30 September 2010

Hasgrove plc

Half Yearly Report

Hasgrove plc (AIM: HGV, "Hasgrove", or "the Group"), the pan European marketing and communications services group, announces its half yearly report for the six month period to 30 June 2010.

Headlines

- Turnover increased by 6% to £16.8m (2009: £15.9m)
- Gross profits increased 8% to £14.2m (2009: £13.2m)
- Headline operating profit up 18% to £1.72m (2009: £1.46m)
- Headline PBT up 27% to £1.64m (2009: £1.29m)
- Headline basic EPS up 8% to 5.2p (2009: 4.8p)
- Net debt £5.9m (31 December 2009: £6.5m)
- Operating cash flow of £2.0m, representing a cash conversion of 160%
- Future revenue pipeline remains strong - annualised value of new business wins in the first half almost double that of H1 2009
- Progressive dividend policy proposed
- Planned investment to enhance Amaze and Odyssey

Rod Hyde, Group Chief Executive, said:

"The improved momentum of the first half is continuing and we are seeing increased private sector demand in all areas of the business. The Group now has relatively little exposure to public service revenue.

"Following a period of consolidation, we now have a group of strong businesses that are leaders in their respective fields. We have developed plans to grow our businesses and are exploring some exciting opportunities for accelerated organic growth. We will also consider some in-fill acquisitions where appropriate."

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Overview

Hasgrove continues to benefit from the diversity of its two divisions: Digital and Communication Services and Public Affairs and Strategic Communications, both in terms of discipline and geographical exposure. The Group is exploiting and benefiting from both operational and cost synergies within the two divisions and from the ability to provide services on a pan-European level which is proving to be a significant competitive advantage. More than 40% of Group revenue is now generated outside the UK as a consequence of both UK exports and businesses based in continental Europe.

Following a period of consolidation, Hasgrove now comprises a group of strong businesses that are leaders in their respective fields. Although some in-fill acquisitions are being considered, the Group's businesses have developed plans where the majority of growth will be delivered organically. In the case of Amaze and Odyssey, opportunities for accelerated organic growth have been identified and plans are being developed which will entail some investment in 2010 and 2011.

Financial Highlights

Group turnover increased by 6% to £16.8m (2009: £15.9m). On a like for like basis, turnover increased by 7%. Gross income increased by 8% to £14.2m (2009: £13.2m).

Headline operating profits, excluding exceptional items and the non cash items of notional finance costs and share option charges, increased by 18% to £1.72m (2009: £1.46m). Within Group operating profit there is a head office cost of £0.3m (2009: £0.2m). Interest charged reduced to £0.1m (2009: £0.2m).

Headline profit before tax was £1.64m (2009: £1.29m), an increase of over 27%.

The exceptional charge of £0.4m largely relates to redundancy costs and the office move for Amaze in Manchester. After the exceptional items and the non cash items of notional finance costs and share options charges, Group profit before tax was £1.1m (2009: £0.8m). The effective tax rate was 26%.

Headline basic earnings per share were 5.2p (2009: 4.8p) and reported basic earnings per share were 3.4p (2009: 2.7p).

As indicated in the pre-close trading statement in July 2010, the Board has reviewed its dividend policy in anticipation of the Group's earn-out payments being significantly reduced after the next financial year. The Board will initiate the recommendation of a progressive dividend policy with the aim of materially increasing its dividend subject to maintaining cover of at least two times underlying earnings per share.

Operating cash flows before tax were encouraging at £2.0m (2009: £1.8m) representing a conversion rate of 160%.

The Group's period end net debt reduced to £5.9m (31 December 2009 £6.5m).

At the period end, the estimate of future earn-outs was £3.3m. Total estimated earn-out payments are £1.3m in 2010, £1.5m in 2011, £0.3m in 2012 and £0.2m in 2013. 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, operating under the Amaze, Odyssey and Chase brands, delivered revenues of £10.2m (2009: £9.3m) with operating profits at £1.4m (2009: £1.3m). The relatively small increase in profits compared to revenue reflects the Group's investment in eCRM services and expanding Odyssey's range of services.

Amaze
Amaze is a leading pan-European marketing and technology business which offers a broad range of services including digital strategy and communications, web design and business solutions, online advertising, search, online reputation management and analytics, as well as more traditional marketing services including PR.

High profile clients include Bridgestone, Coca-Cola, Dyson, Eurocamp, Henri Lloyd, Lexus, McCains, Sage, Siemens Enterprise Communications and Toyota.

