Lakehouse plc

Interim results to 31 March 2018

Interim results 2018

RNS Number : 5204S
Lakehouse plc
26 June 2018

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Lakehouse plc, the compliance and energy support services group
Unaudited Interim Results for the six months ended 31 March 2018 (H1 FY18)

Construction and Property Services divisions exit provides platform for Group to focus on continuing growth businesses: Compliance and Energy Services

Bob Holt, Chairman of Lakehouse plc commented:

"I am pleased to report a good set of results for the period from our continuing businesses: Compliance and Energy Services.

As highlighted previously, it was our strategic intention to exit from Construction and Property Services and I am delighted to announce today that we have signed heads of agreement to sell those activities. The businesses, which comprise the original Lakehouse core activities plus the acquired business Fosters, are being acquired by a team of sector specialists and I believe that without the constraints of a Plc environment, they will be successful.

I am delighted therefore to confirm that the Group now has two operating divisions in Compliance and Energy Services. Both businesses are sector specialists, broadly non-cyclical apart from seasonal demands, but most importantly, predictable, profitable and cash generative.

We were particularly pleased to secure the Welsh Government Arbed 3 programme of energy management for £55m. The scheme mirrors our contract for the Scottish Government and again provides continuous revenue and profit for a five year period."

Overview of financial performance within core businesses: Compliance and Energy services

- Revenue from continuing operations grew by 3% to £91.1m (H1 FY17: £88.0m)
- Underlying EBITA[1] from continuing operations grew by 65% to £2.7m (H1 FY17: £1.6m)
- Underlying EBITA[1] margins were 2.9% (H1 FY17: 1.8%)
- Underlying pre-tax profit[2] of £1.9m (H1 FY17: £0.8m)
- Group loss before tax from continuing operations £0.5m (H1 FY17: £3.9m), after amortisation of acquisition intangibles of £2.2m (H1 FY17: £5.3m) and finance expenses of £0.7m (H1 FY17: £0.8m).
- Losses from discontinued operations of £11.8m (H1 FY17: profit of £0.2m) resulting from the impairment exercise undertaken as part of the preparation of these activities for sale and reflect management conservatism in assessing fair value.
- Loss per share from continuing operations of 0.2p (H1 FY17: 2.1p).
- Balance sheet remains robust, with net debt of £14.2m (31 March 2017: £24.7m) at the end of our peak seasonal working capital period.

Key performance indicators (from the continuing operations of Compliance and Energy Services):

- High bidding success rate led to contract wins in the period valued at £100m contributing to an order book of £396m, representing growth of 7% on the comparative period (31 March 2017: £369m).
- Our number of frameworks stood at 258 (31 March 2017: 251), with a value of £1.1bn (31 March 2017: £1.0bn), representing a 7% rise on the comparative period.

Outlook:

- We are making excellent progress and the underlying performance of Compliance and Energy Services were strong.
- The recent acquisition of Just Energy provides a low key and low risk entry point into the private sector gas market.
- In terms of the outlook, we expect trading from continuing operations for the full year will remain in line with management expectations.

Enquiries

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Notes to editors

Lakehouse is a leading compliance and energy support services group that performs critical functions in homes, public and commercial buildings, with a focus on clients in the UK public sector and regulated markets. Services are delivered through two divisions: Compliance and Energy Services.

The Group was founded in 1988 and is headquartered in London. It currently employs some 2,000 staff from 23 offices across the UK.

Definitions

1. EBITA is earnings before interest, tax and amortisation of acquisition intangibles. Underlying EBITA is defined as operating profit before deduction of exceptional and other items, as outlined in Note 3 and on the face of the Condensed Consolidated Statement of Comprehensive Income. Underlying EBITA is the same as "Operating profit before exceptional and other items" on the face of the Condensed Consolidated Statement of Comprehensive Income, but used as terminology in light of being a key performance measurement for management in the Group.

2. As set out in the Condensed Consolidated Statement of Comprehensive Income, other underlying numbers are stated before exceptional and other items (discussed further in Note 3). Underlying profit after tax and underlying earnings per share are, where relevant, stated net of an imputed tax charge.

CHAIRMAN'S STATEMENT

I am pleased to report a good set of results for the period from our continuing businesses of Compliance and Energy Services.

As highlighted previously, it was our strategic intention to exit from Construction and Property Services and I am delighted to announce today that we have signed heads of agreement to exit from those activities. The businesses, which comprise the original Lakehouse core activities plus the acquired business Fosters, are being acquired by a team of sector specialists and I believe that without the constraints of a Plc environment, they will be successful.

I am delighted therefore to confirm that the Group now has two operating divisions in Compliance and Energy Services. Both businesses are sector specialists, broadly non cyclical, apart from seasonal demands, but most importantly, predictable, profitable and cash generative.

I look forward to updating all stakeholders of the completion of this transaction and our future corporate development

Revenues from continuing operations grew 3% to £91.1m (H1 FY17: £88.0m). Underlying EBITA grew significantly by 65% to £2.7m (H1 FY17: £1.6m) and operating profits of £0.2m represented a reversal on the £3.1m loss in H1 FY17. Net debt was £14.2m (2017: £24.7m) at the end of the period, where our cash conversion is seasonally low.

