statements within the meaning of Section 434 of the Companies Act 2006.

The interim consolidated financial information does not include all the information required for statutory financial statements in accordance with IFRS, and should therefore be read in conjunction with the consolidated financial statements for the year ended 31 December 2017.

2. Accounting policies

The interim financial information in this report has been prepared on the basis of the accounting policies set out in the audited financial statements for the year ended 31 December 2017, except as amended for the implementation of IFRS 9 'Financial instruments' and IFRS 15 'Revenue from contracts with customers', which were adopted on 1 January 2018. The audited financial statements for the year ended 31 December 2017 complied with International Financial Reporting Standards as adopted for use in the European Union ("IFRS").

The Group has elected to apply the modified retrospective approach to the transition to both IFRS 9 and IFRS 15. The modified retrospective approach requires the transition to be implemented without restatement of the prior year results. The new standards have not had a material impact on the reported results and there is no adjustment to equity at 1 January 2018 as a result of the implementation of the new standards.

The Group is required to adopt IFRS 16 'Leases', which replaces IAS 17 'Leases' for accounting periods beginning on or after 1 January 2019. IFRS 16 requires the Group to recognise a 'Right of use' asset and a lease liability in respect of material leases. Implementation of the new standard will result in a significant increase in both assets and liabilities in the statement of financial position, with a corresponding increase in depreciation charges and finance costs offset by a reduction in operating lease costs in the income statement.

The directors have adopted the going concern basis in preparing the financial information. In assessing whether the going concern assumption is appropriate, the directors have taken into account all relevant available information about the foreseeable future.

The statutory accounts for the year ended 31 December 2017, which were prepared under IFRS, have been delivered to the Registrar of Companies. The auditors reported on these accounts; their report was unqualified; did not contain a statement under section 498(2) or 498(3) of the Companies Act 2006, and did not include reference to any matters to which the auditor drew attention by way of emphasis.

3. Earnings per share

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

Diluted earnings per share is calculated by adjusting the profit after tax for the period/year attributable to equity shareholders of the Company for the fair value (measured in accordance with IFRS 2) of any goods or services to be supplied to the Group in the future under the share options granted by the balance sheet date and dividing it by the weighted average number of shares in issue during the period/year adjusted for the effects of all dilutive potential ordinary shares.

The Group's earnings per share and diluted earnings per share, are as follows:

	June 2018	June 2017	December 2017
Profit attributable to equity holders of the Parent Company (£'000)	8,990	5,595	13,557
Weighted average number of shares in issue	79,448,200	79,448,200	79,448,200
Dilutive (potential dilutive) effect of share options	<u>605,798</u>	<u>134,338</u>	<u>305,464</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>80,053,998</u>	<u>79,582,538</u>	<u>79,753,664</u>
Basic earnings per share	<u>11.32p</u>	<u>7.04p</u>	<u>17.06p</u>
Diluted earnings per share	<u>11.23p</u>	<u>7.03p</u>	<u>17.00p</u>

4. Segmental reporting

June 2018	UK & Ireland £'000	Continental Europe £'000	Australasia £'000	Other¹ £'000	Total £'000
Revenue	153,555	93,526	17,018	-	264,099
Gross profit	26,230	13,250	3,399	-	42,879
Gross profit %	17.1%	14.2%	20.0%	-	16.2%
Adjusted operating profit	9,122	3,643	1,745	(1,058)	13,452
Cost of acquisitions	-	-	-	(43)	(43)
Share based payments	(231)	(116)	(42)	(21)	(410)
Employer taxes on share based payments	(57)	(62)	(11)	(15)	(145)
Amortisation	(1,337)	(467)	(24)	-	(1,828)
Operating profit	7,497	2,998	1,668	(1,137)	11,026
Interest					828
Profit before tax					11,854
Other segmental information					
June 2018	UK & Ireland £'000	Continental Europe £'000	Australasia £'000	Other¹ £'000	Total £'000
Segment assets	138,314	71,413	11,723	783	222,233
Segment liabilities	(121,562)	(38,981)	(6,716)	(117)	(167,376)
Segment net assets	16,752	32,432	5,007	666	54,857
Depreciation	799	362	40	-	1,201
Other segmental information			UK £'000	International £'000	Total £'000
Non-current assets			23,494	15,214	38,708

