20 September 2012

Hasgrove plc

Half year results

Hasgrove plc (AIM: HGV, 'Hasgrove', or the 'Group'), the digital and communications services group, announces its half year results for the six month period to 30 June 2012.

Headlines

- Revenue of £12.2m, up 16% on a like-for-like basis (H1 2011: £10.5m)
- Gross profit of £9.1m, up 11% on a like-for-like basis (H1 2011: £8.2m)
- Headline operating profit £0.8m (H1 2011: £0.8m)
- Pre-tax profit £0.7m (H1 2011: £0.1m)
- Basic EPS 2.0p (H1 2011: 0.5p)
- Net debt down to £1.0m (31 December 2011: £1.5m)
- Operating cash flow of £1.5m, representing a cash conversion ratio of 203%
- First deferred payment of €375,000 following the sale of Interel (received in July 2012)
- Remaining earn-outs reduced to £0.4m (31 December 2011: £0.9m)
- No exceptional costs expected in 2012, following completion of restructuring and office integration
- Future revenue pipeline remains strong across Group

Paul Sanders, Group Chief Executive, said:

"***The first half of 2012 has seen a significant improvement on the second half of last year. Our focus on the provision of digital solutions for global organisations, along with our restructuring, has paid dividends resulting in improved efficiency, better delivery of projects and good new business wins.***

"The pipelines of both Amaze and Interact are strong, having secured wins with prestigious clients, giving us confidence in achieving our full year expectations."

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Overview

Hasgrove is a focused Digital and Communication Services business with more than 260 personnel, serving a broad client base of more than 500 clients. The Group comprises Amaze, Interact (formerly Odyssey Interactive), and the Chase.

The first half of 2012, in comparison with the second half of last year, has seen a significant improvement in the performance of Amaze and Interact with improved efficiencies and greater control of projects. While the macro-economic environment remains a challenge, the businesses have been successful in winning sizeable projects from large global organisations.

The rationalisation and integration of the Group's businesses is now largely complete and whilst the cost base continues to be reviewed, the Board does not expect any further exceptional costs.

Financial Highlights

The results for the Group and prior year comparisons are based on the continuing operations of Amaze, Interact and The Chase. The Group disposed of its subsidiary, Underwired Amaze, to its management on 27 March 2012 for a nominal amount. The results of Underwired Amaze, together with the loss on disposal, have been reported as part of the operating result for the period, as the disposal does not meet the criteria for classification as a discontinued operation as per IFRS 5. Similarly, prior period comparatives have not been restated to reflect the disposal.

Group revenue for continuing operations increased by 16% to £12.2m (H1 2011: £10.5m), and gross profit was £9.1m (H1 2011: £8.2m), an increase of 11%

Operating profit was £0.7m (H1 2011: £0.3m), an increase of 140%.

The Group incurred no exceptional items in the period. The restructuring undertaken in previous periods is now largely complete.

Headline operating profit was £0.8m (H1 2011: £0.8m) (excluding exceptional items in the prior period and the non-cash items in respect of notional finance costs and share option charges).

Group profit before tax was £0.7m (H1 2011: £0.1m), after the exceptional items of 2011 and the non-cash items of notional finance costs and share options charges. The effective tax rate was 25%.

Headline basic earnings per share was 2.1p (H1 2011: 2.4p) and reported basic earnings per share from continuing operations was 2.0p (H1 2011: 0.5p).

Operating cash flow before tax was very strong at £1.5m (H1 2011: £1.4m), representing a cash conversion rate of 203%.

The Group's net debt on 30 June 2012 was £1.0m (31 December 2011: £1.5m). The reduction is after the payment of earn-outs (£0.5m) and the buy-back of shares (£0.2m). The first deferred payment of €375,000 due following the sale of Interel in 2011 was received in early July.

At the period end, the estimate of future liabilities relating to earn-outs was £0.4m (31 December 2011: £0.9m).

Operational Review

Amaze

Amaze is a leading full-service marketing and technology company, boasting a depth of understanding of technology and human behaviour. The agency's work is global - spanning 104 countries in 28 languages.

Using its insights into consumer expectations, attitudes and motivations, Amaze delivers marketing and technology solutions, from strategy through to implementation, that enable organisations to identify and act upon the opportunities created by this changing digital world. Clients include Bridgestone, Coats plc, Coca-Cola, the Co-operative Group, Dyson, Eurocamp, Lexus, ODEON Cinemas, Toyota and Unilever.

Amaze delivered a gross profit of £6.6m and continued to strengthen its expertise of working with central teams (marketing, technical and commerce) within large global organisations to deliver strategy and multi-market, multi-lingual digital solutions. New business activity has continued to be successful, securing significant pan-European and global accounts, particularly in growth areas such as e-commerce. Encouragingly, significant projects in the first half have been delivered in line with expectations.

In 2012, Amaze ranked 18th in the UK's Top 100 Interactive Agencies by *New Media Age (NMA) and The Drum*, and third in the website design and build category by *NMA* – a top five position it has held for the past three years.

Amaze also ranks 10th in *Marketing Magazine's* Digital Agency League Table and has been named within the UK's Top 10 Interactive Agencies by *Forrester*.