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. It was also rated fifth in Pitch Digital's Agency Reputation Survey, fifth in B2B Marketing's 2009 Marketing Communications Agency League Table and 17th in Marketing's 2009 Digital Agency League Table.

This year, for the first time, Amaze featured in The Forrester Wave: UK Interactive Agencies report on web design capabilities. This report covers the top nine agencies in the UK. Amaze was recognised as showing strength in producing complex multilingual and image-led projects. Amaze solutions are employed in 35 countries across four continents and cover 28 languages. In the last 12 months, the company has gained four new pan-European clients.

The two small acquisitions completed in 2009 are now fully integrated. MCL, renamed Amaze Technology, is leading a number of technology initiatives across the business. Underwired Amaze, the eCRM specialist, has moved into Amaze's central London office.

Landmarks, previously part of the Interel group, is now part of Amaze and has rebranded as Landmarks Amaze. The objective of merging is to boost the digital capabilities that Landmarks offers its clients and prospects, as well as increasing the continental reach of Amaze through an enlarged Brussels office.

Odyssey
Odyssey develops, sells and delivers its own proprietary intranet software, Interact. Since it joined Hasgrove three years ago, it has enjoyed significant revenue and profit growth.

The company has now embarked on the next stage of its development by establishing a reseller network and offering a downloadable version of its intranet software. These opportunities have required investment this year in the form of additional employees engaged in software development, marketing and producing a support system for resellers.

The Chase
The Chase is a well established creative consultancy, which has consistently been placed in the top five in UK creative league tables over the last few years.

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. It continues to attract interesting opportunities and is currently working on a number of high profile projects.

Public Affairs and Corporate 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 a leading European Public Affairs brand offering a unique mix of Association Management, Strategic Communications and Public Affairs services to a large number of blue chip clients. An increasing number of clients are now serviced by more than one office, reflecting the division's pan-European service.

Turnover was £6.6m (2009: £6.6m), with operating profits increasing by 75% to £0.7m (2009: £0.4m). The increase in profit is the result of a restructuring programme implemented in 2009 and an ongoing focus on cost management and capacity optimisation.

As part of Interel's ongoing rationalisation, the London office has been rebranded Interel Consulting UK and investments in staff and marketing have been made to fuel organic growth. Interel Consulting UK was the first Public Affairs consultancy in London to announce senior hires with Liberal Democrat and Conservative credentials following the General Election.

The Belgian practice has been separated into two focusing respectively on Strategic Communications & Public Affairs and Consumer PR. The split has provided a focus on Interel's core service offering while also creating an identity and appropriate cost base for the Consumer PR business, which has been branded Interel 402PR.

Interel's dedicated health communications team, operating from London and Brussels, continues to grow. The Brussels based European Affairs practice, which is integral to the organic growth of the health communications team, is back on track after a difficult 2009 with a string of recent wins and a significant uplift in profitability.

The Association Management practice has now evolved into an established player within the EU and is a recognised brand in the international Association Management Company market. A growing business in its own right, this practice is also an important lead generator for other Interel practices.

The French, German and Czech Republic practices provide important coverage for pan-European opportunities while positioning the company 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. A development effort targeting Indian and Chinese prospective clients and partners with an interest in Europe is currently under way.

The Interel management team have recently completed a five year development plan for the business with a focus on organic growth and in-fill acquisitions.

Outlook

As stated on 30 July 2010, trading conditions have continued to be unpredictable for Hasgrove companies, although the Group has generated many good opportunities with encouraging conversion rates. Project delays and cancellations are much less of an issue than 2009. However, revenue volatility is still a factor particularly in relation to the public sector although reliance on this area has reduced as public sector losses have been replaced by private sector new business this year.

The range and size of opportunities continues to improve with better conversion rates. Group companies are now pitching for a number of substantial projects in our digital, creative and corporate communications businesses. It is clear that these businesses are well suited to modern communication needs.

Hasgrove's businesses now have well developed organic growth plans in place which could potentially be bolstered by selective in-fill acquisition activity.

