19 April 2011

Hasgrove plc

Continued recovery with growth opportunities in Digital

Hasgrove plc (AIM: HGV, 'Hasgrove'), the pan European marketing and communications services group, announces its unaudited final results for the year ended 31 December 2010.

Highlights

- Turnover up 9.3% to £35.4m (2009: £32.4m)
- Gross profit up 1.5% £27.2m (2009: £26.8m)
- Headline operating profit[1] up 20.7% to £3.5m (2009: £2.9m)
- Headline pre-tax profit[2] up 18.5% to £3.2m (2009: £2.7m)
- Reported pre-tax profit up 40% to £2.1m (2009: £1.5m)
- Headline basic EPS[3] up 20% to 10.8p (2009: 9.0p)
- Basic EPS up 56.4% to 6.1p (2009 restated[4]: 3.9p)
- Proposed dividend maintained at 0.5p per share
- Net debt at 31 December 2010 of £6.7m (2009: £6.5m)
- Continued focus on cash collection, resulting in an operating profit cash conversion rate of 143%
- Bank facilities increased and extended more than two years to 31 December 2014
- Significant digital client wins for 2011

1 Headline operating profit is stated before exceptional costs and share option charges
2 Headline pre-tax profit is stated before exceptional costs, share option charges and notional finance costs on deferred consideration
3 Headline basic EPS is defined in note 4.
4 See note 3.

Rod Hyde, Group Chief Executive, said:

"2010 was a period of continued recovery despite the impact from public sector cuts. We have successfully replaced these revenues resulting in an encouraging financial performance.

"The progress made in 2010 is continuing into 2011 with encouraging contract wins and a strong new business pipeline. There is a significant opportunity for growth in digital, where we are already well positioned."

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Overview

Hasgrove plc consists of two divisions: Digital and Communication Services, operating under the Amaze, Interact, Chase and Landmarks brands; and Public Affairs and Strategic Communications, operating as Interel. There are now more than 380 personnel in the Group, serving a broad base of over 600 clients.

The diversity of the operations of these divisions continues to benefit the Group in terms of discipline and geographical exposure. More than 45% of Group revenue is now generated outside the UK as a consequence of both UK exports and businesses based in continental Europe.

Profit growth has been achieved despite the reduction in public sector work, as expected in the second half of 2010, significant organic investment and underperformance in one area of Amaze which required further restructuring. This has been completed and good progress is now being made.

In the fourth quarter the Group experienced delays in client decisions due to extended procurement processes. The majority of the delayed contracts have now been converted.

2010 was also a year of investment in the organic growth of the business. Interact, formerly Odyssey, the intranet product company, has developed a multi-language version of Interact Intranet, with its innovative use of social media in the workplace being a key differentiator. Interel has recovered significantly during 2010 and continued to build its global affiliate network. Amaze's focus on and investment in digital strategy and technology has been instrumental in winning a major global account, Unilever, at the end of the year, which will benefit 2011 and beyond. The Chase had another good year from both a financial and creative point of view.

In summary, the Public Affairs and Strategic Communications division has largely recovered from a difficult year and is now delivering steady growth. It is the Board's view that there is more opportunity for growth in Digital Communications, where Hasgrove is well placed, and this will be an area for continued focus and increased internal investment.

Financial Highlights

The Group's turnover increased by 9.3% to £35.4m (2009: £32.4m), with gross profits increasing by 1.5% to £27.2m (2009: £26.8m). On a constant currency basis, these increases were 10.9% and 3.0% respectively.

Headline operating profit, which excludes exceptional items and share option charges, was £3.5m (2009: £2.9m), an increase of 20.7%. Operating profit was £2.4m (2009: £1.8m). Within the Group operating profit there is a head office profit, after management recharges to each division, of £0.2m (2009: £0.2m). Interest charged was £0.2m (2009: £0.2m).

Headline profit before tax increased by 18.5% to £3.2m (2009: £2.7m); reported profit before tax increased by 40% to £2.1m (2009: £1.5m).

