2 September 2020

The information communicated within this announcement is deemed to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. Upon the publication of this announcement, this inside information is now considered to be in the public domain.

Accrol Group Holdings plc
("Accrol", the "Group" or the "Company")
AIM: ACRL

AUDITED FINAL RESULTS FOR THE YEAR ENDED 30 APRIL 2020
Building an infrastructure for growth

Accrol Group, the UK's leading independent tissue converter, announces its audited Final Results for the year ended 30 April 2020 ("FY20" or the "Period").

Continuing progress

The Group has continued to perform well across all aspects of the business, delivering accelerating monthly exit run-rates in line with the Board's expectations. Accordingly, the results for FY20 are ahead of market expectations.

With strong and experienced leadership across the business and a now acceptable operational cost base, the Group has the right foundations on which to begin building an organisation of size and scale. The simple strategy of delivering great-value products with consistent service is enabling the business to outperform the tissue sector. Accrol's management team is now focused on expanding in the Group's core markets and diversifying into new personal hygiene and household products, where consumers would benefit greatly from the application of the Accrol model, with great value products delivered through world-class operational efficiency. Accordingly, the Board is confident in the prospects for the Group.

Key financials:

	FY20	*FY19*	*FY18*
Underlying results			
Core revenue[1]	***£133.6m***	*£116.7m*	*£115.3m*
Adjusted gross profit[2]	***£30.5m***	*£21.7m*	*£24.5m*
Adjusted gross margin	***22.7%***	*18.2%*	*17.5%*
Adjusted EBITDA[3]	***£10.6m***	*£1.0m*	*Loss (£5.8m)*
Adjusted profit/(loss) before tax	***£4.7m***	*(£2.8m)*	*(£9.1m)*
Adjusted net debt[4]	***£17.9m***	*£27.1m*	*£33.8m*
Adjusted earnings/(loss) per share basic	***1.9p***	*(1.4p)*	*(7.4p)*
Reported results			
Revenue	**£134.8m**	£119.1m	£139.7m
Gross profit	**£29.5m**	£17.6m	£24.5m
Gross margin	**21.9%**	14.7%	17.5%
Loss before tax	**(£1.9m)**	(£14.0m)	(£24.1m)
Net debt	**£27.9m**	£27.1m	£33.8m
Loss per share basic and diluted	**0.8p**	6.2p	18.7p

[1] *Core Revenue comprises Toilet Tissue, Kitchen Towel and Facial Tissue sales.*
[2] *Adjusted gross profit excludes separately disclosed items reported in cost of sales.*
[3] *Adjusted EBITDA is defined as profit before finance costs, tax, depreciation, amortisation, separately disclosed items and share based payments, is a non-GAAP metric used by management. IFRS 16 impact £2.3m giving £8.3m Adjusted EBITDA pre-IFRS 16.*
[4] *Adjusted net debt excludes operating type leases recognised on balance sheet in current year in accordance with IFRS 16.*

Highlights, current trading, and outlook:

- Delivered core revenue growth of 14.5% in the year, compared to sector growth of 7.7%*
- Gross margin improvement accelerated, increasing by 49% from FY19 to 21.9% (FY19: 14.7%) as the business continues its expansion into higher quality and higher value products
- Ongoing investment in operational efficiency and capacity in FY21 to deliver and maintain a world-class business
- Administration costs already reduced by 43% in last two years, equating to reduction of c.£14.4m
- Separately disclosed items, relating to further restructuring in FY21, are expected to be less than £1.0m, down from £2.2m in the year under review and £7.9m in FY19
- All employees to be paid no less than the Real Living Wage by H2 FY21 - operational efficiency is not driven by low pay in a sustainable business
- Continued focus on sustainability - intention to source all the Group's energy requirement from renewables in the short to mid-term, at a lower cost per unit of measure
- On track to meet market expectations in FY21 but the Board remains mindful of the continuing risk of operational disruption posed by COVID-19
- Opportunities to grow and develop the Group being explored - clear focus on earnings enhancement and the continued improvement of shareholder value

** Source: IRI data*

Dan Wright, Executive Chairman of Accrol, said:

"The business has progressed enormously over the last three years. Despite the many challenges, the management team has simplified the business and created a strong foundation on which to begin the next phase of the Group's development. I am excited for the future. The team has the ambition, ability and drive to build a much bigger business, applying Accrol's philosophies on great products at great value and world-class operational efficiency across a wider product range."

Gareth Jenkins, Chief Executive Officer of Accrol, added:

"After joining the organisation, almost three years ago, I reported to shareholders that the core of our business was a good one. Following the completion of the turnaround, this simplified and strengthened organisation provides a firm base on which to build a business of scale, by expanding in our core markets and diversifying into new personal hygiene and household products.

"The opportunities for a relentlessly efficient business, which delivers great-value products, are growing, as the world recalibrates in the aftershock of COVID-19 and consumers move away from brands which offer little value. Whilst the route to improvement is not consistently upward and in a straight line, I have no doubt that the rewards for shareholders looking at the long term, will be significant."

For further information, please contact:

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Notes to Editors

Accrol Group Holdings plc, based in Lancashire, is a leading tissue converter and supplier of toilet tissues, kitchen rolls and facial tissues, as well as other tissue products, to major discounters and grocery retailers throughout the UK. The business operates from four sites in Lancashire:

- A manufacturing, storage, and distribution facility in Blackburn;
- A storage and administrative centre in Blackburn;
- A facial tissue plant, also in Blackburn; and
- A manufacturing, storage, and distribution facility in Leyland.

For more information, please visit www.accrol.com.

CHAIRMAN'S STATEMENT

The team at Accrol has delivered a strong set of results, demonstrating an improving performance as the year progressed and the successful turnaround was concluded. Margins have continued to recover to historical levels, delivering Adjusted EBITDA for the year, after the adoption of IFRS 16, of £10.6m, comfortably ahead of consensus market expectations.

Core revenue continued to strengthen, reaching a record level of £133.6m, and the Group exited FY20 with incrementally improving run rates. The Group increased its share of the total tissue market during the year by circa 6.5% from 12.3% to 13.1%, with the total market growing at 7.7% in the Period. We believe the consumer push for value will be boosted in the COVID-19 shake-out, as consumers seek greater value, as demonstrated in the last recession which prompted a significant move away from higher cost brands.

As the full benefits of the turnaround and the simplification of the business drop to the bottom line, we are able to turn our attention to strengthening and broadening the business further, to create a diversified business of size and scale, which delivers substantial shareholder returns. Our relentless drive for efficiency, however, is unabated and we will continue to set ourselves challenging improvement targets to ensure that the business never again becomes complacent.

Results

Total revenue in FY20 was c.£134.8m, with core revenues increasing by 14.5% to £133.6m (FY19: £116.7m), compared with overall market growth of circa 8%. Gross margin improved by 49% to 21.9% (FY19 14.7%). Adjusted EBITDA, following the adoption of IFRS 16 as detailed in the Financial Review, was £10.6m (£8.3m pre-IFRS 16). Adjusted net debt continued to reduce ahead of market expectations, ending the Period at £17.9m, compared with £24.8m at 31 October 2019, £27.1m at 30 April 2019, and £33.8m at 30 April 2018.

New banking arrangements

The Company has recently improved and extended its banking facilities to August 2023, providing greater accessibility, flexibility, and headroom for the business, as it pursues its growth strategy.

Simplify, Strengthen and Grow

Our vision is to build a diversified Group of size and scale, which is less exposed to input cost fluctuations and is focused on the broader private label personal hygiene and household products markets.

Our focus in the year under review was on increasing production capacity, normalising continuous improvement processes, managing foreign exchange challenges, growing both new and existing customers and preparing for the switch to a new IT system, which went live in July 2020 and has transitioned successfully. The considerable achievements of our outstanding team are detailed in the CEO's Review, but it is important to note that each of these actions, which were completed on budget and to timetable, have strengthened the business and pave the way for the next stage of Accrol's growth.

Our focus going forward is to increase capacity and diversify the business. We have a five-year road map in place, which covers our people, the markets in which we intend to compete, the operational excellence standards we have set and expect, the responsibility and actions we are taking in our environment and the future-perfect vision we have for the Group. Details of the plan are available in the FY20 Investor Presentation on the Group's website www.accrol.com and in our Annual Report, which will be posted to shareholders in late September. We believe that the personal hygiene and household products markets presents exciting growth opportunities. It is currently dominated by branded products, with a high price to value ratio, and we have identified significant potential to extend our consumer value philosophy to all essential, daily-use tissue products.

Within our existing market there are further opportunities to increase our market share, through greater penetration of the luxury tissue segment. We have already made good progress on this, supported by the strength of our relationships with existing customers, coupled with successful R&D in tissue material and processes.

We are confident that we can successfully expand in these areas through a mix of R&D and selective acquisition.

