26 April 2012

Hasgrove plc

Final results for the year ended 31 December 2011

Hasgrove plc (AIM: HGV, 'Hasgrove' or the 'Group'), the digital and communications services group, announces its audited final results for the year ended 31 December 2011.

Highlights [1,2]

- Revenue up 2.4% to £22.8m (2010: £22.2m)
- Gross profit of £16.5m (2010: £17.1m)
- Headline operating profit £0.9m (2010: £2.2m)
- Headline pre tax profit £0.7m (2010: £2.0m)
- Pre tax loss £3.0m (2010: profit £1.1m)
- Headline basic EPS 1.7p (2010: 7.2p) [3]
- Basic loss per share 12.9p (2010: earnings per share 2.6p) [3]
- Proposed dividend doubled to 1.0p per share (2010: 0.5p per share)
- Public affairs and strategic communications division, Interel, sold in July 2011 for a total of €9.5m.
- Net debt at 31 December 2011 substantially reduced to £1.5m (2010: £6.7m)
- Cash generated by operations of £2.2m (2010: £3.5m)
- Headline operating cash conversion rate of 239% (2010: 157%)
- Refocusing of Group as digital communications services business
- Momentum of client wins continuing, good new business pipeline
- Commencing share buy-back programme

1) All results in this statement are before taking account of separately identified items unless otherwise indicated. These comprise share option charges, exceptional costs, goodwill impairment, notional finance costs on deferred consideration and non-cash deferred tax on goodwill timing differences and are set out in the consolidated income statement.
2) The consolidated income statement for 2010 has been restated to exclude discontinued operations.
3) Earnings based on continuing operations

Paul Sanders, Group Chief Executive, said:

"The impact of the economic climate has meant a challenging year for Hasgrove. However, the Group's restructuring and focus on digital communications have resulted in improved controls and operational efficiencies which are already making an impact.

"We are pleased to have significantly reduced our net debt and to be making good progress with client projects so far this year. More than 25% of the Group's expected profits for 2012 have been generated in the first quarter, substantially more than in previous years. Our confidence in the Group's potential is reflected by the doubling of the dividend."

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Overview

Following the sale of the group's Public Affairs and Strategic Communications division, Interel, in July 2011, Hasgrove plc is now a focused Digital and Communication Services group operating under the Amaze, Interact and Chase brands. There are now more than 260 personnel in the Group, serving a broad base of over 500 clients.

2011 was a very disappointing year for the Group, albeit in a difficult economic environment. The Group suffered as a result of a combination of delayed client spending and overruns on two significant business solutions projects. As a result, changes have been made to the way that the Group operates and in particular, how it monitors project delivery and profitability.

Hasgrove has now completed its restructuring and all office moves have now taken place. No further exceptional costs relating to the restructuring are expected. The Group's borrowings were refinanced following the Interel disposal, reducing considerably the Group's net debt. The Group can now place a renewed focus on servicing its clients and improving operational efficiencies.

Operational Review

Amaze

Amaze is a leading pan-European integrated marketing and technology company, specialising in global digital strategy and communications, web-based business solutions and public relations. Amaze delivered revenues of £17.4m (2010: £16.4m) with operating profits before separately identified items and central costs of £0.8m (2010: £1.4m). The gross profit was £11.9m (2010: £12.3m). The reduced profits resulted from delayed client spend and overruns on certain projects.

In 2011 Amaze continued the consolidation and simplification of the business units that had previously been acquired. In particular, the Communications and Design and Build teams merged into one business, removing management tiers and developing a stronger, more focused and controlled business.

Following a detailed review of the business in September and October, a new Amaze Board was formed led by Natalie Gross, now CEO of Amaze. Amaze Technology was merged into the core business and the technical team has been strengthened and now operates across the business.

As the digital sector continues to grow, Amaze has focused on developing strong points of differentiation to position the business for future growth. This has focused primarily on key strategic services including:

- Digital strategy driven by the launch of a planning and insight centre, which specialises in business platforms and audience research and analysis;
- Technical consulting including SharePoint 2010;
- Global implementation and roll-out services. Amaze delivers business solutions across 104 countries, 4 continents and covers more than 28 languages; and
- Strong user experience involving creative and interactive development skills for large technology projects.

This approach has enabled the company to attract global clients with global solution requirements.

Following this repositioning, Amaze has focused on growing existing clients such as Unilever and delivering next generation digital platforms, including mobile, for Lexus and Toyota.

The second half of 2011 saw a number of major new client wins including Coats plc, East Coast Mainline and ODEON Cinemas. This has helped to strengthen capabilities in key growth areas such as e-commerce, transaction-led solutions and mobile. For these types of projects Amaze is regularly bidding against leading management consultancies as well as the top interactive agencies.

Amaze also saw significant growth in their B2B client base and an increased number of digital communications clients such as Laterooms and Saucy Fish.