The exceptional charge of £0.9m consists of redundancy costs related to the continuing cost reduction programme and the cost of six office moves, bringing a number of business units together.

Group profit before tax was £2.1m (2009: £1.5m) after the exceptional items and the non-cash items of notional finance costs and share option charges. The effective tax rate was 31.5% (2009 restated: 37.8%). The 2010 and 2009 deferred tax charges include the recognition of a deferred tax liability in relation to goodwill, as required by IAS 12 *Income taxes*. Accordingly, the tax charges for those years have been increased by £218,000 and £267,000 respectively. This change in accounting and the corresponding £770,000 deferred tax provision on the balance sheet (2009 restated: £552,000) have no impact on current or future cash tax payable. These amounts have been added back for the purposes of assessing headline earnings per share.

Headline basic earnings per share were 10.8p (2009: 9.0p) and reported basic earnings per share were 6.1p (2009 restated: 3.9p).

The Board is proposing to maintain the dividend of 0.5p per share. The dividend will be paid on 20 July 2011 to all shareholders on the register at 24 June 2011.

Cash generated by operations was encouraging at £3.5m (2009: £3.4m), representing an operating profit conversion rate of 143% due to a continued focus on cash collection.

The Group's year end net debt increased to £6.7m (31 December 2009: £6.5m) largely due to earn out payments and exceptional costs. Total bank facilities in place at year end were £8.2m. The year end net debt to EBITDA ratio was 1.22, well within the bank's covenant.

In March 2011, the Group completed its refinancing, giving the Group additional headroom of £1.1m and the repayment profile has been extended from September 2011 and 2012 to 31 December 2014.

At the year end, the estimate of future earn-outs was £2.3m (2009: £3.7m). Total estimated earn-out payments, including shares, are £1.5m in 2011 with the remaining £0.8m due over the following three years. 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 delivered revenues of £22.2m (2009: £19.2m) with operating profits at £2.1m (2009: £2.3m). The gross income was up to £16.0m (2009: £15.4m).

Amaze

Amaze is a leading pan-European integrated marketing and technology company, specialising in global digital strategy and communications, web-based business solutions, and PR.

2010 started well, with a strong demand for digital services, new client spend and higher than anticipated existing client activity. Towards the end of the first half, public sector cuts were announced and immediately had an impact. The severity and speed of implementation of these cuts surprised clients and had a significant impact on Amaze's revenue forecasts.

Amaze's new business activity had already been focussed on the private sector for some time, and the strong pipeline delivered sales to replace the majority of public sector work. The highlight of this activity was the Unilever appointment, and the pipeline for digital activity remains strong.

Amaze's team of connected specialists works with leading organisations, including Bridgestone, Coca-Cola, the Co-operative Group, Dyson, Eurocamp, Henri Lloyd, Lexus, ODEON Cinemas and Toyota to identify and maximise opportunities for audience engagement.

In addition to being ranked 15th in the UK's Top 100 Interactive Agencies by New Media Age, Amaze was ranked fifth in the website design and build category for the second consecutive year. Amaze was also positioned second in B2B Marketing's 2010 Marketing Communications Agency League Table, ninth in Marketing's 2010 Digital Agency League Table and fifth in YouGov's Agency Reputation Survey last year.

Amaze's new headquarters have now been established in Manchester, bringing three offices together. Amaze will be relocating its London office in 2011 to allow for the expansion generated by client demand. In addition Amaze has offices in Brussels, Liverpool and Belfast.

Amaze has recently announced the launch of a digital brand management tool, AmazeOne. This is Amaze's first product offering and is a diversification away from a purely services-oriented business. The product is designed to respond to the needs of multi-national clients who are faced with the challenge of managing their brands' presence across all digital channels. Amaze is ideally suited to fulfil market needs such as this due to the combination of strategy, insight and rapid technology skills.

