DRAFT 4

15 April 2010

Hasgrove plc

Final results

Positive momentum of Q4 continues into 2010

Hasgrove plc (AIM: HGV, 'Hasgrove'), the pan European marketing and communications services group, announces its final results for the year ended 31 December 2009.

Headlines

- Turnover £32.4m (2008: £36.5m)
- Gross profit of £26.8m (2008: £27.3m)
- Headline operating profit £2.9m (2008: £5.2m)
- Headline pre tax profit £2.7m (2008: £4.5m)
- Headline basic EPS 9.0p (2008: 16.6p)
- Proposed dividend maintained at 0.5p per share
- Net debt at 31 December 2009 of £6.5m (2008: £5.9m)
- Cash flow from operating activities of £3.4m
- Continued focus on cash collection resulted in cash conversion rate of 190%
- Positive start to 2010 – momentum of Q4 2009 has continued into Q1 2010
- Digital communications and services division now fully integrated
- Client retention remains strong

Rod Hyde, Group Chief Executive, said:

"In anticipation of the challenging economic conditions in 2009 we integrated our businesses into two divisions and closely controlled costs in order to protect margins and cash.

"New business opportunities increased in the latter part of 2009, particularly with a number of important project wins which will have a positive impact in the current financial year. Momentum in new and existing client activity has continued to build in early 2010.

"Our focus on growth areas is proving successful despite the economic environment and our new products and services are in demand. We are confident that the reorganisation implemented during the year and the new wins secured have positioned us well for 2010 and beyond."

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Overview

Hasgrove is now organised into two divisions: Digital and Communication Services, and Public Affairs and Strategic Communications. The Group is exploiting and benefiting from both operational and cost synergy benefits within the two divisions which now work together on a number of international projects.

The Group also continues to benefit from the diversity of its operations both in terms of discipline and geographical exposure. More than 40% of Group revenue is generated outside the UK as a consequence of both UK exports and businesses based in continental Europe.

2009 was a challenging year for the Group. As previously indicated the Group experienced a number of clients cutting budgets at the start of the year with a shift in focus from retainers to project based assignments. However, client retention remains strong with very few actual losses and no individual losses of any significance.

The Group has developed a strong focus on innovation and creativity. All companies within the Group are tasked with enhancing their competitive position by continually initiating new products and services. This has been supported by investing in sales and marketing designed to drive organic growth. This strategy has produced results despite the fact that in some areas of the business in 2009 it was necessary to win on average two new clients to generate the same level of revenue that had previously been generated by a single client win.

Financial Highlights

The Group's turnover was £32.4m (2008: £36.5m), with gross profits of £26.8m (2007: £27.3m).

Headline operating profits, excluding exceptional items and the non cash items of notional finance costs and share option charges, were £2.9m (2008: £5.2m). Within the Group operating profits there is a head office profit, after management recharges to each division, of £0.2m (2008: £0.5m). Interest charged reduced to £0.2m (2008: £0.7m).

Headline profit before tax was £2.7m (2008: £4.5m).

The exceptional charge of £1m consists of redundancy costs as previously announced, the planned office move for Amaze in Manchester and a bad debt in Germany. As previously indicated it is anticipated that the redundancy costs will save an estimated £1m per annum.

After the exceptional items and the non cash items of notional finance costs and share options charges, Group profit before tax was £1.5m (2008: £4.2m). The effective tax rate was 21% which should be sustainable for a further two years.

Headline basic earnings per share were 9.0p (2008: 16.6p) and reported basic earnings per share were 5.0p (2008: 15.5p).

The Board is proposing to maintain the dividend of 0.5p per share. The dividend will be paid on 21 July 2010 to all shareholders on the register at 25 June 2010.

In the context of the difficult year and the exceptional costs, operating cash flows before tax were encouraging at £3.4m (2008: £5.1m) representing a conversion rate of 190% due to a continued focus on cash collection.

The Group's year end net debt increased to £6.5m (31 December 2008 £6.0m) largely due to acquisition costs and earn out payments. Total bank facilities in place at year end were £9.2m. The year end net debt to EBITDA ratio was 1.88, well within the bank's covenant.