We were particularly pleased to secure the Welsh Government Arbed 3 programme of energy management for £55m. The scheme mirrors our contract for the Scottish Government and provides continuous revenue and profit for a five year period.

Elsewhere our Compliance businesses have performed well in what is seasonally the part of the year where weather tends to dictate the amount of work required, especially within our gas activities.

In light of the process in place to divest those parts of the Group which have given undue uncertainty in the last two years, the Board felt it prudent not to pay an interim dividend at this time.

We were particularly sad to see Andrew Harrison leave the Board recently. Andrew had joined the Board initially to represent the founder Steve Rawlings and following Steve's sad death, Andrew represented the wider Rawlings family's interests.

I arrived in the Group to implement change when the Group was in a difficult position following a number of profit warnings. The management team have embraced significant change in what has been a difficult period with a number of headwinds. Michael McMahon and his team have performed excellently in demanding circumstances and I believe that the Group is now well placed to deliver growth and profitability with a positive attitude.

OPERATIONAL REVIEW

Compliance (61% of continuing Group revenue / H1 FY17: 58%)

Compliance: six months ended 31 March	2018	2017	Change
Revenue (£m)	56.1	51.8	8%
Underlying EBITA (£m)	2.4	2.9	-17%
Underlying EBITA margin	4.2%	5.5%	-130pts

The Compliance division provides planned and responsive maintenance, installation and repair services predominantly to local authority and housing association clients, in the areas of domestic and commercial gas, fire and electrical, water and air hygiene and lifts. These services cover clients' social housing and public building assets, as well as industrial and commercial properties. Gas services comprise some three quarters of the division and we believe we continue to represent the largest player in this fragmented and typically localised market.

We are typically paid for service and repair work on a fixed price basis evenly through the year. The gas and lifts businesses (which make up more than 80% of the division's annual revenues) have more call-outs during colder months, resulting in higher labour and materials costs, meaning that we are far more profitable and cash generative in the warmer months when call-out rates are lower and those same engineers can be deployed in works that attract further income. As a result, a significant proportion of the division's annual profit continues to arise during the second half of the financial year.

The division showed strong year on year revenue growth of 8% to £56.1m (H1 FY17: £51.8m), driven by new contract wins and increasing regulatory demands in the sector. Underlying EBITA fell 17% to £2.4m (H1 FY17: £2.9m). We adopt a conservative approach to contract mobilisation, expensing costs immediately and as a result, we saw an impact on profitability in the first half as a major national contract went live and we had to build an associated management infrastructure. This was compounded slightly by the unseasonal weather in late February / early March, which resulted in a higher level of responsive callouts and lower planned servicing work than normal for the time of year. We expect a more normal level of profitability to be restored in the second half.

The division continued its excellent track record on new wins during the period, including a £9m three year gas service and repair contract with LB Havering, a 10 year £8.4m lift maintenance programme with RB Greenwich, a five year £4.3m gas service and repair contract with Guildford BC, a 10 year £5m domestic heating programme with Hanover HA, a four year £2.1m gas programme with Leeds Federation and fire remediation framework wins with Paragon HA, the Reallies Partnership and the South East Consortium.

The outlook for our Compliance businesses remains strong, underpinned by the increased number of frameworks to which the division has been appointed and a trading environment pushing towards greater levels of regulation, which provides a stimulus in demand for our compliance services expertise.

Energy Services (39% of continuing Group revenue / H1 FY17: 42%)

Energy Services: six months ended 31 March	2018	2017	Change
Revenue (£m)	36.6	36.9	(1)%
Underlying EBITA (£m)	1.6	1.3	27%
Underlying EBITA margin	4.4%	3.4%	100pts

Energy Services provides a range of energy efficiency services for social housing and private homes through two businesses:

- Everwarm provides insulation and heating, renewable technologies and electrical vehicle charging points. Everwarm also uses these services to deliver carbon emissions savings for energy companies, enabling them to meet their legislative targets. The insulation operations are driven by seasonal influences, as we are unable to render or use fixing glue necessary for insulation at temperatures below three degrees. As a result, we typically experience a far larger number of productive working days in summer, compared to winter months, with the result that the business sees higher revenues and margins in H2 each year.

- Providor is a leading national installer of smart meters (operating as a meter asset manager and meter operator), working for several "big six" and challenger utilities, who are required to install smart meters in every home in England, Wales and Scotland. There are more than 26 million homes for the energy suppliers to access, with the goal of every home being offered a smart meter by 2020. The national smart metering programme has been beset by delays, not least the advent of next generation "SMETS 2" meters, for which the mandated implementation deadline has slipped further from July to October 2018 since we announced our 2017 results on 23 January 2018.