Midwich Group plc

June 2017	UK & Ireland ¹ £'000	Continental Europe ¹ £'000	Australasia £'000	Other ¹ £'000	Total £'000
Revenue	139,420	57,545	14,599	-	211,564
Gross profit	22,090	7,808	2,535	-	32,433
Gross profit %	15.8%	13.6%	17.4%	-	15.3%
Adjusted operating profit	7,619	2,434	961	(481)	10,533
Costs of acquisitions	-	-	-	(146)	(146)
Share based payments	(136)	-	-	-	(136)
Amortisation	(1,215)	(282)	(25)	-	(1,522)
Operating profit	6,268	2,152	936	(627)	8,729
Interest					(696)
Profit before tax					8,033

Other segmental information

June 2017	UK & Ireland ¹ £'000	Continental Europe ¹ £'000	Australasia £'000	Other ¹ £'000	Total £'000
Segment assets	115,291	45,495	9,396	62	170,244
Segment liabilities	(95,843)	(20,903)	(5,981)	(88)	(122,815)
Segment net assets	19,448	24,592	3,415	(26)	47,429
Depreciation	573	99	61	-	733

Other segmental information

	UK £'000	International £'000	Total £'000
Non-current assets	23,173	8,098	31,271

¹ Restated to combine France, Germany and the Rest of Europe into one segment and show Group office functions within the Other segment due to internal restructuring undertaken on 1 January 2018.

Midwich Group plc

December 2017	UK & Ireland ¹ £'000	Continental Europe ¹ £'000	Australasia £'000	Other ¹ £'000	Total £'000
Revenue	283,712	156,163	32,062	-	471,937
Gross profit	45,830	21,637	5,660	-	73,127
Gross profit %	16.2%	13.9%	17.7%	-	15.5%
Adjusted operating profit	16,131	7,470	2,576	(1,133)	25,044
Costs of acquisitions	-	-	-	(336)	(336)
Share based payments	(351)	(142)	(50)	(8)	(551)
Employer taxes on share based payments	(65)	(51)	-	(2)	(118)
Amortisation	(2,450)	(730)	(50)	-	(3,230)
Operating profit	13,265	6,547	2,476	(1,479)	20,809
Interest					(1,911)
Profit before tax					18,898

Other segmental information

December 2017	UK & Ireland ¹ £'000	Continental Europe ¹ £'000	Australasia £'000	Other ¹ £'000	Total £'000
Segment assets	122,213	73,242	11,162	26	206,643
Segment liabilities	(107,955)	(38,847)	(6,632)	(117)	(153,551)
Segment net assets	14,258	34,395	4,530	(91)	53,092
Depreciation	1,281	385	127	-	1,793

Other segmental information

	UK £'000	International £'000	Total £'000
Non-current assets	24,808	14,287	39,095

¹ Restated to combine France, Germany and the Rest of Europe into one segment and show Group office functions within the Other segments due to internal restructuring undertaken on 1 January 2018.

5. Finance costs

	June 2018 £'000	June 2017 £'000	December 2017 £'000
Interest on overdraft and invoice discounting	418	282	666
Interest on finance leases	7	-	4
Interest on other loans	4	12	70
Interest, foreign exchange and other finance costs of deferred and contingent considerations	(147)	-	(81)
Interest, foreign exchange and other finance costs of put option liabilities	(1,103)	416	1,257
	(821)	710	1,916

6. Share capital

The total allotted share capital of the Parent Company is:

Allotted, issued and fully paid

Classed as equity:	June 2018		June 2017		December 2017	
	Number	£'000	Number	£'000	Number	£'000
Issued and fully paid ordinary shares of £0.01 each						
Opening balance	79,448,200	794	79,448,200	794	79,448,200	794
Closing balance	79,448,200	794	79,448,200	794	79,448,200	794

There were no share transactions effected during the current or comparative period or the year to 31 December 2017.