Dividend

Whilst the Board is not proposing a final dividend for FY20, should the Group's improving financial performance continue on its current and expected trajectory the recommencement of dividend payments is likely in the medium term.

Our people

People are key to us achieving our ambitions, and, during the year, we have continued to strengthen the team below senior management, adding further strength in depth, and increasing skill levels across the Group. It is our intention to strengthen the senior team further in the near-term, with the appointment of a Chief Financial Officer to the Board.

We value all our people and strive to demonstrate this in actions rather than words. As part of the turnaround process, wage levels have been improving throughout the business. At 30 April 2018, the percentage of employees on or above the Real Living Wage, as defined by the Living Wage Foundation, was just 35%. By 30 April 2020, this had risen to 94% and our intention is to reach 100% by October 2020.

As automation of the business progresses, higher skills will be required. We are building a highly capable workforce and plan to implement a new grading structure later in the year, which will clearly define responsibility, skills and reward and provides a highly visible career path within the Group to attract and retain more skilled and talented people.

COVID-19

The management team took rapid and timely steps to protect the Group's people and the business in February, as information began to flow through from China and Europe:

- All at risk employees were self-isolated at home from 20 February 2020;
- Social distancing was implemented for factory-based employees;
- Increased cleansing facilities and protocols were established across all sites;
- All office-based staff were moved to working from home at lockdown; and
- Temperature checks and questionnaires are completed at every entry point.

I would like to take this opportunity to thank all my colleagues across the business for their unremitting hard work and commitment. They have performed exceptionally throughout the COVID-19 crisis and delivered against particularly demanding schedules created by panic buying during the early stages of the lockdown period.

We are not complacent and remain highly vigilant, reviewing and updating our strict COVID-19 procedures daily to ensure the ongoing health of our team and the business. The confidence of the organisation continues to flourish under the strong leadership of our senior management team and its clear focus. I very much look forward to working with the whole team as we enter an exciting growth phase of our development.

Environmental, Social and Governance ("ESG")

Whilst there is increasing governmental, investor and media attention on ESG, I am proud to say that ESG is genuinely important to us at Accrol. It is an integral part of our improvement programme and has been a key element since the early days of the turnaround. We believe that protecting the environment is an essential driver in our business and we consider it our duty to ensure that our environmental impact is reduced year on year. It is our intention to source all the energy needed for our sites from renewables in the short to mid-term, as we continue our drive towards zero emissions. We are also exploring an opportunity to substantially reduce our transport requirements, which impact our carbon footprint significantly.

Equally important is creating a sustainable, skilled workforce. Despite the financial challenges which have faced the business during the turnaround, we have never lost our focus on our people and have made significant improvements on job security and remuneration. There is, undoubtedly, more to do but the recent results from our Employee Engagement Survey show outstanding levels of engagement once again, with 91% of employees stating they are proud to work for Accrol. In this year's Annual Report, we will address the Gender Pay Gap performance of our business. Interestingly, this shows that women at Accrol are paid more on average. While this may seem pleasing on the surface, our aim is to ensure underlying equality in the results.

We are proud of what we have achieved so far, but our culture is for relentless improvement, which applies to all aspects of the business. I look forward to reporting on our progress next year.

FCA investigation closed

As reported on 20 January 2020, the Company was notified by the FCA that it had closed its investigation and was not taking any action. Further details are in Note 5 to the accounts.

Current Trading and Outlook

The Group entered the new financial year in a stronger position than ever before. We are looking to the future with confidence, as we build on the firm foundations created during the turnaround, to build a larger and sustainable growth business in a rapidly expanding market.

We have already successfully broadened our customer base, and this is expected to continue over the next 12 months to include the vast majority of major UK grocery retailers. Accrol remains unique with its broad customer base in its ability to benefit across all revenue streams wherever they materialise.

The Group continues to perform well and is on track to meet market expectations for FY21, despite some fluctuations in consumer shopping habits creating a short-term reduction in discounter volumes in Q1 FY21, as detailed in the CEO's Review. Whilst mindful of the ongoing risks of COVID-19, the Board is confident in the prospects for the Group and its ability to capitalise on opportunities in both its core markets, and the wider new personal hygiene and household sector.

Dan Wright
Executive Chairman
2 September 2020

CHIEF EXECUTIVE OFFICER'S REVIEW

The turnaround of the business was completed during the year under review and the organisation is in a much stronger position. Through simplification and a clarity of focus in all aspects of the Group, over the last two years, we have reduced administration and distribution expenses by 37% from £47.9m to £30.3m, increased gross margins by 49% (14.7% to 21.9%), grown core revenue by 15.9%, from £115.3m to £133.6m, and almost halved adjusted net debt from £33.8m down to £17.9m.

To be very clear, however, the leadership of the Group considers this position to be the new start point: it gives the business good foundations on which to build upon. Whilst it is an outstanding improvement over a short period of time, and one of which the team can be proud, there is always more to do. Whilst returns are substantially better, they do not yet meet the expectations of the Board or leadership team. The management's attention is now focused on building a more diversified business, of size and scale, that delivers significant consumer benefits through the supply of great-value products, producing returns for shareholders in the top quartile of any competitor in the wider household and personal hygiene sectors.

The relentless drive for increasing efficiency throughout the organisation will never cease. Over the first quarter of FY21, a new IT system has successfully fulfilled the business' needs in every area from finance, procurement, operations and stock management. By the end of H1 FY21, the Blackburn tissue plant will be fully automated, with robotization replacing all manual finished goods movements, enabling us to reduce headcount to 310 in H2 FY21, compared to a peak of 689 people in 2017.

Strategy - *Brand Killers*

Our growth strategy is simple: take market share from established brands by providing consumers with the best-value products and our customers with great service, whilst ensuring we are the lowest cost operator.

Market overview

Whilst our business, thankfully, was largely unaffected by the COVID-19 restrictions, because of timely social distancing actions, demand for tissue products in our market rose rapidly in the early stages of the lockdown. Accrol's sales benefitted slightly (up by c.£3m) from this unprecedented rise in demand. However, we were unable to capitalise further due to the strict controls we place on stock levels. Our business operates primarily on a just in time basis and, whilst we operated >100% capacity by making short-term changes to get product on shelves during this unusual period, the majority of demand for toilet tissue during this period was satisfied by the brand manufacturers, who hold higher levels of stock.

The combination of availability during the panic-buying period and vastly increased promotional activity from the brands, created a reduction in private label's share of the market for the first time in 10 years, from 50.4% (52Weekly Average 2019) to 49% (52WA 20). The leading brands market share grew over the same period from 29.8% to 31%. Volume sold on promotion for the brands rose from 59% to 80% (*Source: IRI data*). It is pleasing to note that Accrol's toilet tissue sales grew by 21% in this Period and gross margin increased by 49%. The promotional activity of brands in response to the 10-year upward growth trend in private label products is not unusual, as evidenced in other markets, as they try to address the move of consumers to better-value products.

The short-term rise in demand for toilet tissue in Q4 has unwound, with equal decline in volumes across the sector in the first quarter of FY21. I am pleased to report that, as consumer activity has normalised, sales returned to pre-lockdown levels as we entered Q2 FY21. Notably, the Group has continued to deliver further margin improvements throughout the new financial year to date.

Customers

The fact that the Group has grown sales by 14.5%, increasing its total tissue market share by 6.5% to 13.1% (to end April 20), shows that our strategy of delivering great-value products with great service is winning. The widening range of customers also ensured that the Group has grown throughout FY20.

Over this time, we have secured UK exclusivity of a super-soft tissue product, which has been produced using the latest machine technology and which has come on stream in FY20. This constant drive to source the latest, most advance materials has helped drive growth and improve the margins for business.

The Group continues to win further new business and extend its customer base. We have a very clear intention to increase our customer base to include all major retailers in the UK. The recent pandemic has highlighted the limitations of sole supply arrangements for the consistent supply of significant volumes. I believe that Accrol is well positioned to benefit from new opportunities which arise, as retailers seek to resolve this issue.

Pricing will always be a sensitive issue for all parties, but what is clear is that delivering great products which add value compared to the market command increasing margins. The Group's gross margins over the period (FY19 to FY20) have improved by 49% (14.7% to 21.9%). What is pleasing is that this improving-trend has continued into the new financial year.

Suppliers

Throughout FY20, we continued to simplify our tissue types further, with the Group now purchasing six major tissue types, down from 12 at the end of FY19 and 75 in FY18. This programme of relentless operational improvement has enabled the Group to drive the quality and consistency of its supply to the high levels now demanded to ensure the business has confidence that the quality of its product consistently outperforms the market.

The Group continues to explore new supply options, as further tissue mills are due to come on stream in FY21. Furthermore, Accrol is exploring the merits of paper mill ownership in line with its lowest cost operational efficient philosophy.