During the year Landmarks, Hasgrove's design company in Brussels, joined Amaze. Brussels is a significant opportunity for Amaze with a wide ranging international and national client base.

Interact (formerly Odyssey)

2010 has been a transformational year for Interact and its intranet software, Interact Intranet. With a successful rebranding, the launch of a downloadable version aimed at the North American market and the establishment of a partner network, turnover has been maintained at 2009 levels against a tough economic climate that saw public sector customers significantly reducing spend.

Annual recurring revenue has increased by 28% with high retention rates of 95%. 2011 has started very well, with notable new clients of G4S group and Yodel using the enterprise version of Interact Intranet. Interact is also starting to benefit from the investment made in 2010 to increase global reach and is now receiving a similar level of enquiries globally as in the UK.

Interact now has a unique position in the Enterprise 2.0 intranet market, which is expected to return significant value in the medium term. Interact has a mature, stable product offering with which clients are increasingly keen to engage, combined with the knowledge and expertise to implement it effectively.

As companies are realising the commercial benefit in enterprise social networking Interact Intranet software is positioned to take advantage of its user base in the rapidly growing Enterprise 2.0 intranet market. Interact Intranet is uniquely placed to combine traditional intranet communication, business processes and knowledge management with decentralised collaboration and crowdsourcing.

The Chase

The Chase is a creative design business and had another good year from both a financial and creative point of view. Highlights include delivering two significant global initiatives for a major pharmaceutical company and creating the internal design for a new nationwide high street brand.

In addition The Chase has produced a second set of stamp designs for the Royal Mail and also designed the presentation pack for the Royal Wedding stamps.

Awards included a Cannes Gold, Best in Show at Design Week's Benchmark Awards and Roses Design Group of the Year. The Chase continues to be highly placed in the UK creative leagues tables: second in branding and print and fourth overall.

Public Affairs and Strategic Communications

The Group's Public Affairs and Strategic Communications brand, Interel, now has offices in Berlin, Brussels, London, Paris, Prague and Washington DC. Interel is an international consulting group specialising in Public Affairs, Strategic Communications and Association Management. An increasing number of its blue chip clients are now serviced by more than one office, reflecting the division's pan-European service.

The Public Affairs and Strategic Communications division generated revenues of £13.1m (2009: £13.2m) and operating profits of £1.2m (2009: £0.4m) after management charges. On a constant currency basis revenues were £12.7m. The increase in profit is due in part to the restructuring programme implemented in 2009/10 and an ongoing focus on business development, cost management, capacity optimisation and closer integration of the offices within the business, including:

- alignment of the brand across all practices, including the rebranding of the London based UK office to Interel Consulting UK;
- a split of the Belgian business into two separate practices focusing respectively on Strategic Communications & Public Affairs and Consumer PR. The split has provided a focus on Interel's core service offering whilst also creating an identity and appropriate cost base for the Consumer PR business, which has been branded Interel 402PR; and
- the establishment of a dedicated international health communications practice, drawing on capabilities in both the UK and the Brussels EU office, providing international campaign support to leading pharmaceutical companies and medical societies.

The Brussels-based European Affairs and Association Management practices have benefited from a strong focus on business development, resulting in a significant uplift in profit compared to 2009. The Association Management practice has also evolved into an established EU player within the international market.

The French, German and Czech Republic practices provide important coverage for pan-European opportunities while positioning Interel for new business in those locations. Likewise, the presence in Washington DC, combined with Interel's growing international network of affiliated companies, has continued to generate significant leads.

Outlook

2010 was a challenging year for Hasgrove but has been a period of continued recovery, particularly in the Public Affairs and Strategic Communications division.

The challenging economic environment is likely to continue into 2011. However, the Board believes that there is a significant opportunity for growth in digital communications, where the Group is well positioned, particularly in the key areas of developing digital strategy for global organisations and global and pan-European rollouts. The Group will continue to invest in this area, including productising its offerings, building intellectual property and extending geographic coverage to satisfy client requirements.

