Capital for Colleagues PLC

Capital for Colleagues plc / EPIC: CFCP / Market: NEX / Sector: Investment

18 January 2018

CAPITAL FOR COLLEAGUES PLC

('Capital for Colleagues' or the 'Company')

Audited Results for the year ended 31 August 2017

Capital for Colleagues, the investment vehicle focused on opportunities in the Employee Owned Business ('EOB') sector, is pleased to announce its audited results for the year ended 31 August 2017.

CHIEF EXECUTIVE'S STATEMENT

Employee ownership is acknowledged to improve productivity and create wealth as well as having the potential for attractive commercial returns for investors. Capital for Colleagues PLC (C4C) provides capital to existing and aspiring employee-owned businesses (EOBs) and helps them to become effective and profitable organisations driven by the ethos of employee ownership.

C4C tends to be agnostic in terms of business sector and structures its investments to reflect the individual requirements and prospects of each investee company. As a result, the funding we provide is very flexible and can take the form of debt, equity or both. The premise underlying all our investments is that they should facilitate the full engagement of employees in a business. A range of loans and equity investments have been made in unquoted businesses, generating income from dividends, interest and fees. Ultimately, the Board and investors will measure success based on a long-term increase in net asset value expressed as NAV per share. Although we are patient investors, all our investments need to offer an eventual opportunity to exit or be expected to return capital while still providing an attractive dividend or profit stream.

The financial year ended 31 August 2017, our third full year as a public company and as a member of what is now called NEX Exchange (formerly ISDX), brought challenges as well as opportunities. At the end of the year, our portfolio of private EOBs numbered sixteen. We believe that these businesses generate total annual turnover of around GBP 63 million and support around 520 jobs. Over the course of the year, the Company made level 3 investments totalling GBP 1.365 million in new and existing investee companies and now has investments across a range of business areas, from civil engineering to exhibition centres to technology, reflecting the diversity of EOBs and the breadth of investment opportunities available to us.

We were pleased to be nominated in two categories at the fifth annual Small Cap Awards. Firstly, as the NEX Exchange Company of the Year and, secondly, as the Social Stock Exchange Impact Company of the Year.

One new addition to the portfolio during the financial year was the holding company of Carpenter Oak Ltd (www.carpenteroak.com). Established in 1987 and with offices in Devon, Wiltshire and Scotland, Carpenter Oak is an award-winning specialist in the design, construction and raising of timber-framed structures. The company is our most recent new investment and fits with another of our main investment criteria of sustainable construction. Carpenter Oak craftsmen have created numerous hand-finished, oak-framed houses, oak conservatories and timber frame extensions around the world and their work has featured on the Channel 4 TV programmes "Grand Designs" and "Building the Dream". Carpenter Oak designs and raises around 90 frames a year.

The directors were disappointed to note that, in early 2017, the largest investment in our portfolio at that time, FJ Holdings Ltd (FJH)

and its subsidiary Ham Baker Adams Ltd (HBA), were placed into administration. We invested a total of GBP 1.3 million into these two businesses but this amount ended up being written down to zero, with the expected negative effect on our NAV and on these financial results. The events surrounding the demise of FJH are extremely disappointing, particularly as they stand in contrast to those in general of our other investee companies.

We reflected on the circumstances in which FJH became part of our portfolio and examined whether this led to a greater chance of failure than might otherwise have been the case. FJH was one of three early investments acquired, immediately prior to the company's flotation, from the members of an existing Limited Liability Partnership. Since our IPO, it became apparent to us that FJH's commitment to employee ownership was not as sincere as we would have liked. Moreover, FJH's management was not always receptive to ideas as to how to improve that company's financial management and performance, despite considerable input from the C4C team. Accordingly, a decision was taken to exit the holding some months prior to the administration. Regrettably for C4C investors, before an exit could be achieved and against a backdrop of increasingly tough trading conditions, FJH's management and its secured finance providers engineered a sale of the group's key businesses and assets to a third-party private equity firm, leaving existing equity investors and unsecured finance providers with nothing of value.