At the year end, the estimate of future earn-outs was £3.7m with up to £1.0m of this payable in shares at the Group's option and the balance in cash over the next four years. Total estimated earn-out payments, including shares, are £2.4m in 2010, £1.0m in 2011, £0.1m in 2012 and £0.2m in 2012. These earn-outs are dependent on performance of the relevant businesses and are self-funding.

Operational Review

Digital and Communication Services

Digital and Communication Services, now operating under the Amaze, Odyssey, Chase and Landmarks' brands, delivered revenues of £19.2m (2008: £23.3m) with operating profits at £2.3m (2008: £2.9m). The reduction in revenues was largely due to the completion of a project in 2008 at relatively low gross margins. The gross income was only down to £15.4m (2008: £16.0m).

Amaze

By the end of the year, Amaze had largely recovered from a difficult start to the year caused by clients delaying or cancelling anticipated marketing spend. Despite uncertainty about some existing clients' marketing intentions, 2010 has started well with a much stronger demand for digital services with new client spend and higher than anticipated existing client activity.

Amaze offers a broad range of marketing and technology services including web design and build, digital media including search, social media, user online reputation management, eCRM, mobile, experience optimisation and analytics as well as traditional PR, print and broadcast advertising and brand consulting.

During the year Amaze moved into the top 5 in the NMA web design and build league table.

Amaze's strategy is to become a pan European agency for the digital age with a focus on developing a reputation for strategic guidance, innovation, creativity and excellence in execution.

Amaze's new head-quarters will become fully functional by the end of April 2010. Consolidation of the London offices is also planned for 2010. Due to client demand the Group is currently exploring the options for further continental European expansion beyond the office in Brussels that was opened in 2009.

Integrated activity, where teams from across the company collaborate to deliver complex solutions to our clients, continues to be a growing feature of our work. During the year Amaze has developed significant credentials in digital strategy, eCommerce, Internal Communications, multi-lingual capacity and fully integrated marketing activity.

Amaze has kept a watching brief on mobile for a number of years, and clients are now buying mobile applications and services. The company is continuing to build development teams as significant projects are commissioned. In 2009 Amaze acquired MCL Digital, a digital technology consultancy, which has its own iphone creation platform (www.iphonecreate.com). In 2009 Amaze also invested in eCRM by acquiring the trade and assets of Underwired Ltd. The company also grew its social media and digital media capability by organic growth.

Odyssey

Odyssey had a strong year with the launch of version 4.0 of Interact, its intelligent intranet software. Operating Profit, pre-central costs, almost tripled over the last three years to £0.8m helped by the dominant position in the Housing Association sector (now with over 25,000 users) and by an increase in larger client wins. The average sales value for an intranet increased from £15k to £25k and the bank of recurring annual service revenue is increasing.

The partnership with Amaze strengthened with a number of joint projects successfully launched including NPIA and e-LFH. 2009 also saw the launch of a technology partner strategy to take advantage of the platform integration benefits the 150,000 user base offers.

The Chase

The Chase had a good year from both a financial and creative point of view. As well as coming in ahead of budget in a difficult climate, the company was placed third in the UK creative league tables. The year finished strongly with a number of new commissions from existing and new clients. The Chase was also named as the sole branding support agency for the Co-operative Group.

The Chase uses creativity to solve problems for brands, believing that good ideas for brands can gain natural momentum, far beyond paid-for traditional media. Although the company has a neutral approach to communications, it brought its digital activity in-house in 2009. This reflected the increasing importance of digital in the media mix. In addition, as a result of increased client activity, the company has made a number of senior hires designed to build on Chase's creative reputation.

Landmarks

2009 was a year of transformation for Landmarks. As traditional annual report and investor relations work reduced, the company focussed on brand support and developing a digital capability. This change is in line with Landmarks' vision to provide creative and efficient solutions for corporate communications needs in a changing world.As a result of the economic conditions, the planned evolution of Landmarks was accelerated

The transformation is continuing into 2010 with further growth in brand support and digital work. Landmarks has developed an extensive network within the Hasgrove group and regularly works with both Interel and Amaze teams. As a result, Landmarks has been able to develop and retain client revenues in a challenging environment.