Employee benefit trust

The Group's employee benefit trust was allocated 480,700 ordinary shares in 2016.

A reconciliation of the shares allocated to employees within the SIP is as follows:

	Six months to June 2018	Six months to June 2017	Twelve months to December 2017
Outstanding at 1 January	227,000	119,000	119,000
Granted	-	128,500	128,500
Lapsed	(16,500)	(8,000)	(20,500)
Outstanding at period end	<u>210,500</u>	<u>239,500</u>	<u>227,000</u>

7. Business combinations

Acquisitions were completed by the Group during the comparative periods to increase scale, broaden its addressable market and widen the product offering.

Subsidiaries acquired

Acquisition	Principal activity	Date of acquisition	Proportion acquired (%)	Fair value of consideration £'000
Earpro SA	Distribution of audio visual and lighting products to trade customers	27 March 2017	88.5%	8,311
Gebroeders van Domburg BV	Distribution of audio visual and lighting products to trade customers	6 September 2017	70%	2,942
Sound Technology Limited	Distribution of professional audio, musical and lighting products to trade customers	30 November 2017	100%	3,858

Fair value of consideration transferred

	Earpro SA	Gebroeders van Domburg BV	Sound Technology Limited
	£'000	£'000	£'000
Cash	4,987	1,522	2,600
Deferred consideration	3,324	-	1,258
Deferred contingent consideration	-	1,420	-
Total	<u>8,311</u>	<u>2,942</u>	<u>3,858</u>

Acquisition costs of £43k were expensed to the income statement in relation to the future potential acquisitions during the six-month period ended 30 June 2018.

Acquisition costs of £81k in relation to the acquisition of Earpro SA, £58k in relation to the acquisition of Gebroeders van Domburg BV and £7k in relation to the 2016 acquisition of Holdan Limited were expensed to the income statement during the six-month period ended 30 June 2017.

In addition to the acquisition costs for the six-month period ended 30 June 2017 a further £106k of acquisition costs relating to the acquisition of Gebroeders van Domburg BV and £84k in relation to the acquisition of Sound Technology Limited were incurred during the year ended 31 December 2017.

On acquisition of Earpro SA and Gebroeders van Domburg BV the Group recognised £1,033k and £1,516k respectively in relation to the initial present value of the put option liabilities to acquire the remaining non-controlling interest in each acquisition.

Fair value of acquisitions

	Earpro SA	Gebroeders van Domburg BV	Sound Technology Limited
	£'000	£'000	£'000
Non-current assets			
Goodwill	1,009	2,667	851
Intangible assets – customer relationships	740	2,178	-
Intangible assets – supplier exclusivity	1,488	-	1,553
Intangible assets – trade name	104	158	153
Intangible assets – other	58	-	52
Plant and equipment	66	1,765	28
	<u>3,465</u>	<u>6,768</u>	<u>2,637</u>
Current assets			
Inventories	2,053	2,878	2,694
Trade and other receivables	4,003	3,526	4,132
Current tax	-	-	6
Cash and cash equivalents	3,172	-	65
	<u>9,228</u>	<u>6,404</u>	<u>6,897</u>
Current liabilities			
Trade and other payables	(2,723)	(5,334)	(3,655)
Derivative financial instruments	-	-	(128)
Borrowings and financial liabilities	-	(2,877)	(1,617)
Current tax	-	(4)	-
	<u>(2,723)</u>	<u>(8,215)</u>	<u>(5,400)</u>
Non-current liabilities			
Borrowings	-	(170)	-
Deferred tax	(579)	(584)	(276)
	<u>(579)</u>	<u>(754)</u>	<u>(276)</u>
Non-controlling interests	(1,080)	(1,261)	-
Fair value of net assets acquired attributable to equity shareholders of the Parent Company	<u>8,311</u>	<u>2,942</u>	<u>3,858</u>

Goodwill acquired in 2017 relates to workforce, synergies and sales know how. Goodwill arising on the acquisition of Earpro SA and Gebroeders van Domburg BV has been allocated to the Rest of Europe operating segment. Goodwill arising on the acquisition of Sound Technology Limited has been allocated to the UK and Ireland operating segment.