What is clear is that our simplification programme has delivered significant cost reduction across the supply base, but the approach requires a relentless attitude to the review of costs at all times.

Operations

Significant operational progress has been delivered during the year. Our external supply chains have been strengthened and optimised, by working more closely with our chosen strategic partners, and strong growth in production efficiencies have been delivered across the business. A combination of improving reliable capacity, through more proactive preventative maintenance, targeted employee training, and a simplified planning cycle have delivered fewer changeovers and less downtime. This increased average efficiency by 22.8% (Q1 average to Q4 average FY20) and by 36.9% over the two year cycle (Q1 FY18 to Q4 FY20), with average efficiency being measured as pallets produced per day. Over this same period, headcount reduced from a high of 691 to 410, with output per head increasing by 243%.

The Group's shift patterns and working practices have been reviewed and changed, generating ongoing cost savings throughout the year which have helped drive the reduction in operating costs achieved in FY20. Preparations are in place for a major investment in further automation, which will transform a significant proportion of the manufacturing footprint during the last quarter of 2020.

Our people are key to our success and we continue to focus on recruiting and promoting talented leaders, who are aligned with our values, high standards and behavioural expectations. A flat organisational structure, combined with capable leadership and highly engaged employees, has ensured that throughout the height of the COVID-19 situation, the performance of the business excelled beyond expectations. The strength and depth of our culture and our employees' commitment to the business have shone through, which is very encouraging for the next phase of Accrol's growth. I reiterate Dan's thanks to the whole team for continuing to demonstrate their grit and ability under exceptional circumstances.

New systems

We invested £2.6m in infrastructure and systems during the year. Planning for our new Warehouse Management System, HR system and NetSuite Business system commenced early in the Period and are now successfully implemented. The Group has also made significant IT infrastructure changes to improve the resilience and security of all Accrol systems. I am pleased to report that the transition to four new operating systems has gone to plan in cost and timing.

IT and Systems are a key part of the infrastructure for growth, which we have been putting in place over the last 12 months. The Group now has full sight of all elements of the operational process, giving our management and leadership groups across the organisation the information required to make further improvements throughout the business.

People and culture

Our Company values remain at the core of everything the business does - we challenge, we are honest, we add value and we deliver. Accrol's business model is unashamedly based on being the lowest cost producer in the marketplace. However, this is not at the expense of our employees' welfare or their ability to grow within the organisation. The leadership of the business realises that in a highly cost-conscious environment, the quality, capability and performance of team members is absolutely critical. During FY20, the Group has introduced several employee welfare benefits, including an improved sick pay scheme, a life assurance scheme for every employee, an employee assistance scheme, a baseline medical process for all employees and a physiotherapy service.

As well as the ongoing development of specific employees, as they are promoted within Accrol, the business has also developed a new grading structure, which is currently in the roll-out phase. This gives every employee in the business a clear growth path, which is supported by a training programme. We see this, along with a strong and positive culture, as a core requirement for talent retention and recruitment.

Health and safety / COVID-19

Health and Safety is a business fundamental for Accrol and this remains top of our agenda. During FY20, the business, after a number of years of investing in fixing safety infrastructure, was able to shift focus onto behavioural safety. This means we are taking a more proactive, preventative approach to hazard identification and rectification, prior to any issues occurring. This has been embraced by the workforce and the response levels, in terms of behavioural safety cards, have been impressive. There is opportunity for further improvement, with the Group having recorded five LTA's in the year, which is unchanged from FY19. However, the focus and desire to improve is strong and will not diminish. The level of focus and commitment from everyone in this business, aligned with the depth of employee engagement, gives leadership real confidence that continued improvement is assured.

Accrol was identified as an essential business within the COVID-19 lockdown. The short-term spike in demand for toilet tissue products in the early stages pre/post lockdown measures, outlined above, presented challenges, in terms of gearing up production. However, the more significant challenge was to ensure the safety of our employees during this period, both in and outside of work. The leadership of the business continues to have daily COVID-19 calls and we have invested heavily in proactive measures to ensure that the business can run at unusually high levels of productivity, whilst ensuring any risk to our employees is minimal.

The achievements of the whole Accrol team throughout this period have been humbling. Employees have adhered to the measures the business has put in place; they have continued to work throughout the whole period without question; and, when issues have arisen, they have reacted positively and swiftly, taking tests through our track and trace process and getting back to work as quickly as possible. The Accrol leadership is very proud of the way our employees have conducted themselves throughout the crisis, and we thank them for their commitment and professionalism.

Outlook

The outlook for the business is a positive one, as we build on the strong foundations put in place over the last 18 months. The opportunity to increase our share in our core markets remains significant. Whilst we continue to supply great-value products with excellent service in this market, we are actively exploring opportunities to scale the core business, as well as to diversify into new markets and products, currently serviced by brands, where we know our better-value offering will appeal to the consumer.

Volumes across the private label sector were impacted in Q1 FY21, as panic buying unwound. However, the Group's margins increased ahead of our expectations in this period, as our product mix has improved. Consumer shopping habits have normalised in Q2, with private label sales bouncing back to pre-COVID levels. All discounters are expected to address online shopping service capability over the next 12 months, and the medium to long term outlook for volumes in this market remains strong, with significant expansion plans being accelerated, as the UK economy adjusts.

Our relentless approach to cost and value does not mean we embrace a minimum wage culture. Good people are at the heart of a successful business and we will continue to develop highly engaged, skilled and appropriately paid employees, through training, automation and efficiency. The sustainability of the business is also paramount, and we will continue to seek new ways to fulfil consumer and customer needs, whilst minimising the Group's environmental impact.

With only 13% of the total UK tissue market and a strong infrastructure for growth taking shape, Accrol is increasingly well positioned to benefit in a value-conscious, post COVID-19 world. We will continue to invest in our people, automation and our impact on the environment to ensure the sustainability of the business throughout its planned growth. With all this in mind, I view the future of the business with increasing confidence.

Gareth Jenkins
Chief Executive Officer
2 September 2020

GROUP FINANCIAL REVIEW

Summary

This has been a year of significant financial improvement, with greatly improved revenue and gross margin, due to continued work on productivity and base operating cost. We have maintained our efforts on reducing administration expenses and have tightly managed distribution costs. These improvements have been underpinned with investment in our new systems and operating practices, removing unnecessary waste and enhancing our customer service.

The net result of these improvements was an adjusted EBITDA of £10.6m (£8.3m on a pre-IFRS16 basis), a £9.6m improvement on the prior year, and bringing the business to breakeven at operating profit level. This represents an improvement of £12.6m on the prior year, as turnaround actions significantly improved exit run rates in the second half.

Net working capital also improved significantly to £6.1m, a £12.2m improvement on prior year, and a demonstration of improved inventory management and debtor terms alongside strong creditor terms all reflecting improvements within the businesses operating model.

Basis of reporting

In these financial statements the Group has, with effect from 1 May 2019, adopted IFRS 16. Under the new standard, the distinction between operating and finance leases has been removed and most leases have been brought onto the statement of financial position, as both a right-of-use asset and a largely offsetting lease liability. The introduction of this standard has had no impact on cashflow. The Group adopted IFRS 16 using the modified retrospective transition approach, with the impact of £0.3m reflected in retained earnings. The prior year financial information has not been restated. The effects of IFRS 16 can be found in note 2.

Income statement

	2020 £'000	2019 £'000
Revenue	**134,773**	119,111
Cost of sales	**(105,239)**	(101,559)
Gross profit	**29,534**	17,552
Administration expenses	**(18,810)**	(19,228)
Distribution costs	**(11,490)**	(11,066)
Other income	**585**	–
Operating loss	**(181)**	(12,742)
Net finance costs	**(1,710)**	(1,276)
Loss before tax	**(1,891)**	(14,018)
Tax credit	**312**	2,270
Loss for the year attributable to equity shareholders	**(1,579)**	(11,748)
Loss per share		
Basic	**(0.8)p**	(6.2)p
Diluted	**(0.8)p**	(6.2)p

Operating loss	**(181)**	(12,742)
Adjusted for:		
Depreciation	**4,201**	2,488
Amortisation	**2,040**	2,040
Share based payment	**2,351**	1,316
Separately disclosed items	**2,230**	7,906
Adjusted EBITDA[2]	**10,641**	1,008

Revenue

Revenue grew organically by 13.2% to £134.8m, by following our clear strategy to remove lower margin revenues and focus on our core product base. This optimised output and productivity in the plants and delivered high levels of customer service. Toilet tissue revenues grew by 22% in a market in which private label declined by 2%, whilst the total toilet tissue market grew by c.8%, representing an increase in our market share from 12.5% to 13.1%; alongside which facial tissue revenue grew by 5% and kitchen towel fell back by 9%, as we exited some low margin work and focused the business on higher value lines which will positively impact the business in FY21.