Revenue was £36.6m in the period, 1% down on the comparative period, reflecting a seasonally-influenced reduced level of external wall insulation installations ("EWIs"), offset by an increase in meter installation work. EBITA improved 27% to £1.6m (H1 FY17: £1.3m), due to a reduction of losses in our smart metering operations, offset in part by the volume impact from the aforementioned volume reductions in insulation (which we expect to pick up in the second half).

As we have previously highlighted, there have been continued delays to the national smart meter roll-out and indeed, there are further derogations permitting the installation of older SMETS1 meters between October 2018 and January 2019. This has adversely impacted anticipated installation volumes, compounding the challenges we outlined in our September 2017 annual report. This is having a general ongoing impact on engineer efficiency, and we took the prudent decision to review pricing or withdraw from certain contracts. As such, we continue to manage our smart metering contracts responsibly and provide strong and secure employment for our engineers. Whilst uncertainty remains in the smart metering market, costs will continue to rise and it is incumbent on all stakeholders in the national smart meter roll out programme to agree an achievable timetable with consistent volumes, if costs are not to rise further. Clearly this will influence further progression in our metering business moving forward.

Carbon prices remained largely stable during the period. The Scottish Government's flagship Home Energy Efficiency Programme for Scotland ("HEEPS") continued to perform well in the first half, which brings a diversified installation portfolio, focusing on central heating, boiler improvements and other energy efficiency installation measures.

We were delighted to announce in May 2018 the successful award of the Arbed 3 programme by the Welsh Government, a £55m three year area-based scheme which will target improvements to over 6,000 homes in areas throughout Wales, where households are more likely to be living in severe fuel poverty. The contract, with runs for a minimum three year period, with the opportunity of two one year extensions, was Everwarm's key strategic target. This takes us into a new Country, whilst capitalising on our existing expertise, and will be delivered by a joint venture with the Energy Saving Trust.

Other notable successes during the period included Renfrewshire (£10.1m over four phases of varied energy efficiency work) and Glasgow City EWI (£2.3m), both won under the new Scotland Excel framework. In addition, we saw an extension to ongoing EWI work for Fife (£6m) and new Clackmannanshire commercial work (£0.4m), a further non-domestic win following successful delivery of comparable North Ayrshire work during the period.

The above figures exclude the contribution of Orchard Energy, which was sold in September 2017 and therefore classified under discontinued activities in the comparative data.

Acquisition

Following the period end, Lakehouse completed the acquisition of Just Energy Solutions Ltd ("JES"), further details of which are outlined in note 13. JES is a private sector heating and renewables specialist, providing services for large energy companies, retailers and private householders. JES complements the current activities of the Group's three gas compliance businesses, which together provide national coverage with public sector clients and also bridges to our smart metering operations in Providor, which operates in the private sector. JES offers us a further route into the private sector for compliance and energy services and a means of delivering procurement opportunities to take JES outside its core home counties market. JES is also the country's leading provider of solar buyback services (as recently covered in the *Financial Times* on 5 April), which offers additional opportunity for growth.

The acquisition represents a further step in Lakehouse's growth strategy as the Group continues to expand its geographic breadth and range of service offerings.

New wins and order book

The Board is encouraged that high bidding success rates continue to be achieved by the Group. Contract wins in the period totalled £100m (some 10% higher than in-period revenues), contributing to a period-end order book of £396m. This represented a 7% improvement on the comparative period (31 March 2017: £369m) and excludes the £55m Arbed 3 win announced shortly after the period end. The order book remains strong across our continuing business lines as we continue to focus on securing contracts with long term visibility and robust value.

Our number of frameworks stood at 258 (31 March 2017: 251), with a value of £1.1bn (31 March 2017: £1.0bn), representing a 7% rise on the comparative period.

FINANCIAL REVIEW

The Operational Review provides a detailed overview of our trading performance during the period. This Financial Review therefore covers other aspects of the Income Statement, Cash Flows and the Balance Sheet.

Trading overview

Revenues from continuing operations grew by 3% to £91.1m (H1 FY17: £88.0m), driven by the mobilisation of the new contracts secured by Compliance in 2017. Underlying EBITA from continuing operations grew 65% to £2.7m (H1 FY17: £1.6m), through a combination of performance improvements and the benefits of the cost reduction exercise conducted undertaken over the past 18 months. Operating profits of £0.2m represented a reversal on the £3.1m loss in H1 FY17.

Central costs halved to £1.3m (H1 FY17: £2.5m), reflecting reductions to central departments, as we moved to empower businesses locally.

Underlying pre-tax profit was £1.9m (H1 FY17: £0.8m). Losses before tax from continuing operations were £0.5m (H1 FY17: £3.9m) and losses after tax from continuing operations were £0.3m (H1 FY17: £3.3m), resulting in losses per share from continuing operations of 0.2p (H1 FY17: 2.1p).

Discontinued activities and impairment

Losses from discontinued operations amounted to £11.8m (H1 FY17: profit of £0.2m), which included an asset impairment review, further details of which are contained in note 5. The period reflected a significant improvement in the performance of Property Services, which saw a pleasing return to operational stability, if not profitability. Construction was impacted by a number of project delays, so whilst the business remained profitable at an underlying trading level, it performed below expectations in the period. Both businesses have strong orderbooks that we believe will stand them well for the future under new ownership. The comparative period included the results of Property Services, Construction and Orchard Energy, which was sold in September 2017.