Unaudited Consolidated Income Statement
Six months ended 30 June 2010

	Note	**6 months to 30 Jun 10 £'000**	6 months to 30 Jun 09 £'000	Audited Year to 31 Dec 09 £'000
Revenue	2	**16,772**	15,945	32,393
Cost of sales		**(2,607)**	(2,769)	(5,545)
Gross profit		**14,165**	13,176	26,848
Administrative expenses		**(12,449)**	(11,714)	(23,978)
Headline operating profit	2	**1,716**	1,462	2,870
Share option charges		**(49)**	(21)	(76)
Exceptional costs		**(414)**	(358)	(1,005)
Operating profit		**1,253**	1,083	1,789
Finance income		**9**	-	40
Notional finance cost on deferred consideration		**(74)**	(104)	(126)
Finance cost		**(81)**	(175)	(230)
Headline profit before tax		**1,644**	1,287	2,680
Share option charge		**(49)**	(21)	(76)
Exceptional Costs		**(414)**	(358)	(1,005)
Notional finance cost on deferred consideration		**(74)**	(104)	(126)
Profit before tax		**1,107**	804	1,473
Tax		**(292)**	(174)	(292)
Profit for the financial period		**815**	630	1,181
Basic earnings per share (pence)	3	**3.4p**	2.7p	5.0p
Diluted earnings per share (pence)	3	**3.4p**	2.7p	5.0p

Unaudited Consolidated Statement of Changes in Equity
Six months ended 30 June 2010

	6 months to 30 Jun 10 £'000	6 months to 30 Jun 09 £'000	Audited Year to 31 Dec 09 £'000
(Losses)/ gains on a hedge of a net investment taken to equity	**395**	553	335
Exchange differences on translation of foreign operations	**(1,497)**	(1,811)	(1,247)
Net income/ (expense) recognised directly in equity	**(1,102)**	(1,258)	(912)
Profit for the period	**815**	630	1,181
Total recognised income and expense for the period	**(287)**	(628)	269

Unaudited Consolidated Statement of Financial Position
At 30 June 2010

	Note	30 Jun 10 £'000	30 Jun 09 £'000	Audited 31 Dec 09 £'000
Non-current assets				
Goodwill	4	**32,457**	32,498	33,503
Other intangible assets		**466**	226	366
Property, plant and equipment		**1,485**	1,305	1,468
Deferred tax asset		**50**	82	45
		34,458	34,111	35,382
Current assets				
Inventories		**114**	106	41
Trade and other receivables		**8,123**	8,493	8,608
Cash and cash equivalents		**73**	1,482	290
		8,310	10,081	8,939
Total assets		**42,768**	44,192	**44,321**
Current liabilities				
Trade and other payables		**(6,034)**	(5,491)	(5,927)
Current tax liabilities		**(382)**	(554)	(497)
Obligations under finance leases		**(115)**	(64)	(89)
Borrowings		**(2,018)**	(2,918)	(2,989)
Provisions	5	**(2,344)**	(3,247)	(2,344)
		(10,893)	(12,274)	(11,846)
Net current liabilities		**(2,583)**	(2,193)	(2,907)
Non-current liabilities				
Borrowings		**(3,673)**	(4,026)	(3,673)
Long-term provisions	5	**(925)**	(1,541)	(1,359)
Obligations under finance leases		**(150)**	(20)	(78)
		(4,748)	(5,587)	(5,110)
Total liabilities		**(15,641)**	(17,861)	(16,956)
Net assets		**27,127**	26,331	27,365
Equity				
Share capital		**2,383**	2,357	2,383
Share premium account		**14,959**	14,784	14,959
Translation reserve		**1,250**	2,007	2,352
Retained earnings		**8,535**	7,183	7,671
Total equity		**27,127**	26,331	27,365

Unaudited Consolidated Statement of Cash Flows
for the six months ended 30 June 2010

	Note	**6 months to 30 Jun 10 £'000**	6 months to 30 Jun 09 £'000	Audited Year ended 31 Dec 09 £'000
Cash generated by operations	6	1,984	1,793	3,441
Tax paid		(412)	(557)	(757)
Net cash from operating activities		1,572	1,236	2,684
Cash flows from investing activities				
Interest paid		(81)	(175)	(230)
Interest received		9	-	40
Sale of property, plant and equipment		-	-	13
Purchase of property, plant and equipment		(408)	(66)	(561)
Purchase of subsidiary undertakings		-	-	(437)
Expenditure on product development		(132)	(79)	(274)
Net cash acquired with subsidiaries		-	-	239
Payment of deferred consideration		(565)	(705)	(1,861)
Net cash used in investing activities		(1,177)	(1,025)	(3,071)
Cash flows from financing activities				
Dividend paid		-	-	(118)
Repayment of borrowings		(522)	(523)	(1,060)
Issue of shares		-	-	(4)
(Decrease)/ increase in revolving loan		-	(55)	(55)
Net cash (outflow)/ inflow from financing activities		(522)	(578)	(1,237)
Net (decrease)/increase in cash and cash equivalents		(127)	(368)	(1,624)
Cash and cash equivalents at start of period		290	2,149	2,149
Effect of foreign exchange rate changes		(90)	(300)	(235)
Cash and cash equivalents at end of period		73	1,482	290