Revenue by product	2020	2019	Variance	Variance
	£m	**£m**	**£m**	**%**
Toilet tissue	**103.1**	84.8	18.3	22%
Kitchen towel	**20.1**	22.0	(1.9)	(9%)
Facial tissue	**10.4**	9.9	0.5	5%
Core revenue	**133.6**	116.7	16.9	15%
Away from Home	**0.0**	1.5	(1.5)	(100%)
Other (waste)	**1.2**	0.9	0.3	33%
Total Revenue	**134.8**	119.1	15.7	13%

Gross margin

Gross margin improved from 14.7% to 21.9%, reflecting our focus on productivity and optimisation of the production lines underpinned by investment in our core production capabilities to bring them back to optimum operating standards.

Administration Expenses

Administration expenses reduced, again, to 14.0% of revenue (FY19: 16.1%), an absolute reduction of £0.4m year on year.

Foreign exchange charges within administration expenses amounted to £1.2m (2019: £0.1m), of which £0.6m are the result of losses on contracts for USD exchange no longer required as the business continued to improve supplier payment terms.

The implementation of IFRS16 created an additional depreciation charge of £2.3m, broadly offset by reduction in the rental charges in the year.

Distribution costs

Distribution costs reduced from 9.3% of revenue in FY19 to 8.5%, an absolute increase of £0.4m year on year, reflecting the ongoing focus on optimising the movement of stock and product through the business.

Separately disclosed items

Separately disclosed items reduced significantly from £7.9m in FY19 to £2.2m, reflecting the completion of the stabilising period. These costs included final turnaround costs of £1.0m, comprising operational and management reorganisation, operational improvements and cost reductions, and £0.6m relating to termination costs of foreign currency contracts no longer required.

The FCA investigation closed in the year. Costs amounted to £0.1m in the year, with no further costs anticipated.

Other income

Other income relates to the disposal of fixed assets in the normal course of operating business, delivering a gain of £0.6m. In future periods we anticipate ongoing disposals of fixed assets as part of normal operating business to enable deployment of new machine technologies.

Net finance costs and taxation

Finance costs increased from £1.3m in FY19 to £1.7m, reflecting an increase in lease costs in the year of £0.5m, following the adoption of IFRS 16.

The Group recorded a deferred tax credit of £0.3m in the year (FY19: £2.3m).

Balance sheet

Property, plant and equipment

Property, plant and equipment increased due to a number of investments to enhance the productivity and efficiency of our core machinery park, infrastructure and systems.

In the machinery park, we have enhanced the reliability and capacity of our core lines by returning them to an improved OEM standard or better, extending their useful lives whilst improving output and up time. In addition, we have enhanced our rewinder capacity. We have invested £3.2m in improving our reliable capacity over the year.

Significant progress was also made during the year on enhancements to IT infrastructure and critical business systems. Implementations of a new Warehouse Management System, HR system and NetSuite Business system were started during the year. These started to successfully go live in early 2020 with completion of all systems by June 2020. Overall, we invested £2.5m in infrastructure and systems during the year.

Intangibles

Intangible assets represent mostly goodwill and customer relationships. Under IFRS, goodwill is not amortised but is subject to an impairment review on at least an annual basis. The Directors performed a review during the period which involved making assumptions about the future performance of the business. After carefully considering various scenarios that could occur and after looking at sensitivities on these scenarios, the Directors concluded that no impairment was required. However, the position will be monitored on a regular basis. It is worth noting however that the profitability of the Group remains sensitive to parent reel prices and FX rates. Movements in these have, however, been managed well over the last two years, with increased costs being passed on to customers as they impact the Group, with significantly improving success.

During the year, the Group invested in product development to create two new, innovative products, which have now been launched to the market, 'Super Soft' and 'Oceans'. Together, they created an intangible asset of £0.8m, which will be amortised over the anticipated life of the products.

Working capital

	2020	2019	Change
	£m	£m	£m
Inventories	**9.4**	11.2	(1.8)
Trade and other receivables	**20.7**	23.1	(2.4)
Trade and other payables	**(24.0)**	(16.0)	(8.0)
	6.1	18.3	(12.2)

The Group had great success in managing its working capital during the year. The fall in inventory level was primarily driven by raw materials, as a result of improved planning, a further reduction in tissue types and enhanced procurement processes.

The decrease in receivables reflects improved terms secured from a number of our customers, the majority of which have also paid promptly throughout the year, with low levels of default.

Trade payables increased as improved credit terms were offered across the supplier base.

Borrowings and cash flow

	2020	2019	**Change**
	£m	£m	**£m**
Revolving credit facility	**12.0**	12.0	**0.0**
Factoring facility	**11.8**	13.7	**(1.9)**
Leases	**18.6**	3.6	**15.0**
Borrowings	**42.4**	29.3	**13.1**
Leases receivable	**(6.4)**	0.0	**(6.4)**
Cash and cash equivalents	**(8.1)**	(2.2)	**(5.9)**
Net debt	**27.9**	27.1	**0.8**
IFRS 16 adjustment	**(10.0)**	(0.0)	**(10.0)**
Adjusted net debt	**17.9**	27.1	**(9.2)**

The Group achieved further improvements in adjusted net debt, a £9.2m improvement on the prior year.

There was a £19.4m cash inflow from operations in the year (FY19: £5.7m), due largely to the improved trading performance and management of working capital. At the year end, cash balances were £8.1m (FY19: £2.2m) with a further £1.0m available through the factoring facility.

The Group adopted IFRS16 during the year which added £16.4m to year-end lease liabilities and £6.4m to leases receivable.

COVID-19

The Group has not furloughed any employees during the COVID-19 situation to date, nor has it been in receipt of any government loans. It has, however, taken the short-term VAT Payments Deferral Scheme, which was launched in March 2020. This positively impacted cash flow during the Period by c.£0.2m.

John Pilkington
Group Finance Director
2 September 2020

CONSOLIDATED INCOME STATEMENT
For year ended 30 April 2020

	Note	**2020** **£'000**	2019 £'000
Revenue	4	**134,773**	119,111
Cost of sales		**(105,239)**	(101,559)
Gross profit		**29,534**	17,552
Administration expenses		**(18,810)**	(19,228)
Distribution costs		**(11,490)**	(11,066)
Other income		**585**	–
Operating loss		**(181)**	(12,742)
Analysed as:			
– Adjusted EBITDA[1]		**10,641**	1,008
– Depreciation	9	**(4,201)**	(2,488)
– Amortisation of intangible assets	11	**(2,040)**	(2,040)
– Share based payments		**(2,351)**	(1,316)
– Separately disclosed items	5	**(2,230)**	(7,906)
Operating loss		**(181)**	(12,742)
Finance costs	7	**(1,977)**	(1,276)
Finance income	7	**267**	–
Loss before tax		**(1,891)**	(14,018)
Tax credit	8	**312**	2,270
Loss for the year attributable to equity shareholders		**(1,579)**	(11,748)

Earnings per share	Note	**pence**	pence
Basic loss per share	6	**(0.8)**	(6.2)
Diluted loss per share	6	**(0.8)**	(6.2)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For year ended 30 April 2020

	2020	2019
	£'000	£'000
Loss for the year attributable to equity shareholders	**(1,579)**	(11,748)
Other comprehensive income for the year		
Revaluation of derivative financial instruments[(2)]	**(50)**	50
Tax relating to components of other comprehensive income	**9**	(9)
Total comprehensive loss attributable to equity shareholders	**(1,620)**	(11,707)

The notes are an integral part of these consolidated financial statements.