Exceptional items

Net exceptional items in the period amounted to a small cost of £0.2m (H1 FY17: income of £0.6m), reflecting some small legacy clean-ups. Further details are provided in note 3.

Amortisation of acquisition intangibles

When Lakehouse acquires businesses, the estimated value of their intangible assets (such as customer contracts and non-compete undertakings from vendors) is recognised on the Group's Balance Sheet. These acquisition intangibles are then amortised over their expected useful lives, estimated at between four and six years. We exclude this amortisation charge from our calculation of adjusted EBITA as the Board believes the underlying operating performance of our business is better understood before such costs.

Amortisation of acquisition intangibles was £2.2m during the period (H1 FY17: £5.3m) with the decrease of £3.1m reflecting the fact that we have taken amortisation charges in prior periods, meaning we are amortising a reduced base of intangible assets.

Finance expense

Finance expense is the interest charged on our debt facilities and the unwinding of the discount applied to deferred consideration on acquisitions. The expense in the first half was £0.7m (H1 FY17: £0.8m).

This expense includes a non-operating sum of £0.1m (H1 FY17: £0.1m) relating to the unwinding of discounts on deferred consideration due in respect of acquisitions.

Tax

The effective tax rate for the period was 21%, compared with a statutory rate of corporation tax of 19%. We expect a full year effective tax rate of 21%.

Earnings per share

Losses from continuing operations for the period were £0.3m (H1 FY17: loss of £3.3m). Based on the weighted average number of shares in issue during the period of 157.5m, this resulted in basic losses per share from continuing operations of 0.2p (H1 FY17: loss per share of 2.1p). Total losses per share (including discontinued operations) were 7.7p (H1 FY17: 2.0p).

Cash conversion

Underlying operating cash conversion from continuing operations represented an inflow of £0.7m (H1 FY17 restated: £3.5m). This in part reflected the higher than expected outturn for the year to 30 September 2017, where we identified our normalised year-end debt position would have been some £10m higher (including activities since discontinued). The Board calculates underlying operating cash conversion as cash generated from continuing operations, plus exceptional cash expenses, divided by underlying EBITA from continuing operations, to provide a consistent comparison of underlying cash generation (further details are outlined in notes 3 and 11).

Operating cash outflow in the period was £10.9m (H1 FY17: £1.1m). We saw a poor performance in the Construction business, which underpinned an outflow from discontinued operations in the period of £9.8m (H1 FY17: £3.8m); we are confident this can be addressed by a potential purchaser in managing the business for cash for a short period.

On a steady state basis, we expect to continue to target an average annual underlying operating cash conversion of 80% over the long term.

Net debt and banking facilities

At 31 March 2018, the Group had net debt of £14.2m (31 March 2017: £24.7m), comprising cash and other items of £3.8m (31 March 2017: £0.3m), together with an £18m drawing (31 March 2017: £25m) under our revolving credit facility, out of a total facility of £25m. Net debt reflects £1.2m in acquisition expenditure in the period, all relating to deferred consideration payments.

A sum of £0.6m remained on the balance sheet in relation to deferred consideration at 31 March 2018 (31 March 2017: £2.5m), which would be payable within one year if the relevant conditions are met.

Statement of financial position

The principal items in our Balance Sheet are goodwill, intangible assets, debt and working capital.

	31-Mar 2018	31-Mar 2017	30-Sep 2017
	£m	£m	£m
Goodwill and intangibles	49.3	64.3	51.4
Tangible and other	1.5	6.7	5.6
Fixed assets	50.8	71.0	57.0

Current assets	69.8	79.3	70.4
Net cash and equivalents	3.6	0.1	25.9
Current liabilities	-66.1	-71.2	-71.8
Net current assets	7.3	8.2	24.5
Non-current liabilities	-2.2	-6.5	-4.1
Debt	-17.8	-24.8	-27.2
Net assets	38.1	47.9	50.2
Net current assets (excluding cash)	3.7	8.1	-1.4

Net current assets excluding cash were £3.7m (31 March 2017: £8.1m). We continued to control tightly our use of working capital during the first half but as discussed above, the Construction business consumed cash due to a number of ongoing account settlements, together with the aforementioned strong end to the year ending 30 September 2017, which had a £10m impact.

As at 31 March 2018, we held provisions of £2.3m (31 March 2017 £4.7m; 30 September 2017: £4.0m). Some £0.2m was utilised in in the period in relation to resolving the ongoing matters to which the provisions pertain, in line with management expectations and a further £1.5m reclassified to liabilities held for sale. Further details are set out in Note 10.

Risks

The Board considers strategic, financial and operational risks and identifies actions to mitigate those risks. Key risks and their mitigation were disclosed on pages 26 to 29 of the Annual Report for the year ended 30 September 2017.