As expected, 2011 has started slowly but recent business wins have given the Board confidence that the progress made in 2010 will continue.

Hasgrove plc
Unaudited consolidated income statement
Year ended 31 December 2010

	Note	2010 £000	Audited 2009 restated (note 3) £000
Revenue		35,358	32,393
Cost of sales		(8,167)	(5,545)
Gross profit		27,191	26,848
Administrative expenses before separately-identified items		(23,735)	(23,978)
Headline operating profit		3,456	2,870
Share option charges		(93)	(76)
Exceptional costs		(921)	(1,005)
Total administrative expenses		(24,749)	(25,059)
Operating profit		2,442	1,789
Finance income		2	40
Notional finance cost on deferred consideration		(106)	(126)
Other finance costs		(211)	(230)
Total finance costs		(317)	(356)
Headline profit before tax		3,247	2,680
Share option charges		(93)	(76)
Exceptional costs		(921)	(1,005)
Notional finance cost on deferred consideration		(106)	(126)
Profit before tax		2,127	1,473
Tax		(670)	(559)
Profit for the financial year		1,457	914
Basic earnings per share (pence)	4	6.1p	3.9p
Diluted earnings per share (pence)	4	6.0p	3.8p

Hasgrove plc
Unaudited consolidated statement of comprehensive income
Year ended 31 December 2010

	2010 £000	Audited 2009 restated (note 3) £000
Profit for the financial year	1,457	914
Other comprehensive income		
Gains on hedge of a net investment taken to equity	191	335
Exchange differences on translation of foreign operations	(786)	(1,243)
Net expense recognised directly in equity	(595)	(908)
Total recognised income and expense relating to the year	862	6
Prior year adjustment – deferred tax (see note 3)	(267)	
Total recognised income and expense recognised since last annual report and financial statements	595	

Hasgrove plc
Unaudited consolidated statement of financial position
At 31 December 2010

	2010 £000	Audited 2009 restated (note 3) £000
Non-current assets		
Goodwill	32,701	33,503
Other intangible assets	582	366
Property, plant and equipment	1,706	1,468
Deferred tax asset	240	45
	35,229	35,382
Current assets		
Inventories	57	41
Trade and other receivables	9,120	8,608
Cash and cash equivalents	-	290
	9,177	8,939
Total assets	44,406	44,321
Current liabilities		
Trade and other payables	(6,722)	(5,927)
Current tax liabilities	(241)	(497)
Obligations under finance leases	(101)	(89)
Borrowings	(3,476)	(2,989)
Short-term provisions	(1,548)	(2,344)
	(12,088)	(11,846)
Net current liabilities	(2,911)	(2,907)
Non-current liabilities		
Obligations under finance leases	(113)	(78)
Borrowings	(3,044)	(3,673)
Long-term provisions	(1,512)	(1,911)
	(4,669)	(5,662)
Total liabilities	(16,757)	(17,508)
Net assets	27,649	26,813
Equity		
Share capital	2,383	2,383
Share premium account	14,959	14,959
Translation reserve	1,758	2,355
Retained earnings	8,549	7,116
Total equity	27,649	26,813

Hasgrove plc
Unaudited consolidated statement of cash flows
Year ended 31 December 2010

	2010 **£000**	**Audited** **2009** **£000**
Cash generated by operations (see note 5)	3,498	3,441
Income taxes paid	(903)	(757)
Net cash from operating activities	2,595	2,684
Investing activities		
Interest paid	(211)	(230)
Interest received	2	40
Proceeds on disposal of property, plant and equipment	-	13
Purchase of property, plant and equipment	(851)	(561)
Purchase of subsidiary undertakings	-	(437)
Expenditure on product development	(314)	(274)
Net cash acquired with subsidiaries	-	239
Payment of deferred consideration	(1,273)	(1,861)
Net cash used in investing activities	(2,647)	(3,071)
Financing activities		
Dividends paid	(119)	(118)
Repayments of borrowings	(588)	(1,060)
Proceeds on issue of shares	-	(4)
Increase/(decrease) in bank overdrafts and revolving credit facility	83	(55)
Net cash outflow from financing activities	(624)	(1,237)
Net decrease in cash and cash equivalents	(676)	(1,624)
Cash and cash equivalents at beginning of year	290	2,149
Effect of foreign exchange rate changes	(81)	(235)
Cash and cash equivalents at end of year	(467)	290