[1] *Adjusted EBITDA, which is defined as profit before finance costs and income, tax, depreciation, amortisation, share based payments and separately disclosed items, is a non-GAAP metric used by management and is not an IFRS disclosure (see note 15).*

[2] *Items that could potentially be reclassified subsequently to profit and loss.*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 April 2020

	Note	**2020** £'000	2019 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	**39,740**	29,302
Lease receivables	10	**5,703**	–
Intangible assets	11	**26,877**	25,661
Deferred tax assets	8	**288**	–
Total non-current assets		**72,608**	54,963
Current assets			
Inventories		**9,373**	11,162
Trade and other receivables		**20,680**	23,057
Current tax asset		**40**	191
Lease receivables	10	**649**	–
Cash and cash equivalents		**8,147**	2,176
Derivative financial instruments		**28**	50
Total current assets		**38,917**	36,636
Total assets		**111,525**	91,599
Current liabilities			
Borrowings	12	**(18,157)**	(16,709)
Trade and other payables		**(23,988)**	(15,986)
Provisions		**(158)**	(571)
Total current liabilities		**(42,303)**	(33,266)
Total assets less current liabilities		**69,222**	58,333
Non-current liabilities			
Borrowings	12	**(23,827)**	(11,838)
Deferred tax liabilities	8	–	(33)
Provisions		**(383)**	(2,140)
Total non-current liabilities		**(24,210)**	(14,011)
Total liabilities		**(66,513)**	(47,277)
Net assets		**45,012**	44,322
Capital and reserves			
Share capital	13	**195**	195
Share premium		**68,015**	68,015
Hedging reserve		–	41
Capital redemption reserve		**27**	27
Retained earnings		**(23,225)**	(23,956)
Total equity shareholders' funds		**45,012**	44,322

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For year ended 30 April 2020

	Share capital £'000	Share premium £'000	Hedging reserve £'000	Capital redemption reserve £'000	Retained earnings/ (accumulated losses) £'000	Total equity £'000
Balance at 30 April 2018	129	58,832	–	27	(13,362)	45,626
Comprehensive (expense)/income						
Loss for the year	–	–	–	–	(11,748)	(11,748)
Revaluation of derivative financial instruments	–	–	50	–	–	50
Tax relating to components of other comprehensive income	–	–	(9)	–	–	(9)
Total comprehensive income	–	–	41	–	(11,748)	(11,707)
Transactions with owners recognised directly in equity						
Proceeds from shares issued	66	9,869	–	–	–	9,935
Transaction costs	–	(686)	–	–	–	(686)
Share based payments (net of tax)	–	–	–	–	1,154	1,154
Total transactions recognised directly in equity	66	9,183	–	–	1,154	10,403
Balance at 30 April 2019	195	68,015	41	27	(23,956)	44,322
Effect of adoption of IFRS 16 (net of tax)	–	–	–	–	314	314
Balance at 1 May 2019	195	68,015	41	27	(23,642)	44,636
Comprehensive (expense)/income						
Loss for the year	–	–	–	–	(1,579)	(1,579)
Revaluation of derivative financial instruments	–	–	(50)	–	–	(50)
Tax relating to components of other comprehensive income	–	–	9	–	–	9
Total comprehensive income	–	–	(41)	–	(1,579)	(1,620)
Transactions with owners recognised directly in equity						
Share based payments (net of tax)	–	–	–	–	1,996	1,996
Total transactions recognised directly in equity	–	–	–	–	1,996	1,996
Balance at 30 April 2020	**195**	**68,015**	–	**27**	**(23,225)**	**45,012**

CONSOLIDATED CASHFLOW STATEMENT
For the year ended 30 April 2020

	Note	**2020 £'000**	2019 £'000
Cashflows from operating activities			
Operating loss		**(181)**	(12,742)
Adjustment for:			
Depreciation	9	**4,201**	2,488
(Profit)/loss on disposal of property, plant and equipment		**(585)**	117
Amortisation of intangible assets	11	**2,040**	2,040
Grant income		**(578)**	(118)
Separately disclosed items		–	340
Share based payments		**2,351**	1,316
Operating cashflows before movements in working capital		**7,248**	(6,559)
Decrease in inventories		**1,789**	2,554
Decrease in trade and other receivables		**2,251**	6,929
Increase in trade and other payables		**8,176**	1,971
Decrease in provisions		**(254)**	(501)
Decrease in derivatives		**22**	(668)
Cash generated from operations		**19,232**	3,726
Tax received		**197**	2,006
Net cashflows generated from operating activities		**19,429**	5,732
Cashflows from investing activities			
Purchase of property, plant and equipment		**(3,680)**	(3,581)
Proceeds from sale of property, plant and equipment		**650**	358
Purchase of intangible assets		**(3,256)**	–
Receipt of capital element of leases		**623**	–
Lease interest received		**267**	–
Net cashflows used in investing activities		**(5,396)**	(3,223)
Cashflows from financing activities			
Proceeds of issue of ordinary shares		–	9,935
Cost of raising finance		–	(686)
Amounts received from factoring facility		**161,650**	141,352
Amounts paid to factoring facility		**(163,523)**	(146,339)
New leases (2019: finance leases)		–	142
Repayment of capital element of leases (2019: finance leases)		**(4,595)**	(1,011)
Repayment of bank loans		–	(3,000)
Transaction costs of RCF		–	(284)
Lease interest paid (2019: finance lease)		**(882)**	(167)
Other interest paid		**(712)**	(706)
Net cashflows used in financing activities		**(8,062)**	(764)
Net increase in cash and cash equivalents		**5,971**	1,745
Cash and cash equivalents at beginning of the year		**2,176**	431
Cash and cash equivalents at year end		**8,147**	2,176

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION
For the year ended 30 April 2020

1. General information
Accrol Group Holdings plc (the “Company”) was incorporated with Company number 09019496. It is a public company limited by shares and is domiciled in the United Kingdom. The registered address of the Company is Delta Building, Roman Road, Blackburn, Lancashire, BB1 2LD.

The Company’s subsidiaries are Accrol UK Limited, Accrol Holdings Limited and Accrol Papers Limited, which together with the Company form the Accrol Group Holdings plc Group (the “Group”).

2. Summary of significant accounting policies
A summary of the significant accounting policies is set out below. These have been applied consistently in the financial statements.

Basis of preparation
The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (‘IFRS’) as adopted for use in the EU, IFRS Interpretation Committee (‘IFRIC’) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared on a going concern basis under the historical cost convention, as modified by financial liabilities (including derivative instruments) at fair value through profit or loss. The consolidated financial statements are presented in pounds sterling and all values are rounded to the nearest thousand pounds, except where otherwise indicated.

Application of new standards in the current year
The Group adopted IFRS 16 ‘Leases’ and IFRIC 23 ‘Uncertainty over Income Tax Treatments’ with a transition date of 1 May 2019. The Group has chosen not to restate comparatives on adoption of both standards, and therefore, the revised requirements are not reflected in the prior year financial statements. Rather, these changes have been processed at the date of initial application (i.e. 1 May 2019) and recognised in the opening equity balances. Details of the impact these two standards have had are given below. Other new and amended standards and Interpretations issued by the IASB did not impact the Group as they are either not relevant to the Group’s activities or require accounting which is consistent with the Group’s current accounting policies.

IFRS 16 ‘Leases’
IFRS 16 introduces a single lessee accounting model, removing the distinction between operating and finance leases. This results in almost all leases being recognised on the Statement of Financial Position as an asset (to recognise the right to use a leased item) and a financial liability (requirement to make lease payments). This standard replaced IAS 17 ‘Leases’ and IFRIC 4 ‘Determining whether an Arrangement Contains a Lease.’ IFRS 16 substantially carries forward the lessor accounting in IAS 17, with the distinction between operating leases and finance leases being retained. The Group also has leasing activities acting as a lessor.

The Group has adopted IFRS 16 from 1 May 2019 using the modified retrospective transition approach, under which the cumulative effect of initial application is recognised in retained earnings at initial adoption. The comparative information presented for the period ended 30 April 2019 has not been restated. On transition, the Group has elected to apply the following practical expedients permitted by the standard

- Excluding any operating leases with a remaining lease term of less than 12 months.
- Excluding any low value leases (less than £5,000).

For periods prior to 1 May 2019, the Group classified its equipment leases as finance leases. These leases do not transfer ownership to the Group on completion of the lease liability but are on terms that transfer substantially all the risks and rewards of ownership. The Group also holds assets under finance lease where ownership does transfer on completion of the lease. The accounting treatment for finance leases is similar to the accounting treatment for leases under IFRS 16. The carrying amounts of the right-of-use assets and the lease liabilities on transition at 1 May 2019 were equal to the carrying amounts of the finance lease assets and finance lease liabilities recognised at 30 April 2019.

The Group also has a number of property leases, previously accounted for as operating leases. Under IFRS 16 there is no distinction between operating and finance leases. As a result, the operating leases have been remeasured on transition with future lease payments discounted at the incremental borrowing rate applicable on 1 May 2019. The weighted average incremental borrowing rate applied to lease liabilities where a rate is not included in the lease contract was 4.0%.

The Group accounts as a lessor when accounting for sub-leases. Under IAS 17, the Group treated such leases as operating leases. On transition to IFRS 16, the Group recorded a finance lease receivable, with the corresponding amount netting against the right-of-use asset arising from the head lease.