Public Affairs and Corporate Communications

The Public Affairs and Corporate Communications division consisting of Interel and Politics International generated revenues of £13.2m (2008: £13.2m) and operating profits of £0.4m (2008: £1.7m) after management charges. It should be noted that if 2009 exchange rates had applied in 2008, then 2008 revenues would have been £14.5m.

After three challenging quarters featuring project cancellations and client budget reductions, Interel (including London based Politics International) has started to recover from the down turn with a number of new client wins and a trimmed cost base. This trend has continued into 2010. The sharp reduction in profit in 2009 was partly due to a decrease in annual retainers of £0.6m combined with an increase in office costs of £0.3m and a compulsory salary increase in Belgium of more than 4%, amounting to a further £0.3m. The balance of the reduction related to a number of deferred and cancelled projects offset by reduced staff costs.

The economic downturn was particularly felt in the local Belgian PR and Public Affairs practice, which in 2008 contributed close to 30% of Interel's profit. A number of steps have been taken to rectify the situation, including cost reductions while providing a stronger focus on the core business, public affairs and corporate communications. This process has continued into 2010 and the practice is now back on track following a number of recent client wins.

The investment in association management services continued to pay off with a substantial increase in revenues compared to 2008. Significant effort was made to build the necessary infrastructure to accommodate the rapid increase in client demand, which, combined with Interel's strong position in public affairs, puts the company in a strong position for significant growth in the association market.

Interel also made progress in the important sector of strategic communications services, notably international health communications where Interel was able to leverage its strong links with specialised health associations to build a portfolio of clients in the pharmaceutical and health care sectors, serviced by a recently established team based in London and Brussels.

Interel also continued to expand its international network with a number of additional partner agreements, including Spain, Turkey and Brazil with the latter forming part of an effort to ensure that the company is well positioned to capture new business from emerging markets, in particular the BRIC countries.

Outlook

2009 was a challenging year for the Group. After a slow start, new business opportunities picked up in the second half of the year, and this momentum has continued to build in early 2010.

The economic environment is likely to continue to be challenging in 2010. However, demand for the Group's portfolio of services and products has continued to expand and Hasgrove is active in developing new products and services in growth areas.

As the Group recovers, it continues to aim to grow both organically and through selective acquisitions. The combination of the Group's recent wins, cost control, healthy cash generation and a strong pipeline, gives the Board considerable confidence that Hasgrove is well placed to benefit from its market position and the opportunities that it has developed.

Hasgrove plc
Consolidated income statement
Year ended 31 December 2009

		2009 £000	2008 £000
Revenue		32,393	36,536
Cost of sales		(5,545)	(9,209)
Gross profit		26,848	27,327
Administrative expenses		(23,978)	(22,177)
Headline operating profit		2,870	5,150
Share option charges		(76)	(31)
Exceptional costs		(1,005)	-
Operating profit		1,789	5,119
Amounts written off investments		-	(10)
Finance income		40	21
Notional finance cost on deferred consideration		(126)	(211)
Finance costs		(230)	(719)
Headline profit before tax		2,680	4,442
Share option charge		(76)	(31)
Exceptional costs		(1,005)	-
Notional finance cost on deferred consideration		(126)	(211)
Profit before tax		1,473	4,200
Tax		(292)	(885)
Profit for the financial year		1,181	3,315
Basic earnings per share (pence)	3	5.0p	15.5p
Diluted earnings per share (pence)	3	5.0p	15.2p

Hasgrove plc
Consolidated statement of comprehensive income
Year ended 31 December 2009

	2009 **£000**	**2008** **£000**
Gains/ (losses) on a hedge of a net investment taken to equity	335	(819)
Exchange differences on translation of foreign operations	(1,243)	3,430
Net (expense)/ income recognised directly in equity	(908)	2,611
Profit for the period	1,181	3,315
Total recognised income and expense for the period	273	5,926