As part of the success in winning global clients, Amaze has also strengthened its technology partnerships with market leaders such as Enterprise Web Content Management developer, SDL Tridion and has developed strategic alliances with global management consultancies.

The company is also focussed on developing products and its own intellectual property under the AmazeOne brand, with an analytics toolset currently in development.

In 2011 Amaze opened its new offices in London, moving into a prime location on Dean Street in Soho, which will allow for growth to strengthen Amaze's presence in the core areas of client services and consultancy.

Amaze is currently ranked 15th in the UK's Top 100 Interactive Agencies by New Media Age and fifth in the website design and build category. The company is also positioned 10^{th} in Marketing's 2011 Digital Agency League Table.

Interact

Interact delivered revenues of £2.5m (2010: £2.0m) with operating profits before central costs of £0.4m (2010: £0.4m). Gross profit improved to £2.4m (2010: £2.0m).

2011 saw a substantial increase in overall revenue with key increases in new business software sales, existing customer sales and recurring revenue.

In spite of the increased sales, operating profits were flat due to further investment totalling £0.4m, including additional sales and marketing staff, advertising and promotion in both the UK and the US and software development.

Intranet new business software sales increased by over 90% and reflected the repositioning of Interact as an Enterprise platform with new wins from G4S, Arriva, Yodel, UKAR (formally Bradford and Bingley and Northern Rock), Northampton NHS, Superdrug and Park Plaza.

It was encouraging to see customer sales, excluding recurring support revenue, increase substantially by 350%. These sales relate to extra licences and additional modules of functionality, both of which are a very valuable source of revenue.

Recurring support and software updates revenue increased by 28% to £0.6m and retention rates of customers stayed well above the 95% level of 2010. Based on current projections the level of recurring support and software updates revenue should exceed the fixed costs within the next three years.

In 2011 Interact strengthened its technical partnerships with other software companies to facilitate integration of Interact Intranet with other web based business tools. Such partnerships included Basecamp (leading web-based project management and collaboration tool) and Mailchimp (leading e-mail newsletter portal) in order to strengthen the focus on one platform.

Interact is uniquely placed in the Intranet market between pure play 'social' platforms, such as Yammer, and more traditional document management systems like SharePoint. Organisations are now seeing the benefit that intelligent social Intranets can play and want to have one platform to connect content, processes and people – the key USP of Interact.

Development of the Interact Intranet platform in 2011 further strengthened its position within the global intranet market with significant development in both product intelligence and social business. The successful launch of these additional features and functionality, such as Interact Teams, has enabled customers to derive more value and has increased adoption.

Interact's 2011 US sales success culminated in the recruitment of an established Dallas based intranet implementer in February 2012, which marked a significant milestone in our controlled US expansion strategy. Interact now has a firm sales, support and implementation base in the US to service its existing US customers and substantially grow sales in 2012 and beyond.

Interact's average intranet sales value has also tripled over the last four years, which reflects the move towards working with larger enterprise organisations. This trend is gathering pace and is expected to continue.

The Chase

The Chase is an award winning creative design agency. It experienced a difficult year due to significant delays in client projects with revenues reducing to £2.9m (2010: £3.8m) and operating profits before central costs dropping to £0.1m (2010: £0.7m). Gross profit reduced to £2.1m (2010: £2.9m).

An encouraging performance in the second half of the year improved a first half loss of £125,000 into a full year profit due to cost restructuring and improved client engagement.

Awards in 2011 included a Cannes Gold and Gold at the New York Festivals. The Chase continues to be highly placed in the UK creative leagues tables: second in branding and print and fourth overall.

Financial Highlights

The results for the Group are presented based on the continuing operations of Amaze, Interact and The Chase, with the Interel business, the Group's Public Affairs and Strategic Communications division, presented as discontinued following its sale in July 2011. The commentary below relates to the Group's continuing business, unless otherwise stated.

The Group's revenue increased by 2.4 % to £22.8m (2010: £22.2m), with gross profits of £16.5m (2010: £17.1m).

Headline operating profit, as defined in the consolidated income statement, was £0.9m (2010: £2.2m), a decrease of 58%.

The operating loss was £2.8m (2010: profit £1.4m) after charging separately identified items totalling £3.6m (2010: £0.7m).

The separately identified items include a non-cash element amounting to £2.7m in respect of goodwill impairment, primarily associated with the design business, the Chase. In addition, the Group incurred a further £0.9m of exceptional charges primarily associated with redundancy costs arising from cost cutting and business consolidation, completion of office moves which commenced in 2010 and bank refinancing during the year.

Headline profit before tax, was £0.7m (2010: £2.0m) after charging interest of £0.2m (2010:£0.2m).

Group loss before tax was £3.0m (2010: profit £1.1m) after the separately identified items and the non-cash items of notional finance costs and share option charges.