This unfortunate episode gave us cause for deep reflection on our philosophy and our approach to investees. Over the last three years, we have sourced and executed our investments through a process which delivers a detailed understanding of prospective investee companies and the people who run them, prior to any investment being made. We must recognise that it is in the nature of any portfolio, however well diversified, to have an investment fail and smaller, unquoted companies can be particularly sensitive to the risk of failure. Although no investment is without risk, we are committed to minimising it and we will continue to invest in a diversified range of EOBs with the intention that the majority will become successful and sustainable, delivering meaningful returns to shareholders. The remaining two investments acquired at the same time as FJH are embracing EO and performing to expectation. Without wishing to deny the significant impact of the failure of FJH and HBA, which represented 21% of the value of the portfolio last year, it has not dimmed our enthusiasm for seeing through our strategy albeit with greater wisdom painfully gained. We responded to this setback by taking three positive actions.

1. We raised new capital. In April 2017, we completed a fundraising via an Open Offer and Subscription. Net proceeds were approximately GBP 2.38m, an amount which was ahead of our expectations. More details of this corporate action can be found in the Business Review. As with previous capital raises, new funds are being used to make further investments into employee-owned businesses and for general working capital purposes.

2. We reassessed our fixed costs to ensure that our overall costs remain in line with our asset base. Consequently, in May 2017, the executive directors and some key employees agreed that, for a period of at least a year, a proportion of their monthly earnings will be paid in new C4C ordinary shares, through a Share Incentive Plan.

3. We changed the structure of the group so that we can focus solely on managing our portfolio. After the year-end, we set up a new joint venture company, Castlefield Corporate Advisory Partners Limited ("CCAP"), which is now responsible for the non-investment EOB activities previously undertaken by C4C. In particular, CCAP educates businesses about the benefits of Employee Ownership, including succession planning and it also identifies potential investees and advises companies on the structure and presentation of their investment case to C4C. CCAP also monitors and advises our existing investee companies and identifies potential new investors for us. More details of this initiative can be found below (see "Post Year-End Event").

Whilst securing investment in unquoted companies, we sometimes invest in quoted businesses that demonstrate employee engagement. To date, good returns have been achieved on this portion of the company's assets. The benefit of investing in quoted companies is that C4C can deploy its capital quickly and efficiently and the investment team can afford to bide its time when it comes to investing in unquoted businesses. With no shortage at present of good opportunities among private companies, our exposure to listed investments was nil at the end of the period.

Shareholders will be aware that we are active members of the Employee Ownership Association (www.employeeownership.co.uk) and we believe that we are their only current equity funding partner. The Employee Ownership Association (EOA) represents organisations which are employee-owned or transitioning to employee ownership. Membership has grown from significantly less than 100 three years ago, to around 320 members today. As a sign of our commitment to leadership in the sector, we sponsor the EOA's two-day annual conference which takes place in November each year. Under the terms of our agreement, the EOA refers us any members or other suitable prospects who are considering an employee buyout, who have begun the transition to employee ownership or who are seeking funding to develop an existing EOB.

Social Impact

We have always been convinced of the positive social impact of employee ownership and we measure this every year with our annual impact report. During the summer, we published our third such report which is available to download from our website. Our next impact report will be published in summer 2018.

On 1 January 2016, the seventeen Sustainable Development Goals (SDGs) of the United Nations' 2030 Agenda for Sustainable Development — adopted by world leaders in September 2015 at an historic Summit — officially came into force (see www.un.org). Over the next fifteen years and in pursuit of these new goals, countries, companies and individuals can mobilise efforts to end all forms of poverty, fight inequalities and tackle climate change while ensuring that no one is left behind. We believe that through our commitment to employee ownership and the activities of some of the companies in which we invest, C4C addresses four of the UN's Sustainable Development Goals.

Goal 3 – Good Health and Wellbeing.