The following table presents the impact of adopting IFRS 16 on the statement of financial position as at 1 May 2019:

	Adjustments	30 April 2019	IFRS 16	1 May 2019
		£'000	£'000	£'000
Assets				
Property, Plant & Equipment	(1)	29,302	11,002	40,304
Lease receivables	(2)	–	6,975	6,975
Prepayments and other debtors	(3)	2,076	(126)	1,950
Liabilities				
Accruals	(3)	(2,459)	121	(2,338)
Lease liabilities	(4)	(3,619)	(19,518)	(23,137)
Provisions	(5)	(2,711)	1,934	(777)
Deferred Tax	(6)	(33)	(74)	(107)
Equity				
Retained Earnings	(7)	(23,956)	314	(23,642)

(1) Property, plant and equipment was adjusted for the creation of right-of-use assets of £11,002,000 relating to operating type leases.
(2) Asset recognised in respect of sub-leases.
(3) Prepaid and accrued rent at 30 April 2019 adjusted against right-of-use assets

(4) The following table reconciles the minimum lease commitments disclosed in the Group's 30 April 2019 annual financial statements to the amount of lease liabilities recognised on 1 May 2019:

	1 May 2019 £'000
Minimum operating lease commitment at 30 April 2019	22,417
Less: effect of discounting using the incremental borrowing rate as at the date of initial application	(2,899)
Lease liabilities for leases classified as operating type under IAS 17	19,518
Plus: leases previously classified as finance type under IAS 17	3,619
Lease liability as at 1 May 2019	23,137

(5) Onerous lease provisions of £1,934,000 in respect of sub-leases, netted against right-of-use assets in the Statement of Financial Position.

(6) Deferred tax liabilities were adjusted to reflect the tax effect of the other adjustments recorded.

(7) Retained earnings were adjusted to record the net effect of all other adjustments noted.

The impact on Adjusted EBITDA and Adjusted net debt as at 30 April 2020 is as follows:

	£'000
Adjusted EBITDA as reported	10,641
Less: impact of IFRS 16	(2,300)
Adjusted EBITDA (excluding IFRS 16)	8,341
Net debt as reported	27,882
Less: impact of IFRS 16	(10,012)
Adjusted net debt	17,870

IFRIC 23 'Uncertainty over Income Tax Treatments'
IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation requires:

- The Group to determine whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- The Group to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and
- If it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. This measurement is required to be based on the assumption that each of the tax authorities will examine amounts they have a right to examine and have full knowledge of all related information when making those examinations.

Following a review of the standard, the Group concluded that no adjustment to the Group's Financial Statements were required.

New standards, interpretations and amendments not yet effective
There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the group has decided not to adopt early. The following amendments are effective for the period beginning 1 May 2020:

- IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' (Amendment – Definition of Material)
- IFRS 3 'Business Combinations' (Amendment – Definition of Business)
- Revised Conceptual Framework for Financial Reporting

The Group is currently assessing the impact of these new accounting standards and amendments but does not expect there to be a material impact on the Financial Statements.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

Going concern
The Chairman's review and the Chief Executive's review outline the business activities of the Group along with the factors which may affect its future development and performance. The financial review discusses the Group's financial position, along with details of cashflow and liquidity. In summary, the Group generated operating cash of £19.4m and reduced adjusted net debt from £27.1m to £17.9m. The Directors recognise that as at 30 April 2020, the Group has net current liabilities of £3.4m (2019: net current assets of £3.4m). This was considered in conjunction with the review of future cashflows and available facilities. In August 2020, the Group secured improved bank facilities, which provide greater accessibility, flexibility and headroom, extended to August 2023. Further details of the borrowing facilities are set out in note 12.

In determining the appropriate basis of preparation, the impact of the Covid-19 pandemic has been a major consideration. The Board has undertaken an assessment of the financial forecasts with specific consideration to the trading position of the Group in the context of the current Covid-19 pandemic. Downside sensitivity analysis was performed on the assumptions around sales volume, parent reel prices and foreign exchange rate movements. Trading in the first quarter is in line with expectations and does not indicate a change to the underlying assumptions.

As in previous years, the Group's performance is dependent on a number of market and macroeconomic factors particularly the sensitivity to the price of parent reels and the sterling/USD exchange rate which are inherently difficult to predict. Brexit is likely to determine the scale of any foreign exchange risk, but operational risk is expected to be limited as most purchases are made from outside Europe, however there is a small risk arising from administrative complexity at the docks. The Group is reassured that the principal docks used have sufficient capacity to handle any issues.

The Directors confirm that, after due consideration, they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

3. Significant accounting judgements, estimates and assumptions
The preparation of the financial information in accordance with IFRS requires estimates and assumptions to be made that affect the value at which certain assets and liabilities are held at the

balance sheet date and also the amounts of revenue and expenditure recorded in the year. The Directors believe the accounting policies chosen are appropriate to the circumstances and that the estimates, judgements and assumptions involved in its financial reporting are reasonable.

Accounting estimates made by the Group's management are based on information available to management at the time each estimate is made. Accordingly, actual outcomes may differ materially from current expectations under different assumptions and conditions.

The estimates and assumptions for which there is a significant risk of a material adjustment to the financial information within the next financial year are set out below.

Critical accounting judgements in applying the entity's accounting policies

Development costs

The Group exercises judgement in determining whether development costs incurred meet the criteria of IAS 38 'Intangible Assets' and hence capitalised. The criteria where judgement is most required is around determining the technical feasibility of completing the project, the availability of adequate technical, financial, and other resources to complete and the existence of the market. Not meeting the criteria would result in these costs being expensed as incurred.

Separately disclosed items

During the course of the year the Group incurred expenditure that are material and considered worthy of being separately disclosed. In order to better explain the underlying performance of the business, management makes a judgement as to which costs should be separately disclosed. Separately disclosing costs that are not appropriate to do so leads to a risk of mis-stating the Group's underlying performance.

Critical accounting estimates in applying the entity's accounting policies

Goodwill and intangible asset impairment

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment based on the recoverable amount of its sole CGU. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of a number of key variables in order to calculate the present value of the cashflows, including:

- future underlying cashflows;
- the determination of a pre-tax discount rate; and
- long-term growth rates.

The future underlying cashflows remain sensitive to a number of key variables, including the sterling/USD exchange rate and parent reel pricing, both of which are inherently difficult to predict, and which could have a significant effect (positive or negative) on the Group's cashflows. The additional factors of the Covid-19 pandemic and Brexit has increased the variability in this calculation.

More information including carrying values is included in note 11.

Right-of-use assets

Significant judgement is exercised in determining the incremental borrowing rate. IFRS 16 requires the borrowing rate should represent what the lessee would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value in a similar economic environment. A 1% difference in the borrowing rate used would impact the right-of-use asset values and net lease liabilities by c£0.2m.

Deferred taxation

The Group has recognised deferred tax assets in respect of losses incurred in the current and prior year. This requires the estimation of future profitability in determining the recoverability of these assets. Specifically, a range of assumptions underpin the profit and cashflow forecasts for the next 12 months, including those around parent reel prices, the successful management of any foreign exchange downside and the maintenance of the current strong customer relations. As described above, the Group's trading performance remains sensitive to a number of key variables which could have a significant effect (positive or negative) on the Group's cashflows.

4. Revenue

The analysis by geographical area of destination of the Group's revenue is set out below:

	2020	2019
	£'000	£'000
United Kingdom	**128,078**	113,736
Europe	**6,695**	5,375
Total	**134,773**	119,111

5. Separately disclosed items

	2020	2019
	£'000	£'000
Operational reorganisation and restructure	**856**	872
Loss on derivative financial instruments	**639**	–
Covid-19 costs	**209**	–
FCA investigation legal costs	**125**	179
Management reorganisation and restructure	**118**	724
Setting up and subsequent exit from Skelmersdale site	**90**	3,174
Impairment of property, plant and equipment	–	130
Raw materials waste	–	2,308
Other	**193**	519
	2,230	7,906

A summary of the Separately disclosed items for the current year are as follows.

Operational reorganisation and restructure £856,000 (2019: £872,000)

The current year saw the final stages of the complex and comprehensive turnaround activities completed. This included costs associated principally with additional labour and material costs, as legacy performance issues were corrected. The business undertook a full review of the products the site manufactured and the way it was planned, an assessment of the leadership capabilities and reassignment, a skills assessment and training programme, maintenance regimes and a capital investment plan for key upgrades. Transportation and storage costs of £108,000 were also incurred in supporting these activities.

Loss on derivative financial instruments £639,000 (2019: £nil)

Costs of £639,000 were recorded in the period as the business experienced significant positive changes to its supplier terms as a result of improved trading / turnaround actions. This happened much quicker than expected, giving an excess of contract requirements which were subsequently cancelled.

Covid-19 £209,000 (2019: £nil)
The Group incurred incremental costs in March and April, principally relating to overtime and temporary labour of £119,000, to cover employees who were in isolation. Additional logistics, PPE, cleaning and security costs of £90,000 were also incurred.

FCA investigation legal costs £125,000 (2019: £179,000)
As previously disclosed, the FCA initiated an investigation into statements made by the Company between 10 June 2016 and September 2018. Significant consultancy and legal costs associated with the management of this investigation have been incurred, but the Group is pleased to confirm that the FCA have closed their investigation with no action to be taken.