The loss on disposal of discontinued operations associated with the sale of Interel amounted to £7.1m. Total consideration was €9.5m, of which €7.6m was paid on completion, a further €0.8m payable in 2 equal instalments in July 2012 and July 2013 and the remaining €1.1m payable in July 2013 which is secured via a charge on 1,163,149 ordinary shares in the Company held by Interel Holdings SA, the buyer. Net assets disposed of amounted to £3.4m and goodwill written off amounted to £12.9m.

Headline basic earnings per share from continuing operations was 1.7p (2010: 7.2p) and reported basic loss per share was 40.9p (2010: earnings per share 6.1p).

The Board is proposing to double the dividend to 1.0p per share (2010: 0.5p per share). Subject to shareholder approval, the dividend will be paid on 18 July 2012 to all shareholders on the register at 22 June 2012. The Company's shares go ex-dividend on 20 June 2012.

Cash generated by operations was encouraging at £2.2m (2010: £3.5m), representing a headline operating profit conversion rate of 239% (2010: 157%) due to a continued focus on working capital management.

The Group's year end net debt reduced to £1.5m (31 December 2010: £6.7m), largely as a result of the Interel sale.

Following the sale of Interel, the Group refinanced with Barclays resulting in total facilities of £3.4m. The Facilities include a €2.9m term loan repayable between October 2012 and January 2015.

Earn-outs paid during the year amounted to £0.9m with the estimate of future earn-outs at the year end being £0.9m (2010: £2.3m) of which £0.8m is due in 2012.

Outlook

The progress of a number of significant projects that began towards the end of 2011 is encouraging. In the first quarter of 2012 these projects entered the main development phase and have been closely managed to ensure both client service and profitability is maintained.

The Board is also pleased to see continued momentum in both the number and average size of sales of Interact Intranet both in the UK and the US.

More than 25% of the Group's forecast profits for 2012 have been generated in the first quarter, which is substantially more than in previous years.

Consolidated Income Statement
Year Ended 31 December 2011

	Notes	2011 £000	2010 Restated £000
Continuing operations			
Revenue		22,759	22,226
Cost of sales		(6,297)	(5,087)
Gross profit		16,462	17,139
Administrative expenses before separately identified items		(15,530)	(14,906)
Headline operating profit		932	2,233
Share option charge		(89)	(93)
Exceptional costs		(902)	(736)
Goodwill impairment		(2,709)	-
Total administrative expenses		(19,230)	(15,735)
Operating (loss)/profit		(2,768)	1,404
Finance income		1	2
Notional finance cost on deferred consideration		(19)	(106)
Finance costs		(214)	(202)
Total finance costs		(233)	(308)
Headline profit before tax		719	2,033
Share option charge		(89)	(93)
Exceptional costs		(902)	(736)
Goodwill impairment		(2,709)	-
Notional finance cost on deferred consideration		(19)	(106)
(Loss)/profit before tax		(3,000)	1,098
Tax		(75)	(480)
(Loss)/profit for the financial year from continuing operations		(3,075)	618
Discontinued operations			
(Loss)/profit from discontinued operations		(6,680)	839
(Loss)/profit for the financial year		(9,755)	1,457
Basic (loss)/ earnings per share (pence) - from continuing operations	Note 3	(12.9)p	2.6p
Diluted (loss)/ earnings per share (pence) - from continuing operations	Note 3	(12.9)p	2.6p
Basic (loss)/ earnings per share (pence) - total	Note 3	(40.9)p	6.1p
Diluted (loss)/ earnings per share (pence) - total	Note 3	(40.9)p	6.0p

Consolidated Statement of Comprehensive Income
Year Ended 31 December 2011

	2011 £000	2010 £000
(Loss)/profit for the financial year	(9,755)	1,457
Other comprehensive income		
Gains on hedges of net investments taken to equity	-	191
Exchange differences on translation of foreign operations	-	(786)
Other comprehensive income for the year	-	(595)
Total comprehensive (expense)/income for the year	(9,755)	862

Consolidated Statement of Financial Position

At 31 December 2011

	2011 £000	2010 £000
Non-current assets		
Goodwill	17,064	32,701
Other intangible assets	613	582
Property, plant and equipment	1,117	1,706
Deferred tax asset	73	240
	18,867	35,229
Current assets		
Inventories	-	57
Trade and other receivables	5,965	9,120
Corporation tax receivable	63	-
Cash and cash equivalents	1,069	-
	7,097	9,177
Total assets	25,964	44,406
Current liabilities		
Trade and other payables	(5,377)	(6,722)
Current tax liabilities	-	(241)
Obligations under finance leases	(131)	(101)
Borrowings	(241)	(3,476)
Deferred consideration	(764)	(1,548)
	(6,513)	(12,088)
Net current assets/(liabilities)	584	(2,911)
Non-current liabilities		
Obligations under finance leases	-	(113)
Borrowings	(2,175)	(3,044)
Deferred consideration	(90)	(742)
Deferred tax liability	(929)	(770)
	(3,194)	(4,669)
Total liabilities	(9,707)	(16,757)
Net assets	16,257	27,649
Equity		
Share capital	2,414	2,383
Share premium account	15,079	14,959
Translation reserve	-	1,758
Retained earnings	(1,236)	8,549
Total equity	16,257	27,649