We continue to manage a number of potential risks and uncertainties - many of which are common to other similar businesses including claims and disputes - which could have a material impact on short and longer term performance.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 March 2018

	Notes	Unaudited six months ended 31 March 2018 £'000	Unaudited six months ended 31 March 2017 £'000	Audited year ended 30 September 2017 £'000
Continuing Operations				
Revenue	2	**91,058**	88,030	181,496
Cost of sales		**(79,038)**	(78,239)	(154,530)
Gross profit		**12,020**	9,791	26,966
Other operating expenses		**(9,152)**	(8,276)	(20,358)
Share of results of joint venture		**(213)**	90	786
Operating profit before exceptional and other items		**2,655**	1,605	7,394
Exceptional costs	3	**(616)**	(326)	(2,127)
Exceptional income - other	3	**373**	921	1,624
Exceptional income - profit on disposal of subsidiary	3	**-**	-	5,402
Amortisation of acquisition intangibles	3	**(2,186)**	(5,254)	(10,495)

	Notes			
Operating profit / (loss)	2	**226**	(3,054)	1,798
Finance expense		**(727)**	(818)	(1,985)
Investment income		**-**	34	16
Loss before tax **Profit/(loss) before tax**	2 3	**(501)**	(3,838)	(171)
Taxation	4	**173**	571	934
(Loss) / profit for the period attributable to the equity holders of the Group from continuing operations		**(328)**	(3,267)	763
Discontinued operations				
(Loss) / profit for the period from discontinued operations		**(11,826)**	184	(753)
(Loss) / profit for the period attributable to the equity holders of the Group		**(12,154)**	(3,083)	10
(Loss) / earnings per share from continuing operations				
Basic	7	(0.2)p	(2.1)p	0.5p
Diluted	7	(0.2)p	(2.1)p	0.5p
Total (loss) / earnings per share from continuing and discontinued operations and attributable to the equity holders of the Group				
Basic	7	(7.7)p	(2.0)p	0.0p
Diluted	7	(7.7)p	(2.0)p	0.0p

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 March 2018

	Notes	**As at 31 March 2018 £'000** (unaudited)	**As at 31 March 2017 £'000** (unaudited)	**As at 30 September 2017** £'000 (audited)
Non-current assets				
Goodwill		**42,169**	47,626	42,169

Other intangible assets		**7,093**	16,692	9,233
Property, plant and equipment		**1,271**	2,622	1,905
Interest in joint venture		**226**	1,027	1,196
Trade and other receivables		**-**	2,148	456
Deferred tax asset		**-**	897	2,085
		50,759	71,012	57,044
Current assets				
Inventories		**4,296**	7,443	4,490
Amounts due from customers under construction contracts		**-**	3,308	6,269
Trade and other receivables		**41,471**	68,523	59,129
Corporation tax receivable		**-**	20	551
Assets held for sale	5	**24,138**	-	-
Cash and cash equivalents	9	**3,730**	302	26,129
		73,635	79,596	96,568
Total assets		**124,394**	150,608	153,612
Current liabilities				
Amounts due to customers under construction contracts		**-**	630	1,786
Trade and other payables		**41,434**	68,197	69,178
Finance lease obligations	9	**131**	230	182
Provisions	10	**218**	2,358	893
Liabilities held for sale	5	**24,183**	-	-
Income tax payable		**256**	-	-
		66,222	71,415	72,039
Net current assets		**7,413**	8,181	24,529
Non-current liabilities				
Trade and other payables		**-**	4,201	973
Loans and borrowings	8,9	**17,750**	24,523	27,077
Finance lease obligations	9	**89**	224	144
Deferred tax liability		**172**	-	-

Provisions	**2,073**	2,308	3,137
	20,084	31,256	31,331
Total liabilities	**86,306**	102,671	103,370
Net assets	**38,088**	47,937	50,242
Equity			
Called up share capital	**15,753**	15,753	15,753
Share premium account	**25,314**	25,314	25,314
Share-based payment reserve	**776**	776	776
Own shares	**(290)**	(290)	(290)
Merger reserve	**20,067**	20,067	20,067
Retained earnings	**(23,532)**	(13,683)	(11,378)
Equity attributable to equity holders of the Company **Equity attributable to equity holders of the Company**	**38,088**	47,937	50,242

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 March 2018

	Attributable to the equity holders of the Group						
	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Own shares £'000	Merger reserve £'000	Retained earnings £'000	Total equity £'000
At 1 October 2016	15,753	25,314	776	(290)	20,067	(10,600)	51,020
Loss for the period	-	-	-	-	-	(3,083)	(3,083)
At 31 March 2017	15,753	25,314	776	(290)	20,067	(13,683)	47,937
Profit for the period	-	-	-	-	-	3,093	3,093
Dividends paid	-	-	-	-	-	(788)	(788)
At 30 September 2017	15,753	25,314	776	(290)	20,067	(11,378)	50,242
Loss for the period	-	-	-	-	-	(12,154)	(12,154)
At 31 March 2018	**15,753**	**25,314**	**776**	**(290)**	**20,067**	**(23,532)**	**38,088**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 March 2018