Management reorganisation and restructure £118,000 (2019: £724,000)
In the early part of the current financial year, final dual resourcing and legal costs of £118,000 were incurred as activities relating to financial planning/reporting and procurement, started in the prior year, were concluded.

6. Loss per share

Basic loss per share
The basic loss per share is calculated by dividing the loss attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the year.

	2020	2019
	£'000	£'000
Loss for the year attributable to shareholders	**(1,579)**	(11,748)

	Number	Number
Weighted average number of shares	**'000**	'000
Issued ordinary shares at 1 May	**195,247**	129,012
Effect of shares issued in the year	–	60,180
Weighted average number of ordinary shares at 30 April	**195,247**	189,192
Basic loss per share (pence)	**(0.8)**	(6.2)

Diluted loss per share
Diluted loss per share is calculated by dividing the loss after tax by the weighted average number of shares in issue during the year, adjusted for potentially dilutive share options.

	2020	2019
	£'000	£'000
Loss for the year attributable to shareholders	**(1,579)**	(11,748)

	Number	Number
	'000	'000
Weighted average number of shares (basic)	**195,247**	189,192
Effect of conversion of Accrol Group Holdings plc share options	–	–
Weighted average number of ordinary shares at 30 April	**195,247**	189,192
Diluted loss per share (pence)	**(0.8)**	(6.2)

No adjustment has been made in 2020 and 2019 to the weighted average number of shares for the purpose of the diluted earnings per share calculation as the effect would be anti-dilutive.

7. Finance costs

	2020	2019
	£'000	£'000
Bank loans and overdrafts	**712**	706
Lease interest (2019: finance lease interest)[1]	**882**	167
Amortisation of finance fees	**365**	297
Unwind of discount on provisions	**18**	48
Other interest	–	58
Total finance costs	**1,977**	1,276

	2020	2019
	£'000	£'000
Lease interest income[1]	**267**	–
Total finance income	**267**	–

[1] *The Group has initially applied IFRS 16 on 1 May 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. Applying IFRS 16 in the current year, the Group recorded additional lease interest costs of £723,000 and lease income of £267,000.*

8. Income tax expense
Tax credited in the income statement

	2020	2019
	£'000	£'000
Current income tax		
Current tax on losses for the year	**–**	–
Adjustment in respect of prior periods	**6**	–
Total current income tax credit	**6**	–
Deferred tax		
Origination and reversal of temporary differences	**337**	2,606
Adjustment in respect of prior periods	**(14)**	(175)
Change in tax rate	**(17)**	(161)
Total deferred tax credit	**306**	2,270
Tax credit in the income statement	**312**	2,270

During the year the Group recognised the following deferred tax assets/(liabilities):

	Accelerated capital allowances £'000	Intangible assets £'000	Derivative financial instruments £'000	Losses £'000	Share-based payments £'000	Other £'000	Total £'000
30 April 2018	(1,143)	(2,237)	127	901	–	–	(2,352)
Credit/(charge) in year	(768)	391	(127)	2,524	250	–	2,270
Credit/(charge) to equity	–	–	(9)	–	58	–	49
30 April 2019	(1,911)	(1,846)	(9)	3,425	308	–	(33)
Credit/(charge) in year	(88)	212	–	(264)	446	–	306
Credit/(charge) to equity	–	–	9	–	80	(74)	15
30 April 2020	**(1,999)**	**(1,634)**	–	**3,161**	**834**	**(74)**	**288**

A deferred tax asset of £3,161,000 relating to current and prior year losses has been recognised in the year, on the basis that forecasts show sufficient taxable profits in the foreseeable future to utilise these losses.

Following an announcement in the Budget on 11 March 2020, which was substantively enacted on 17 March 2020, the UK corporation tax rate applicable from 1 April 2020 now remains at 19%, rather than the previously enacted reduction to 17%. Deferred tax assets and liabilities have been measured at the rate expected to be in effect when the deferred tax asset or liability reverses.

9. Property, plant and equipment

	Leasehold land & buildings £'000	Fixtures & fittings £'000	Plant & machinery £'000	Motor vehicles £'000	Assets under construction £'000	Right-of-use assets £'000	Total £'000
Cost							
At 30 April 2018	344	1,303	32,041	43	979	–	34,710
Additions	–	608	6,640	–	294	–	7,542
Reclassification	101	–	878	–	(979)	–	–
Disposals	–	–	(2,084)	(43)	–	–	(2,127)
At 30 April 2019	445	1,911	37,475	–	294	–	40,125
Adjustment on initial application of IFRS 16	–	–	(5,619)	–	–	16,621	11,002
Additions	52	185	383	–	3,060	22	3,702
Reclassification	–	–	–	–	–		–
Disposals	–	–	(5,052)	–	–	(485)	(5,537)
At 30 April 2020	**497**	**2,096**	**27,187**	–	**3,354**	**16,158**	**49,292**
Accumulated depreciation							
At 30 April 2018	96	644	9,208	39	–	–	9,987
Charge for the year	40	354	2,090	4	–	–	2,488
Disposals	–	–	(1,609)	(43)	–	–	(1,652)
At 30 April 2019	136	998	9,689	–	–	–	10,823
Adjustment on initial application of IFRS 16	–	–	(727)	–	–	727	–
Charge for the year	42	367	1,012	–	–	2,780	4,201
Disposals	–	–	(5,052)	–	–	(420)	(5,472)
At 30 April 2020	**178**	**1,365**	**4,922**	–	–	**3,087**	**9,552**
Net book value							
At 30 April 2020	**319**	**731**	**22,265**	–	**3,354**	**13,071**	**39,740**
At 30 April 2019	309	913	27,786	–	294	–	29,302

The Group has initially applied IFRS 16 on 1 May 2019, which requires the recognition of right-of-use assets in relation to the Group's lease liabilities. As a result, on 1 May 2019, the Group created right-of-use assets of £11,002,000 relating to operating type leases and transferred existing assets with a value of £4,892,000 from plant and machinery to right-of-use assets. The Group has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated.

The depreciation charge for right-of-use assets includes £2,300,000 in respect of operating type leases and £480,000 for assets previously disclosed in plant and machinery.

Assets with a value of £39,740,000 (2019: £29,302,000) form part of the security against the RCF as described in note 12.

10. Leases

Leases Receivable

	Land & Buildings £'000	Total £'000
At 1 May 2019	6,975	6,975
Interest received	267	267
Lease payments	(891)	(891)
At 30 April 2020	**6,352**	**6,352**
Analysed as:		
Receivable > 1 year	5,703	5,703
Receivable < 1 year	649	649
	6,352	**6,352**

Lease liabilities

	Land & Buildings £'000	Plant & Machinery £'000	Total £'000
At 1 May 2019	19,518	3,619	23,137
Additions	–	22	22
Interest expense	723	159	882
Lease payments	(3,877)	(1,600)	(5,477)
At 30 April 2020	**16,364**	**2,200**	**18,564**

Short-term lease expense for the year was £nil. Short-term lease commitments at 30 April 2020 was £nil. Income from sub-leases for the year totalled £267,000.

11. Intangible assets

	Goodwill £'000	Customer relationships £'000	Development costs £'000	Computer software £'000	Other £'000	Total £'000
Cost						
At 30 April 2018	14,982	20,427	–	–	126	35,535
Additions	–	–	–	–	–	–
At 30 April 2019	14,982	20,427	–	–	126	35,535
Additions	–	–	764	2,492	–	3,256
At 30 April 2020	**14,982**	**20,427**	**764**	**2,492**	**126**	**38,791**
Amortisation						
At 30 April 2018	–	7,748	–	–	86	7,834
Charge for the year	–	2,040	–	–	–	2,040
At 30 April 2019	–	9,788	–	–	86	9,874
Charge for the year	–	2,040	–	–	–	2,040
At 30 April 2020	–	**11,828**	–	–	**86**	**11,914**
Net book value						
At 30 April 2020	**14,982**	**8,599**	**764**	**2,492**	**40**	**26,877**
At 30 April 2019	14,982	10,639	–	–	40	25,661

The balance for goodwill and customer relationships arose on the Group's acquisition of Accrol Holdings Limited and are attributed to the sole cash-generating unit ('CGU').

The customer relationships are amortised over 10 years, with approximately four years remaining.

Development costs
During the year, the Group developed two new innovative products, 'Super Soft' and 'Oceans', both of which have now been launched to the market. The development costs capitalised are to be amortised over the life of the products (typically three years).

Computer Software
During the year, the Group has incurred costs in the development of a new ERP system, a warehouse management system and a HR/payroll system.

Goodwill
Goodwill is tested for impairment on at least an annual basis, or more frequently if events or changes in circumstance indicate that the carrying value may be impaired.