Consolidated Statement of changes in equity
Year ended 31 December 2011

	Share capital £000	Share premium account £000	Translation reserve £000	Retained earnings £000	Total £000
Balance at 1 January 2010	2,383	14,959	2,353	7,118	26,813
Profit for the year	-	-	-	1,457	1,457
Other comprehensive income for the year	-	-	(595)	-	(595)
Total comprehensive income for the year	-	-	(595)	-	862
Dividends	-	-	-	(119)	(119)
Credit to equity for equity-settled share based payments	-	-	-	93	93
Balance at 31 December 2010	2,383	14,959	1,758	8,549	27,649
Loss for the year	-	-	-	(9,755)	(9,755)
Total comprehensive income for the year	-	-	-	(9,755)	(9,755)
Transfer on disposal of foreign operations	-	-	(1,758)	-	(1,758)
Issue of share capital	31	120	-	-	151
Dividends	-	-	-	(119)	(119)
Credit to equity for equity-settled share based payments	-	-	-	89	89
Balance at 31 December 2011	2,414	15,079	-	(1,236)	16,257

Consolidated Statement of Cash Flows
Year ended 31 December 2011

		2011 £000	2010 £000
Cash generated by operations	Note 4	2,226	3,498
Income taxes paid		(53)	(903)
Net cash from operating activities		2,173	2,595
Investing activities			
Interest paid		(214)	(211)
Interest received		1	2
Purchase of property, plant and equipment		(591)	(850)
Expenditure on product development		(321)	(315)
Payment of deferred consideration		(912)	(1,273)
Disposal of subsidiary		5,177	-
Net cash generated from/(used in) investing activities		3,140	(2,647)
Financing activities			
Dividends paid		(119)	(119)
New loan received		2,522	-
Repayments of borrowings		(6,136)	(588)
Increase/ (decrease) in bank overdrafts and revolving credit facility		-	83
Net cash outflow from financing activities		(3,733)	(624)
Net increase/(decrease) in cash and cash equivalents		1,580	(676)
Cash and cash equivalents at beginning of year		(467)	290
Effect of foreign exchange rate changes		(44)	(81)
Cash and cash equivalents at end of year		1,069	(467)

Selected explanatory notes
Year ended 31 December 2011

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 2011.
The comparative figures for the year ended 31 December 2010 do not comprise the group's statutory accounts for that financial year. 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 2010 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 2011, 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 2011. 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 group's bank facilities as referred to in the financial highlights section.

3. (Loss)/earnings per share

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

(Loss)/earnings

	2011	2010
Continuing and discontinued operations	**£000**	**£000**
Earnings for the purposes of total basic (loss)/ earnings per share being net (loss)/ profit	(9,755)	1,457
Continuing operations		
Earnings for the purposes of continuing basic (loss)/ earnings per share being net (loss)/ profit	(3,075)	618

	Number 000's	Number 000's
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	23,863	23,831
Effect of dilutive potential ordinary shares:		
Share options	280	292
Weighted average number of ordinary shares for the purposes of diluted earnings per share	24,143	24,123

Headline earnings per share

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

	2011 £000	2010 £000
(Loss)/ profit for the financial year	(9,755)	1,457
Share option charges	89	93
Exceptional costs (net of tax relief)	663	691
Goodwill impairment	2,709	-
Notional finance cost on deferred consideration	19	106
Deferred tax timing difference on acquired goodwill	-	218
Discontinued operations	(399)	(839)
Loss on disposal of subsidiary	7,079	-
Headline earnings	405	1,726

4. Notes to the statement of cash flows

	2011 £000	2010 £000
Operating (loss)/ profit for the year	(2,768)	2,442
Adjustments for:		
Operating profit from discontinued operations	574	-
Depreciation of property, plant and equipment	557	553
Amortisation	290	99
Share-based payment expense	89	93
Loss on disposal of fixed assets	-	162
Impairment of goodwill	2,709	-
Operating cash flows before movements in working capital	1,451	3,349
Decrease) / (increase) in inventories	57	(16)
(Increase) in receivables	(301)	(676)
Increase in payables	1,019	841
Cash generated by operations	2,226	3,498

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

The report and accounts of the Group for the twelve months ended 31 December 2011 will be posted to shareholders by 31 May 2012 and will be available on the Group's website at www.hasgrove.com.