

# CHAIRMAN'S STATEMENT

## FINANCIAL RESULT

Operating profits from continuing operations prior to the amortisation of goodwill increased by almost 35% to £3.6m. Profit for the financial period rose 87.1% as the result of £2.0m profit realised on the sale of the site at Briars Lane. We are pleased with this performance, with all individual businesses posting profits that were ahead of the prior year. Total revenues in our retail and Home Shopping business on a like for like basis were 11.8% ahead of 2016/17, against a backdrop of turmoil and administration amongst the general retail sector.

The late Spring boosted performance in Fuels in the final quarter, but we traded ahead of the prior year even without this impact. Profits from the distribution of bulk fuel oils in March were £0.6m ahead of the prior year, with total fuels profits for the full financial year ahead by £1.4m. Excluding the rise in heating oil sales caused by the cold weather, fuels volumes were up 7.1% year on year as we continue to diversify our portfolio of customers.

As well as significant investment in our IT infrastructure which will improve security and provide business continuity, our program of upgrading our property portfolio continued, with works undertaken at our Castle Douglas, Skipton and Wigton stores and a variety of depot improvements in Fuels. We commenced work on a storage depot at Peterlee. Total capital expenditure in the period was £2.1m.

We generated cash of £1.2m in the financial year from normal operating activities.

## WCF DISTRIBUTION

Following a period of consolidation within our supply chain and the subsequent loss of several large customers, we sadly took the decision to undertake consultation with our employees to close our Distribution business towards the end of 2017. This business had been operating at a loss and despite our best efforts we had been unable to win replacement loads. This was not a decision we took lightly, but we could not see a long-term future in this competitive sector.

At the end of consultation, we sold the business to Bannister Transport Ltd, with all affected employees transferring in accordance with the Transfer of Undertakings (Protection of Employment) (TUPE) Regulations and Bannister taking on our site and vehicle lease obligations. Costs associated with the disposal were £0.3m and these have been included, alongside the trading losses of £0.2m, as discontinued operations.

I would like to take this opportunity to thank our former WCF Distribution colleagues, many with long service, for their contributions.

## BRIARS LANE

Following the relocation of the distribution business in 2014 we marketed the former site at Briars Lane, Ormskirk for residential re-development. Following a successful planning application, this site was sold to Taylor Wimpey for £2.5m in November 2017. The sale proceeds will be re-invested in our other facilities.

## OUR PEOPLE

We are focussed on succession planning and allowing our key people to develop and pursue strategic opportunities. As such, we have created and filled several new roles. This will add cost in the short term, but will ultimately form the foundation for future growth.

Phil Murray joined the Board in April 2018 as Deputy Managing Director picking up operational responsibility for fuels, retail and horticulture. This will provide our Managing Director Jo Ritzema with time to focus on the long-term direction of the company.

## **INVESTMENT STRATEGY**

To enable us to deliver a strategy of continued diversification we have focussed on seeking family owners looking for a sustainable succession plan. This would allow their existing management team to run the business without having to find the equity funds to do so and provides an opportunity for the seller to have some continued involvement in their business post-disposal if they choose to do so. We believe that our de-centralised culture and co-ownership structure provide strong opportunities for us in this sector, irrespective of the industry. We have updated our website and presented the strategy to several accountancy and corporate finance firms and will continue to evaluate and bid on opportunities as they arise. We are also seeking asset backed acquisition opportunities.

## **WCF STAFF RETIREMENT BENEFIT SCHEME**

Following the changes made by the government to the way many pension scheme members access their pension benefits, including greater choice in how those benefits are taken at retirement, the company agreed to offer an enhanced transfer value to a small number of Scheme members who were eligible to access such benefits. This exercise enabled the Scheme to reduce the long-term funding costs and risks of those members and will ultimately financially benefit WCF. The majority of the exercise was funded by the Scheme, with the company meeting the enhancement costs of £0.3m. We also made a special contribution of £0.6m to fund the actuarial deficit arising at 31st March 2017.

## **ARTICLES OF ASSOCIATION**

We have taken the opportunity to update our articles of association which will be voted on by our shareholders at our Annual General Meeting in October 2018. You will find more details on this in the Notice of Meeting. One of the changes proposed is to update our rules on share transfers arising on account of the death of a shareholder (known as transmission) which provides for these shares to be acquired by the Employee Benefit Trust on death at the current market price. This will provide us greater opportunity to increase the level of employee ownership which we believe will ultimately contribute to the creation of sustainable and long-term value for all our shareholders. We have proposed a delay on implementation of this change to 1st February 2019 to allow those shareholders who wish to do so the opportunity to transfer their shares at the November or January dealing days.

## **EMPLOYEE OWNERSHIP**

Our employees have worked tirelessly and diligently to deliver these results and I am delighted that the profit share targets were triggered. The rewards are tiered according to the level of financial performance, with a full-time employee being awarded 200 shares.

We have announced an employee cash bonus that will be linked to the level of dividends paid annually. This will allow all our staff to benefit from employee ownership even where they do not hold shares directly. This is important when large numbers of our employees cannot afford to participate in the share schemes on offer and the nature of the workplace means that fewer people choose to spend their working careers with the company. We believe this will maximise engagement and productivity, which will in turn benefit all our shareholders. Our Employee Benefit Trust, which exists for the benefit of employees and owns more than 20% of shares, currently waives its rights to a dividend.

We seek opportunities where possible to involve our employees in the future direction of the business and launched a Pet & Equestrian employee forum during the year.

## DIVIDEND

As previewed in my 2017 Chairman's Statement, we have reviewed our dividend policy and agreed that total dividend due to all shareholders shall not be less than 45% of profit before non-recurring items and excluding the impact of any financial accounting adjustments. This links shareholder income directly to the current financial success of the company. A copy of the Dividend Policy, including the rationale of the Board, is included at the rear of this Annual Report.

The proposed final dividend is 45 pence per share. This represents a dividend yield of 7.5% (on the share price of £6.00).

This will be paid on or before 30th November 2018 to all shareholders on the register of members at 7th September 2018.

## OUTLOOK

It is well documented in the business press that the retail sector is under strain. We are focussed on ensuring that our stores remain niche destinations of choice, service and expertise to maintain footfall and retain customer loyalty. We will continue to exploit our niche in the mature clothing sector to grow our product range, expand our media program, increase net customer numbers and invest in our websites to ensure that it is easy for our customers to do business with us in the manner that they choose.

The cold March highlighted the issues in running a seasonal fuels business, with product, driver and vehicle availability restricting our ability to take full advantage of the weather conditions. We are reviewing ways in which this can be mitigated.

Whilst the increase in underlying trade this year is positive, we face a battle to stand still, with costs increasing beyond the level of inflation. It is not always possible to pass these increases on to our customers and we will seek opportunities for economies of scale wherever possible.

Using our de-centralised structure, we aim to achieve higher levels of employee engagement and productivity than our competitors to create responsible and sustainable value for our shareholders.

Our strong balance sheet and broad base of activities are a significant factor in maintaining WCF's resilience and creating a robust platform for future growth.

I would like to finish by thanking my fellow Board members for their support and guidance, especially our Managing Director Jo Ritzema, and all our hard working and dedicated employees for their input, loyalty and enthusiasm.



Donald Biggar - Chairman