Ensuring healthy lives and promoting well-being for all at all ages which is essential to sustainable development. There is evidence to suggest that employee-owned businesses generate higher levels of well-being among their staff compared with conventionally-owned businesses.

Goal 8 – Decent Work and Economic Growth.

A continued lack of decent work opportunities contributes to an erosion of the basic social contract underlying democratic societies. The creation of quality jobs remains a major challenge for all economies. Employee-owned businesses offer meaningful and sustainable work to their employees.

Goal 12 – Responsible Consumption and Production.
Sustainable consumption and production is about promoting resource and energy efficiency. C4C supports several businesses which are committed to sustainability and social responsibility. Ecomerchant and Carpenter Oak, for example, are specialist suppliers of environmentally-friendly building materials.

Goal 13 – Climate Action
Climate change is now affecting every country on every continent. It is disrupting national economies and affecting lives, costing people, communities and countries dearly. C4C investee companies Anthesis and Office for Public Management both advise clients on sustainability and reducing carbon emissions.

This is the first year where we have identified the UN Sustainable Development Goals which we seek to address. In next year's annual report and accounts, we plan to report back to shareholders on our progress in addressing these four goals.

Post Year-End Event
As mentioned above, so that we can further refine the way we do business we announced, in November 2017, the formation of a joint venture company which will allow C4C to concentrate solely on its core business of investing in EOBs.

Since the formation of the company, we have been a committed advocate for the wider EOB sector, raising public awareness of employee ownership and actively promoting the benefits of it through education programmes and by identifying, advising and structuring potential EOBs. We are proud of our achievements in this area, but we believe it has been a distraction from the Company's core business of investing in EOBs.

Therefore, we decided to establish a new joint venture company, CCAP, which will assume responsibility for the non-investment EOB activities previously undertaken by C4C. In particular, CCAP will be responsible for educating businesses about the benefits of Employee Ownership (including succession planning), identifying potential investee companies for C4C and for advising those companies on the structure and presentation of their investment case to C4C. CCAP will also monitor and advise our existing investee companies and source potential new investors for us.

C4C owns 34 per cent of CCAP, with Castlefield Partners Limited ("Castlefield") owning 51 per cent; the balance of 15 per cent is to be held by CCAP's current and future executives, including Jeremy Burden and Peter Matthews, who have transferred their employment from Capital for Colleagues to CCAP. Castlefield is the employee-owned holding company of a range of FCA regulated financial services businesses, focused on responsible, sustainable investing. John Eckersley and Alistair Currie, executive Directors of Capital for Colleagues, are also partners of Castlefield.

The establishment of CCAP frees C4C to focus on its core activity of providing capital to EOBs. We will use this capital to drive future growth in the EOB sector and to benefit from that growth. Streamlining our operations in this way is also in line with C4C's previously stated intention of reducing its central, largely fixed overheads.

Financial Results

In the twelve months ended 31 August 2017, the Group invested GBP 1.37 million across a portfolio of sixteen unquoted EOBs. The company generated revenue of GBP 372,000 in the year and at the year end, had net assets of GBP 6.6 million, equivalent to 42.69p per share. This year's results are dominated by the impairment of the investment and loans attributable to the demise of FJ Holdings mentioned elsewhere in this report. The impairment of GBP 1.32 million, as seen in the Consolidated Statement of Comprehensive Income, pushed the company from making an operating profit of GBP 154,000 into a loss of GBP 1.04 million. Looking past this, the results reflect our transition from high yielding loans towards putting in place the foundations of a portfolio offering equity-linked returns. Shareholders will be aware from my statement last year that at that time we had already begun to sacrifice shorter-term income for a bigger share of the potential capital growth from our investments. The main impact of this move has been felt under the year now being reviewed.

The Directors do not recommend the payment of a dividend.