Net cash outflow on acquisition of subsidiaries

	Earpro SA	Gebroeders van Domburg BV	Sound Technology Limited
	£'000	£'000	£'000
Consideration paid in cash	4,987	1,522	2,600
Plus: overdraft borrowings	-	200	-
Less: cash and cash equivalent balances acquired	(2,989)	-	(65)
Net cash outflow	<u>1,998</u>	<u>1,722</u>	<u>2,535</u>

8. Acquisition of non-controlling interest

On 3 October 2017, the Group acquired 10.5% of the 21% non-controlling interest in Holdan Limited, which had a value of £602k, for a consideration of £750k. £681k of the put option reserve was transferred to retained earnings when this element of the put option was extinguished.

9. Currency impact

The Group reports in Pounds Sterling (GBP) but has significant revenues and costs as well as assets and liabilities denominated in Euros (EUR) and Australian Dollars (AUD). The table below sets out the prevailing exchange rates in the periods reported.

	Six months to 30 June 2018 Average	Six months to 30 June 2017 Average	At 30 June 2018	At 30 June 2017	At 31 December 2017
EUR/GBP	1.136	1.166	1.131	1.146	1.126
AUD/GBP	1.777	1.678	1.788	1.732	1.725

Applying the current period foreign exchange rates across the first half of 2016 had the following impact on reported results:

	EUR £000	AUD £000
Increase/(decrease) in revenue due to movement in foreign exchange rate:	1,784	(748)
Increase/(decrease) in profit before tax due to movement in foreign exchange rate:	83	(45)
Increase in net debt due to movement in foreign exchange rate:	13	37

10. Copies of interim report

Copies of the interim report are available to the public free of charge from the Company at Vines Road, Diss, IP22 4YT.

11. Events after the reporting period

On 23 August 2018 the Group acquired 100% of Bauer und Trummer GmbH, a specialist broadcast and pro video distributor based in Nuremberg, Germany.

On 6th September 2018 the Group completed the acquisition of Sound Directions France SAS (trading as Perfect Sound), a small specialist audio distributor based in St Etienne, France.

12. Adjustments to reported results

	Six months ended	
	30 June	30 June
	2018	2017
	£000	£000
Operating profit	11,026	8,729
Exceptional administrative costs	43	146
Share based payments	410	136
Employer taxes on share based payments	145	-
Amortisation	1,828	1,522
Adjusted operating profit	13,452	10,533
Profit before tax	11,854	8,033
Exceptional administrative costs	43	146
Share based payments	410	136
Employer taxes on share based payments	145	-
Amortisation	1,828	1,522
Finance costs – deferred consideration	(147)	-
Finance costs – put option liabilities	(1,103)	416
Adjusted profit before tax	13,030	10,253
Profit after tax	9,118	5,812
Exceptional administrative costs	43	146
Share based payments	410	136
Employer taxes on share based payments	145	-
Amortisation	1,828	1,522
Finance costs – deferred consideration	(147)	-
Finance costs – put option liabilities	(1,103)	416
Tax impact	(511)	-
Adjusted profit after tax	9,783	8,032
Profit after tax	9,118	5,812
Non-controlling interest	(128)	(217)
Profit after tax attributable to equity holders of the Parent Company	8,990	5,595
Adjusted profit after tax	9,783	8,032
Non-controlling interest	(128)	(217)
Amortisation attributable to NCI	(64)	-
Deferred tax on amortisation attributable to NCI	15	-
Adjusted profit after tax attributable to equity holders of the Parent Company	9,606	7,815
Number of shares	79,448,200	79,448,200
Diluted number of shares	80,053,998	79,582,538
Basic adjusted earnings per share	12.09p	9.84p
Diluted adjusted earnings per share	12.00p	9.82p

13. Interim dividend

The interim dividend proposed for the six months to 30 June 2018 of 4.60 pence (30 June 2017: 4.17 pence) relates to profits earned over the period.