Hasgrove plc
Consolidated statement of financial position
At 31 December 2009

	2009 £000	2008 £000
Non-current assets		
Goodwill	33,503	34,081
Other intangible assets	366	168
Property, plant and equipment	1,468	1,562
Deferred tax asset	45	82
	35,382	35,893
Current assets		
Inventories	41	62
Trade and other receivables	8,608	11,549
Cash and cash equivalents	290	2,149
	8,939	13,760
Total assets	44,321	49,653
Current liabilities		
Trade and other payables	(5,927)	(7,882)
Current tax liabilities	(497)	(937)
Obligations under finance leases	(89)	(67)
Borrowings	(2,989)	(3,159)
Provisions	(2,344)	(3,418)
	(11,846)	(15,463)
Net current liabilities	(2,907)	(1,703)
Non-current liabilities		
Borrowings	(3,673)	(4,891)
Long-term provisions	(1,359)	(3,178)
Obligations under finance leases	(78)	(40)
	(5,110)	(8,109)
Total liabilities	(16,956)	(23,572)
Net assets	27,365	26,081
Equity		
Share capital	2,383	2,251
Share premium account	14,959	14,034
Translation reserve	2,355	3,264
Retained earnings	7,688	6,532
Total equity	27,365	26,081

Hasgrove plc
Consolidated statement of cash flows
Year ended 31 December 2009

	Note	2009 £000	2008 £000
Cash generated by operations	4	3,441	5,043
Income taxes paid		(757)	(750)
Net cash from operating activities		2,684	4,293
Investing activities			
Interest paid		(230)	(719)
Interest received		40	20
Proceeds on disposal of property, plant and equipment		13	19
Purchase of property, plant and equipment		(561)	(938)
Purchase of subsidiary undertakings		(437)	(2,308)
Expenditure on product development		(274)	(168)
Net cash acquired with subsidiaries		239	380
Payment of deferred consideration		(1,861)	(1,460)
Net cash used in investing activities		(3,071)	(5,174)
Financing activities			
Dividends paid		(118)	(107)
Repayments of borrowings		(1,060)	(549)
Proceeds on issue of shares		(4)	895
New bank loans raised		-	2,355
Decrease in bank overdrafts and revolver		(55)	(2,424)
Net cash from financing activities		(1,237)	170
Net decrease in cash and cash equivalents		(1,624)	(711)
Cash and cash equivalents at beginning of year		2,149	2,955
Effect of foreign exchange rate changes		(235)	(95)
Cash and cash equivalents at end of year		290	2,149

1. Financial information

The financial information contained in this document does not constitute statutory financial statements within the meaning of section 434 of the Companies Act 2006. The figures for the year ended 31 December 2009 have been extracted from the audited statutory financial statements. The financial statements for the year ended 31 December 2009 and the year ended 31 December 2008 received unqualified auditors' reports which did not contain statements under section 498(2) and (3) of the Companies Act 2006 or section 237 (2) or (3) Companies Act 1985 respectively.

Copies of the company's financial statements will be posted to shareholders in June 2010 and, after approval at the company's Annual General Meeting, will be delivered to the Registrar of Companies. Further copies will be available from the registered office of the company.

2. Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis.

3. Earnings per share

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

Earnings

	2009 £000	2008 £000
Earnings for the purposes of basic earnings per share being net profit	1,181	3,315

	2009 000's	2008 000's
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	23,439	21,406
Effect of dilutive potential ordinary shares:		
Share options	322	401
Weighted average number of ordinary shares for the purposes of diluted earnings per share	23,761	21,807

Headline earnings per share

The calculation of headline basic and headline diluted earnings per share is based on the earnings after adjustments as follows:

	2009 £000	2008 £000
Net profit	1,181	3,315
Share option charges	76	31
Exceptional costs (net of tax relief)	724	-
Notional finance cost on deferred consideration	126	211
Headline earnings	2,107	3,557

4. Notes to the statement of cash flows

	2009 £000	**2008 £000**
Operating profit for the year	1,789	5,119
Adjustments for:		
Depreciation of property, plant and equipment	611	501
Amortisation	55	-
Share-based payment expense	76	31
Loss/ (profit) on disposal of fixed assets	106	(26)
Operating cash flows before movements in working capital	2,637	5,626
Decrease/ (increase) in inventories	21	(7)
Decrease/ (increase) in receivables	2,623	(1,990)
(Decrease)/ increase in payables	(1,840)	1,415
Cash generated by operations	3,441	5,043

Additions to fixtures and equipment during the year amounting to £120,000 were financed by new finance leases.

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less, offset by bank overdrafts where there is a right of set off and cash pooling in place.

5. Other information

Other information regarding Hasgrove plc can be found at the Company's website, www.hasgrove.com