	Notes	Unaudited six months ended 31 March 2018 £'000	Unaudited six months ended 31 March 2017 £'000	Audited year ended 30 September 2017 £'000
Cash flows from operating activities				
Cash (used in) / generated from operations	11	**(10,892)**	(1,139)	13,373
Interest paid		**(443)**	(505)	(1,385)
Interest received		**1**	31	3
Taxation		**132**	1,286	655
Net cash (used in) / generated from operating activities		**(11,202)**	(327)	12,646
Cash flows from investing activities				
Payment of deferred consideration on prior year acquisitions		**(1,246)**	(2,588)	(2,588)
Sale of shares in subsidiary, net of cash disposed of		**-**	-	12,044
Purchase of property, plant and equipment		**(235)**	(494)	(909)
Purchase of intangible assets		**(150)**	(202)	(462)
Sale of property and equipment		**42**	102	153
Net cash (used in) / generated from investing activities		**(1,589)**	(3,182)	8,238
Cash flows from financing activities				
Dividend paid to shareholders		**-**	-	(788)
(Repayments) of / proceeds from bank borrowings		**(9,500)**	4,000	6,500
Repayments to finance lease creditors		**(106)**	68	(60)
Finance issue costs		**(2)**	(186)	(336)
Net cash (used in) / generated from financing activities		**(9,608)**	3,882	5,316
Net (decrease) / increase in cash and cash equivalents		**(22,399)**	373	26,200
Cash and cash equivalents at beginning of the period		**26,129**	(71)	(71)
Cash and cash equivalents at end of the period		**3,730**	302	26,129

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 March 2018

1. Basis of preparation

The results presented in this report are unaudited and have been prepared in accordance with the recognition and measurement of International Financial Reporting Standards (`IFRS') as adopted by the EU that are expected to be applicable to the financial statements for the year ending 31 September 2018 and on the basis of the accounting policies to be used in those financial statements. The figures for the year ended 31 September 2017 are extracted from the statutory accounts of the group for that period. The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements, being the statutory financial statements for Lakehouse plc, as at 30 September 2017, which have been prepared in accordance with IFRS as adopted by the European Union.

The condensed consolidated financial statements for the six months ended 31 March 2018 do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 30 September 2017 have been approved by the Board of Directors and delivered to the Registrar of Companies. These accounts, which contained an unqualified audit report under Section 495, did not include a reference to any matters to which the auditor drew attention by way of emphasis of matter and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

Significant accounting policies

The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those that are expected to be applicable to the financial statements for the year ending 31 September 2018.

Seasonality

The Group has seasonal influences in specific areas. The Compliance division experiences higher activity levels in gas and lift services in colder weather, leading to higher working capital requirements and lower profitability in winter, with the opposite in the summer. Within Energy Services it is not possible to render walls or use fixing glue at temperatures below three degrees centigrade, nor perform cladding work in high winds. As such, weather has an influence on this business, meaning that the Group has to plan to increase capacity during warmer and more settled periods to compensate for time lost during colder ones. This typically works to the benefit of the second half of the financial year, at the expense of the first half.

2. Operating segments

The Board of Directors has determined an operating management structure aligned around the two core activities of the Group, with the following operating segments applicable:

- Compliance
- Energy Services

All revenue and profit is derived from operations in the United Kingdom only.

The following is an analysis of the Group's revenue and Underlying EBITA by reportable segment:

	Unaudited six months ended 31 March 2018 £'000	Unaudited six months ended 31 March 2017 £'000	Audited year ended 30 September 2017 £'000
Revenue			
Compliance	**56,075**	51,767	104,319
Energy Services	**36,571**	36,910	78,960
Total segment revenue	**92,646**	88,677	183,279
Inter-segment elimination	**(1,588)**	(647)	(1,783)
Revenue from external customers	**91,058**	88,030	181,496

Inter-segment trading comprises services provided by the Compliance segment for the Property Services segment (reported within discontinued operations) and are charged at prevailing market prices.

2. Operating segments (continued)

Reconciliation of Underlying EBITA to loss before taxation

	Unaudited six months ended 31 March 2018 £'000	Unaudited six months ended 31 March 2017 £'000	Audited year ended 30 September 2017 £'000
Underlying EBITA by segment			
Compliance	2,365	2,853	7,986
Energy Services	1,599	1,256	4,015
Central costs [1]	(1,309)	(2,504)	(4,607)
Total underlying EBITA	2,655	1,605	7,394
Exceptional costs	(616)	(326)	(2,127)
Exceptional income	373	921	1,624
Amortisation of acquisition intangibles	(2,186)	(5,254)	(10,495)
Profit on disposal of Orchard	-	-	5,402
Operating profit / (loss)	226	(3,054)	1,798
Finance costs	(727)	(818)	(1,985)
Investment income	-	34	16
Loss before taxation	(501)	(3,838)	(171)

[1] Central costs are those costs that are not allocated directly in support of a segment and comprise certain group service functions.