Outlook

As we build on our leading position in the EOB sector, we remain committed to the continued expansion of our portfolio so that we can generate attractive returns for our shareholders. Despite the setback mentioned above, we continue to move forward with our strategy, most notably where we convert certain existing loans into equity. As a well-established presence in the market, we enjoy good access to numerous potential investee companies in varying sectors and of various sizes, which we believe can deliver the returns we require. The Directors are confident that the EOB sector will keep expanding and that EOBs will continue to deliver strong performance. Having raised new funds during the year, we expect to continue to make investments into EOBs. A broad strategic objective is to make larger investments into bigger businesses so that more workers can enjoy the benefits of employee ownership. With the steps we have taken, we believe that we are well placed to capitalise on the significant growth potential of the EOB sector. Statistics demonstrate that the EOB sector is becoming increasingly important to our economy, with an increasing proportion of UK GDP expected to be generated by EOBs year-by-year. As a result, we are still confident in our ability to create value for our shareholders and we would like to thank them for their continued support. We are still proud to be in the vanguard of this exciting sector and I look forward to a year of progress.

John Eckersley
Chief Executive

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 AUGUST 2017

	2017 GBP 000's	2016 GBP 000's
Revenue	372	560
Realised (loss) / gains on investments	(5)	157
Unrealised revaluation gains on investments	317	71
	684	788
Administrative expenses	(530)	(630)
OPERATING PROFIT	154	158
Impairment of investments and loans	(1,321)	-
Finance income	-	-
(LOSS) / PROFIT BEFORE TAX	(1,167)	158
Tax credit / (charge)	120	(130)
RETAINED (LOSS) / PROFIT AFTER TAX FOR THE YEAR	(1,047)	28
RETAINED (LOSS) / PROFIT ATTRIBUTABLE TO		
Owners of the company for the year	(1,047)	28
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Owners of the company for the year	(1,047)	28
(Loss)/ profit per share		
Basic and diluted	(9.02)p	0.32p

GROUP AND COMPANY STATEMENT OF FINANCIAL POSITION AT 31 AUGUST 2017

	Group		Company	
	2017	**2016**	**2017**	**2016**
	GBP 000's	**GBP 000's**	**GBP 000's**	**GBP 000's**
ASSETS				
NON-CURRENT ASSETS				
Investments held at fair value through profit or loss	4,592	3,427	4,592	3,427
Loans and receivables	535	1,081	535	1,081
	5,127	4,508	5,127	4,508
CURRENT ASSETS				
Trade and other receivables	276	654	280	658
Cash and cash equivalents	1,283	279	1,283	279
	1,559	933	1,563	937
TOTAL ASSETS	6,686	5,441	6,690	5,445
EQUITY AND LIABILITIES				
EQUITY				
Called up share capital	6,154	3,850	6,154	3,850
Share premium	1,097	1,036	1,097	1,036
Retained (loss) / profit	(683)	364	(678)	369
TOTAL EQUITY	6,568	5,250	6,573	5,255
CURRENT LIABILITIES				
Trade and other payables	110	89	109	88
	110	89	109	88
CREDITORS: AMOUNTS FALLING DUE IN MORE THAN ONE YEAR				
Provisions for liabilities	8	102	8	102
TOTAL EQUITY AND LIABILITIES	6,686	5,441	6,690	5,445

The financial statements were approved and authorised for issue by the Board of Directors on 17 January 2018, and were signed below on its behalf by:

The Directors of the Company are responsible for the contents of this announcement.

For further information, please visit www.capitalforcolleagues.com or contact:

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Capital for Colleagues

Capital for Colleagues is an investment company focused on the UK EOB sector. The Company has a proven management team, with a wide network of contacts and affiliates, as well as established access to investment opportunities, enabling the Company to execute its strategy and capitalise on EOB-focused investment opportunities.

The Company's joint venture, Castlefield Corporate Advisory Partners, educates and assists companies which are looking to launch employee ownership schemes, advising them, amongst other things, on how to secure investment and achieve their objectives.

Market Abuse Regulation (MAR) Disclosure

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulation (EU) No. 596/2014. Upon the publication of this announcement via a Regulatory Information Service, this inside information is now considered to be in the public domain.