Notes to financial information

1. Basis of preparation

These consolidated interim financial statements, which are condensed and unaudited for the six months ended 30 June 2010, have been prepared in accordance with the accounting policies which the Group expects to adopt in its 2010 Annual Report and are consistent with those adopted in the consolidated financial statements for the year ended 31 December 2009. These accounting policies are based on the EU-adopted International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations that the Group expects to be applicable at that time. The IFRS and IFRIC interpretations that will be applicable at 31 December 2010, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial statements.

These consolidated interim financial statements for the six months ended 30 June 2010 have been prepared in accordance with the historical cost convention. The information relating to the six months ended 30 June 2010 and 30 June 2009 is unaudited and does not constitute statutory financial statements as defined in Section 435 of the Companies Act 2006. The comparative figures for the year ended 31 December 2009 have been extracted from the Group Report and Accounts, on which the auditors gave an unqualified opinion. The Group Report and Accounts for the year ended 31 December 2009 have been filed with the Registrar of Companies.

2. Segmental analysis

	6 months to 30 June 10		6 months to 30 Jun 09		12 months to 31 Dec 09	
	Turnover £'000	**Operating profit £'000**	Turnover £'000	Operating profit £'000	Turnover £'000	Operating profit £'000
By division:						
Public Affairs and Strategic Communications	**6,562**	**692**	6,610	405	13,235	864
Digital and Communication Services	**10,210**	**1,354**	9,335	1,259	19,158	2,700
	16,772	**2,046**	15,945	1,664	32,393	3,564
Unallocated corporate (expense)/ income		**(330)**		(202)		(694)
Share option charge		**(49)**		(21)		(76)
Exceptional costs		**(414)**		(358)		(1,005)
Profit from operations		**1,253**		1,083		1,789

3. Earnings per share

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

Earnings

	6 months to 30 Jun 10 £'000	6 months to 30 Jun 09 £'000	Year ended 31 Dec 09 £'000
Earnings for the purposes of basic earnings per share being net profit	**880**	630	1,181
	No. 000's	No. 000's	No. 000's
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earning per share	**23,831**	23,041	23,439
Effect of dilutive potential ordinary shares:			
Share options	**461**	313	322
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**24,292**	23,354	23,761

Headline earnings per share

	6 months to 30 Jun 10 £'000	6 months to 30 Jun 09 £'000	Year ended 31 Dec 09 £'000
Net profit	**815**	630	1,181
Exceptional costs (net of tax relief)	**298**	358	724
Share option charges	**49**	21	76
Notional finance cost on deferred consideration	**74**	104	126
Headline earnings	**1,236**	1,112	2,107

4. Goodwill

Goodwill arising on the acquisition of subsidiary undertakings or businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is recognised as an asset. Goodwill is reviewed for impairment at least annually.

5. Provisions

Provisions represent the accumulated amounts due under the deferred consideration arrangements with the vendors of the companies as calculated in accordance with IFRS.

6. Reconciliation of profit on ordinary activities before finance costs, income from investments and taxation to operating cash flow

	6 months to 30 June 10 £'000	6 months to 30 June 09 £'000	Year to 31 Dec 09 £'000
Profit on ordinary activities before finance costs, income from investments and taxation	**1,253**	1,083	1,789
Depreciation	**283**	272	611
Amortisation	**45**	20	55
Share option charge	**49**	21	76
profit on disposal of fixed assets	**-**	50	106
(Increase)/decrease in inventories	**(73)**	(44)	21
Decrease/(increase) in trade receivables	**135**	2,466	2,623
Increase/(decrease) in trade payables	**292**	(2,076)	(1,840)
Operational cash flow	**1,984**	1,793	3,441

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.

7. The Interim Statement was approved by the Board on 29 September 2010.

8. Copies of this statement are available on our web site: www.hasgrove.com or by request from the Registered Office at: The Chapel, 380 Deansgate, Manchester, M4 3LY.