3. Exceptional and other items, including amortisation of acquisition intangibles

	Unaudited six months ended 31 March 2018 £'000	Unaudited six months ended 31 March 2017 £'000	Audited year ended 30 September 2017 £'000
Acquisition costs	-	14	14
Restructuring, EGM and other costs	344	312	2,113
Total exceptional costs	344	326	2,127
Release of deferred consideration	(101)	(921)	(1,624)
Profit on sale of Orchard (Holdings) UK Limited	-	-	(5,402)
Total exceptional items	243	(595)	(4,899)
Amortisation of acquisition intangible assets	2,186	5,254	10,495
	2,429	4,659	5,596
Unwinding discount of deferred consideration	55	140	238
Total exceptional and 'other items'	2,484	4,799	5,834

3. Exceptional and other items, including amortisation of acquisition intangibles (continued)

Exceptional and other items in the period reduced the Group's profit before tax by £2.5m and related to the following items:

Exceptional items

Restructuring EGM and other costs of £0.3m (2017: £0.3m) reflects small number of legacy clean-up and restructuring costs during the period amounting to £0.6m, net of £0.3m of associated accruals being released against those sums.

Release of deferred consideration of £0.1m (2017: £0.9m) reflects the settlement of certain deferred consideration sums at a level lower than expectations.

Amortisation of acquisition intangibles

Amortisation of acquisition intangibles was £2.2m for the period (2017: £5.3m); with the £3.1m reduction reflecting the fact that we have taken amortisation charges in prior periods, meaning we are amortising a reduced base of intangible assets.

Unwinding discount of deferred consideration

Unwinding discount of deferred consideration of £0.1m (2017: £0.1m) reflects the present value of deferred sums, discounted at a post-tax rates of between 2.2% and 8.5%, due on outstanding payments for acquisitions.

Accounting treatment

The costs discussed above are considered non-trading because they are not part of the underlying trading of the Group and (aside from amortisation of acquisition intangibles and unwinding discount of deferred consideration) are not expected to recur year to year.

4. Taxation

The income tax charge for the six months ended 31 March 2018 is calculated based upon the effective tax rates expected to apply to the Group for the full year of 21% (2017: 14%).

5. Discontinued operations

Losses from discontinued operations amounted to £11.8m (H1 FY17: profit of £0.2m) on associated revenues of £41.3m (H1 FY17: £61.8m). The associated cash outflow for the period was £9.8m, discussed also in note 11. At 31 March 2018, assets held for sale were £24.1m and liabilities held for sale were £24.2m.

Discontinued activities represent the Group's Construction and Property Services divisions (the "Activities"), with the comparative period also including Orchard Energy, which was sold in September 2017. In determining the classification of the Activities as discontinued at 31 March 2018, the Board had regard to the conditions that needed to be met under IFRS5 "Non-current Assets Held for Sale and Discontinued Operations". As the result of a sale process, the Board is engaged in active discussions with a potential purchaser, having signed heads of terms as at the date of this report. The Board is committed to the exit from the Activities and expects this to be completed within 12 months.

In classifying the Activities as discontinued, we are required to consider their balance sheets for potential impairment. The key items of net asset value relate to unbilled sums and deferred tax, with the balance of working capital sums being financially neutral. "Unbilleds" are a key feature of the construction industry and their settlement often involves protracted negotiations; their valuation therefore involves management judgement as to the likely outcome. Such an approach however reflects the ability of the Group to influence directly those discussions and in determining the lower of carrying amount and fair value less cost to sell in accordance with IFRS5, we took account of the loss of direct control over those negotiations, once ownership of the Activities passes to a third party. Although any buyer will be legally required to use best endeavors to collect such sums, the impairment calculation made a conservative estimate of their likely outcome and will be reviewed accordingly in the event of a sale taking place prior to year end. By the same measure, utilisation of the deferred tax asset is dependent on future profitability of the Activities, so was similarly impaired; the balance will also reviewed at year end.

6. Dividends

The proposed final dividend for the year ended 30 September 2017 of 0.5 pence per share amounting to £0.8m and representing a total dividend of 0.5 pence for the full year (2016: 1.5 pence per share), was paid on 6 April 2018 to the shareholders on the register at the close of business on 2 March 2018.

7. (Losses) / earnings per share

The calculation of the basic and diluted (losses)/earnings per share is based on the following data:

	Unaudited six months ended 31 March 2018	Unaudited six months ended 31 March 2017	Audited year ended 30 September 2017
	Number	Number	Number
Weighted average number of ordinary shares for the purposes of basic loss / earnings per share	157,527,103	157,527,103	157,527,103
Diluted			
Effect of dilutive potential ordinary shares:			
Share options	6,803,308	6,221,895	6,354,933
Weighted average number of ordinary shares for the purposes of diluted loss / earnings per share	164,330,411	163,748,998	163,882,036
(Loss) / earnings for the purpose of basic and diluted earnings per share being net loss attributable to the owners of the Company from continuing operations (£'000)	(328)	(3,267)	763
Basic (loss) / earnings per share	(0.2)p	(2.1)p	0.5p
Diluted (loss) / earnings per share	(0.2)p	(2.1)p	0.5p
Total (loss) / earnings for the purpose of underlying earnings per share being underlying net profit attributable to the owners of the Company (£'000)	(12,154)	(3,083)	10
Basic (loss) / earnings per share	(7.7)p	(2.0)p	0.0p
Diluted (loss) / earnings per share	(7.7)p	(2.0)p	0.0p

The number of shares in issue at 31 March 2018 was 157,527,103.