1. Financial information

The condensed consolidated financial statements do not include all of the information and disclosures required for full annual financial statements, do not comprise statutory accounts within the meaning of section 435 of the Companies Act 2006 and should be read in conjunction with the group's annual report and financial statements for the year ended 31 December 2010.

The comparative figures for the year ended 31 December 2009 do not comprise the group's statutory accounts for those financial years. Those accounts were reported upon by the group's auditor and delivered to the registrar of companies. The report of the auditor was unqualified and did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the audit report. The report for the year ended 31 December 2009 did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

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

2. Basis of accounting

The accounting policies, presentation and methods of computation have been prepared on a basis consistent with the Hasgrove plc financial statements for the year ended 31 December 2009, and are prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) that are effective for the year ended 31 December 2010. In preparing this preliminary announcement on a going concern basis, the directors have satisfied themselves that the group has adequate resources to continue in operational existence for the foreseeable future. In reaching this conclusion, the directors have considered forecasts of future performance and the post year end refinancing of the group's bank facilities as referred to in the financial highlights section.

3. Prior year adjustment

The Directors have reconsidered the accounting treatment for deferred taxation arising on goodwill that is treated as deductible for tax purposes but is not amortised in the statutory accounts and have concluded that the appropriate treatment is to recognise a deferred tax liability on the temporary difference arising in line with the requirements of IAS 12 *Income taxes*. This change in accounting does not impact current or future tax payable. As a result, comparatives have been restated and the impact on the current year is an additional deferred tax charge of £218,000 (2009: additional charge of £267,000 and reduction in opening reserves of £285,000). The impact on the current year total deferred tax provision included in long term provisions on the face of the balance sheet amounts to £770,000 (2009: additional provision of £552,000).

Hasgrove plc
Unaudited selected explanatory notes
Year ended 31 December 2010

4. Earnings per share

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

Earnings

	2010 £000	Audited 2009 restated (note 3) £000
Earnings for the purposes of basic earnings per share being profit for the financial year	1,457	914

Number of shares	2010 000's	Audited 2009 000's
Weighted average number of ordinary shares for the purposes of basic earnings per share	23,831	23,439
Effect of dilutive potential ordinary shares:		
Share options	292	322
Weighted average number of ordinary shares for the purposes of diluted earnings per share	24,123	23,761

Headline earnings per share

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

	2010 £000	Audited 2009 restated (note 3) £000
Profit for the financial year	1,457	914
Share option charges	93	76
Exceptional costs (net of tax)	691	724
Notional finance cost on deferred consideration	106	126
Non cash deferred tax timing difference on acquired goodwill	218	267
Headline earnings	2,565	2,107

5. Notes to the statement of cash flows

	2010 £000	Audited 2009 £000
Operating profit	2,442	1,789
Adjustments for:		
Depreciation of property, plant and equipment	553	611
Amortisation of intangible assets	99	55
Share option charges	93	76
Loss on disposal of fixed assets	156	106
Operating cash flows before movements in working capital	3,343	2,637
(Increase) / decrease in inventories	(16)	21
(Increase) / decrease in receivables	(676)	2,623
Increase / (decrease) in payables	847	(1,840)
Cash generated by operations	3,498	3,441

Additions to fixtures and equipment during the year amounting to £135,000 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.

6. Other information

The report and accounts of the Group for the twelve months ended 31 December 2010 will be posted to shareholders by 31 May 2011 and will be available on the Group's website at www.hasgrove.com.