Goodwill is monitored for internal management purposes at the Group's sole CGU level. The recoverable amount of the CGU has been determined based on a value in use calculation using cashflow projections based on internal forecasts covering a five-year period, reviewed and approved by the Board. Cashflows beyond this period are extrapolated using the estimated growth rates stated in the key assumptions. The estimated value in use as at 30 April 2020 exceeds the carrying value by c.£38m.

Key assumptions
The pre-tax discount rate used in the value in use calculations is 14.0% (2019: 14.0%). This is derived from the Group's weighted average cost of capital and is calculated with reference to latest market assumptions for the risk-free rate, equity market risk premium and the cost of debt. The values reflect both past experience and external sources of information. The long-term growth rate assumed is 2% (2019: 2%).

Significant capital expenditure was incurred in FY20, as the Group delivered a step change upgrade to its machinery park and business systems. It is assumed that reduced levels of capital cash ouflow will be incurred going forward. The Group's share-based payment charge has been added back to cashflows given they are not considered a proxy to cash expense.

Management have based these cashflows on a basis which they believe is achievable. The operational aspects of the complex and comprehensive turnaround plan are now complete with significant improvements in business performance. However, the Group's trading performance remains sensitive to a number of key variables, including parent reel pricing and the sterling/USD exchange rate, which could have a significant effect (positive or negative) on the Group's profitability. Should sterling weaken significantly, profit recovery would need to be built on price increases. Without price increases a 1 cent worsening in the sterling/USD exchange rate has c£0.5m impact on operating profit. The Group has also considered the potential impact of Covid-19 on consumer behaviour and in the short term believe that it will not have a material impact on performance. However, this will be closely monitored in the coming months.

Sensitivity to changes in assumptions
There are a range of reasonably possible changes to the assumptions, some of which may indicate a potential impairment. Specifically, detrimental changes to any of the key assumptions on the discount factor or EBIT performance could cause the carrying amount to exceed the recoverable amount.

Impairment would be caused by the following: increase in pre-tax discount rate by 6% or an average EBIT performance reduction of £6m per annum between FY22 and FY25. A combination of increasing the pre-tax discount rate by 3% and reducing the EBIT performance by £3m per annum results in an impairment.

Notwithstanding the above sensitivities, the Directors are satisfied that they have applied reasonable and supportable assumptions based on their best estimate of the range of future economic conditions that are forecast and consider that an impairment is not required in the current year, however the position will be monitored on a regular basis.

12. Borrowings

	2020	2019
	£'000	£'000
Current		
Revolving credit facility	**1,636**	1,636
Factoring facility	**11,817**	13,690
Leases (2019: finance leases)[1]	**4,704**	1,383
	18,157	16,709
Non-current		
Revolving credit facility	**9,967**	9,602
Leases (2019: finance leases)[1]	**13,860**	2,236
	23,827	11,838

[1] *The Group has initially applied IFRS 16 at 1 May 2019, using the modified retrospective approach. Under this approach, comparative information is not restated.*

The changes in liabilities arising from financing activities, from cash flows and non-cash changes is as follows:

	Current loans & borrowings £'000	Non- current loans & borrowings £'000	Total £'000
At 1 May 2019	16,709	11,838	28,547
Cash flows	(8,062)	–	(8,062)
Non-cash flows:			
Lease adjustments (note 2)	3,154	16,364	19,518
New leases	4	18	22
Interest accrued	1,594	–	1,594
Amortisation of finance fees (note 7)	–	365	365
Allocation from non-current to current in the year	4,758	(4,758)	–
At 30 April 2020	**18,157**	**23,827**	**41,984**

Finance costs incurred to arrange the revolving credit facility have been capitalised and are being amortised through interest payable. Unamortised finance costs at 30 April 2020 are £397,000 (2019: £762,000).

Finance costs are not included in the loan maturity table below.

	2020	2019
	£’000	£’000
Loan maturity analysis		
Within one year	**18,521**	17,073
Between one and two years	**13,351**	11,438
Between two and five years	**8,072**	798
After five years	**2,437**	–
	42,381	29,309

The following amounts remain undrawn and available:

	2020	2019
	£’000	£’000
Revolving credit facility	–	–
Factoring facility	**1,012**	1,203
	1,012	1,203

The Group’s bank borrowings are secured by way of fixed and floating charge over the Group’s assets.

HSBC revolving credit facility agreement (“RCF”)

At 30 April 2020 the Group had drawn £12m against the RCF. The original facility, dated 2 June 2016, was for a period of five years. In August 2020, the facility was amended, increasing the facility to £17m, expiring in August 2023. The facility requires repayment of £2m on each of 30 April 2022 and 30 April 2023.

Interest charged on the facility is at LIBOR plus a margin of 2.20%-2.95%. A commitment fee of 40% of applicable margin on any undrawn RCF is also payable.

The Obligors are Accrol Group Holdings plc, Accrol UK Limited, Accrol Holdings Limited and Accrol Papers Limited.

HSBC £18m factoring credit facility (“factoring facility”)

The Group has a £18m multi-currency factoring facility to provide financing for general working capital requirements. Under the terms of this facility the drawdown is based upon gross debtors less a retention (typically 15%), with the remaining debt funded. Each drawing under the facility is repayable within a maximum of 90 days from date of invoice for jurisdictions within the United Kingdom and 120 days for other countries.

Covenants

The Group is subject to financial covenants in relation to the RCF and the factoring facility. The RCF covenants are interest cover and net leverage ratios. The covenants in relation to the factoring facility cover debt dilution and disputed debt. Breach of the covenants would render any outstanding borrowings subject to immediate settlement. The Group is currently operating within its covenants.

13. Share capital and reserves

	2020	2019
	£'000	£'000
Called up, allotted and fully paid		
Ordinary shares of £0.001 each	**195**	195
	195	195

The number of ordinary shares in issue is set out below:

	2020	2019
	Number	Number
Ordinary shares of £0.001 each	**195,246,536**	195,246,536

14. Events after the balance sheet date

Subsequent to the year end, the Group successfully refinanced its banking facilities, providing greater accessibility, flexibility and headroom, with a revised maturity date of August 2023.

15. Alternative performance measures

The Group uses a number of alternative performance measures to assess business performance and provide additional useful information to shareholders about the underlying performance of the Group.

Adjusted earnings per share

The adjusted earnings per share is calculated by dividing the adjusted earnings attributable to ordinary equity holder of the parent by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share adjusts the above for potentially dilutive share options. The following reflects the income and share data used in the adjusted earnings per share calculation.

	2020	2019
	£'000	£'000
Loss attributable to shareholders	**(1,579)**	(11,748)
Adjustment for:		
Amortisation	**2,040**	2,040
Separately disclosed items	**2,230**	7,906
Share based payments	**2,351**	1,316
Tax effect of adjustments above	**(1,258)**	(2,140)
Adjusted earnings/(loss) attributable to shareholders	**3,784**	(2,626)

	Number	Number
	'000	'000
Basic weighted average number of shares	**195,246**	189,192
Dilutive share options	**30,463**	–
Diluted weighted average number of shares	**225,709**	189,192

	pence	pence
Basic adjusted earnings per share	**1.9**	(1.4)
Diluted adjusted earnings per share	**1.7**	(1.4)

Reconciliation from GAAP-defined reporting measures to the Group's alternative performance measures

Management use these measurements to better understand the underlying business of the Group.

Consolidated income statement

The following table reconciles the Group's operating performance to Adjusted EBITDA. On transition to IFRS 16, the Group adopted the modified retrospective approach and comparatives are not restated. To aid comparability to the prior year, an adjustment has been made to the current year to represent accounting under the previous standard (IAS 17).

	2020	2019
	£'000	£'000
Adjusted EBITDA		
Operating (loss)/profit	**(181)**	(12,742)
Adjusted for:		
Depreciation	**4,201**	2,488
Amortisation	**2,040**	2,040
Separately disclosed items	**2,230**	7,906
Share based payments	**2,351**	1,316
Adjusted EBITDA	**10,641**	1,008
Less: Adjustment in current year for IFRS 16 impact	**(2,300)**	–
Adjusted EBITDA (pre-IFRS 16 basis)	**8,341**	1,008

	2020	2019
	£'000	£'000
Adjusted Gross Profit		
Gross Profit	**29,534**	17,552
Adjusted for:		
Separately disclosed items	**1,008**	4,164
Adjusted Gross Profit	**30,542**	21,716
Revenue	**134,773**	119,111
Adjusted Gross Margin	**22.7%**	18.2%

	2020	2019
	£'000	£'000
Adjusted profit/(loss) before tax		
Reported (loss) before tax	**(1,891)**	(14,018)
Adjusted for:		
Amortisation	**2,040**	2,040
Separately disclosed items	**2,230**	7,906
Share based payments	**2,351**	1,316
Adjusted profit/(loss) before tax	**4,730**	(2,756)