The weighted average number of Ordinary shares in issue during the year excludes those accounted for in the own shares reserve.

8. Loans and borrowings

	31 March 2018	31 March 2017	30 September 2017
	£'000	£'000	£'000
Bank loans and credit facilities at amortised cost:			
Current	-	-	-

Non-current	17,750	24,523	27,077
	17,750	24,523	27,077
Maturity analysis of bank loans and credit facilities falling due:			
In one year or less, or on demand	-	-	-
Between one and two years	17,750	24,523	27,077
Between two and five years	-	-	-
After more than five years	-	-	-
	17,750	24,523	27,077

Following the sale of Orchard Energy in September 2017, we requested that RBS reduce our RCF from £35m to £25m, with an effective date of 2 October 2017. We also agreed an extension with RBS of the facility from December 2018 to February 2019.

9. Net debt

	31 March 2018 £'000	31 March 2017 £'000	30 September 2017 £'000
Cash and cash equivalents / (overdraft)	3,730	302	26,129
Bank loans and credit facilities	(17,750)	(24,523)	(27,077)
Finance lease obligations	(220)	(454)	(326)
	(14,240)	(24,675)	(1,274)

10. Provisions

	Legal and other £'000
At 1 April 2017	4,666
Disposal of Orchard (Holdings) UK Limited	(130)
Additional provision	1,209
Utilised in the period	(1,715)
At 30 September 2017	4,030
Reclassified to liabilities held for sale	(1,497)
At 30 September 2017 (restated)	2,533
Utilised in the period	(242)
At 31 March 2018	**2,291**
Current provisions	**218**
Non-current provisions	**2,073**

Legal and other

Legal and other costs relate to property dilapidation obligations, potential contract settlement costs and other potential legal and regulatory settlement costs. These are expected to result in an outflow of economic benefit over the next one to three years. Some £0.2m was utilised in in the period in relation to resolving the ongoing matters to which the provisions pertain.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 31 March 2018

11. Cash (used in) / generated from operations

	Unaudited six months ended 31 March 2018 £'000	Unaudited six months ended 31 March 2017 £'000	Audited year ended 30 September 2017 £'000
Operating profit / (loss)	226	(3,054)	1,798
Adjustments for:			

Depreciation	477	672	1,261
Amortisation of intangible assets	2,369	5,457	10,931
Impairment of tangible fixed assets	-	-	394
Profit on disposal of property, plant and equipment	(38)	(76)	(107)
Profit on disposal of subsidiary	-	-	(5,402)
Changes in working capital:			
Inventories	(828)	(2,256)	697
Amounts owed by customers under construction contracts	(2,660)	(147)	(3,108)
Amounts owed to customers under construction contracts	(531)	(60)	1,096
Trade and other receivables	(2,515)	(4,234)	6,533
Trade and other payables	(5,911)	2,826	458
Provisions	(416)	(500)	(1,136)
Adjustment of (loss) / profit from discontinued operations	(1,065)	233	(42)
Cash (used by) / generated from operations	(10,892)	(1,139)	13,373

Underlying operating cash conversion calculation*

Cash (used by) / generated from operations	(10,892)	(1,139)	13,373
Exceptional and other cash costs paid in the period	1,768	832	1,882
Cash impact of net change in working capital from discontinued operations*	9,785	3,838	(2,182)
Underlying cash generated from continuing operations*	661	3,531	13,073
Underlying operating profit from continuing operations, before exceptional items and amortisation of acquisition intangibles*	2,655	1,605	7,394
Underlying operating cash conversion from continuing operations %*	25%	220%	177%

* The comparative figures have been restated for the purposes of comparison.

Exceptional and other costs in the period relate to the cash impact of exceptional and other items disclosed in Note 3.

12. Related party transactions

There have been no material changes to the related party balances disclosed in the Group's Annual Report and Accounts 2017 and there have been no related party transactions that have materially affected the financial position or performance of the Group in the six months to 31 March 2018.

13. Post balance sheet events

Just Energy Solutions Limited

On 15 May 2018 the Group acquired the entire share capital of Just Energy Solutions Limited. The initial consideration was £nil, with an estimated deferred consideration of £0.5m, payable based on future earnings of the business and across the first and second anniversaries of completion.

Due to the proximity of the acquisition date to the interim reporting deadline it has not been practical to perform a provisional fair value assessment of the assets acquired and the liabilities assumed.

The last unaudited company accounts to 30 April 2017, under FRS 102, showed the following results;

	£'000
Revenue	5,716
Loss before tax	(140)
Taxation	75
Loss for the period	(65)
Net assets	288

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