Interact

Interact is a leading supplier of intelligent intranet software and is one of the fastest growing intranet software companies. Organisations using Interact Intranet report improved efficiency, greater productivity, increased employee engagement, better decision-making and cost savings.

Interact delivered a gross profit of £1.5m and recorded its highest ever figure for new business sales of its flagship software, Interact Intranet, including three intranet sales each in excess of £100,000. The average sales value for an intranet continues to increase and support revenues should now exceed £0.8m on an annualised basis.

During the period, Interact added Age UK, Flight Centre, Lease Plan and Signet Trading to its client list

Following the recruitment of two experienced sales staff in the US in mid-February, four intranets have been sold in the US in the second quarter and the pipeline is developing ahead of expectations. This is extremely encouraging and there will be continued and equal focus on both UK and non-UK sales, where recent success has come in sales to both Continental European and Australian-based companies in addition to the US.

A product roadmap for Interact Intranet is being developed and an update will be provided in due course. Interact is now firmly established in the exciting social business software space and developments are underway to ensure that Interact capitalises on this position.

The Chase

The Chase is a UK creative and design consultancy, which is consistently one of the front runners in the annual Design Week's creative league tables.

The Chase delivered a gross profit of £1.0m. It had a difficult start to the year due to delayed spend from a major client for the second consecutive year. However, there has been an increased effort in new business development and cost reduction to manage this temporary situation.

Outlook

Due to the improved performance of both Amaze and Interact, the new business wins combined with the improved efficiencies and project delivery, the Board is confident of achieving its full year targets.

Unaudited Consolidated Income Statement
Six months ended 30 June 2012

	Note	**6 months to 30 Jun 12 £'000**	6 months to 30 Jun 11 £'000	Audited Year to 31 Dec 11 £'000
Continuing operations				
Revenue	2	**12,150**	10,490	22,759
Cost of sales		**(3,087)**	(2,332)	(6,297)
Gross profit		**9,063**	8,158	16,462
Administrative expenses before separately identified items		**(8,311)**	(7,322)	(15,530)
Headline operating profit	2	**752**	836	932
Share option charges		**(33)**	(55)	(89)
Exceptional costs		**-**	(481)	(902)
Goodwill Impairment		**-**	-	(2,709)
Total administrative expenses		**(8,344)**	(7,858)	(19,230)
Operating profit/(loss)	2	**719**	300	(2,768)
Finance income		**-**	1	1
Notional finance cost on deferred consideration		**(2)**	(41)	(19)
Finance cost		**(65)**	(124)	(214)
Total finance costs		**(67)**	(164)	(232)
Headline profit before tax		**687**	713	719
Share option charge		**(33)**	(55)	(89)
Exceptional costs		**-**	(481)	(902)
Goodwill Impairment		**-**	-	(2,709)
Notional finance cost on deferred consideration		**(2)**	(41)	(19)
Profit/(loss) before tax		**652**	136	(3,000)
Tax		**(181)**	(23)	(75)
Profit/(loss) for the period from continuing operations		**471**	113	(3,075)
Discontinued operations				
Loss for the period from Discontinued Operations	6	**-**	(5,129)	(6,680)
Profit/(loss) for the period		**471**	(5,016)	(9,755)
Basic earnings/(loss) per share (pence) – from continuing operations	3	**2.0p**	0.5p	(12.9)p
Diluted earnings/(loss) per share (pence) – from continuing operations	3	**1.9p**	0.5p	(12.9)p
Basic earnings/(loss) per share (pence) – total	3	**2.0p**	(21.0)p	(40.9)p
Diluted earnings/(loss) per share (pence) – total	3	**1.9p**	(21.0)p	(40.9)p

Unaudited Consolidated Statement of Comprehensive Income
Six months ended 30 June 2012

	6 months to 30 Jun 12 £'000	6 months to 30 Jun 11 £'000	Audited Year to 31 Dec 11 £'000
Profit/(loss) for the period	**471**	(5,016)	(9,755)
Other comprehensive income			
Losses on a hedge of a net investment taken to equity	**-**	(202)	-
Exchange differences on translation of foreign operations	**(3)**	480	-
Other comprehensive income for the period	**-**	278	-
Total comprehensive income/(expense) for the period	**468**	**(4,738)**	**(9,755)**

Unaudited Consolidated Statement of Financial Position
At 30 June 2012

	30 Jun 12	30 Jun 11	Audited 31 Dec 11
	£'000	£'000	£'000
Non-current assets			
Goodwill	**17,067**	23,013	17,064
Other intangible assets	**601**	728	613
Property, plant and equipment	**1,076**	1,199	1,117
Deferred tax asset	**73**	27	73
	18,817	24,967	18,867
Current assets			
Inventories	**-**	155	-
Trade and other receivables	**5,033**	5,270	5,965
Corporation tax receivable	**-**	-	63
Cash and cash equivalents	**1,523**	-	1,069
Assets held for sale	**-**	11,214	-
	6,556	16,639	7,097
Total assets	**25,373**	41,606	25,964
Current liabilities			
Trade and other payables	**(4,848)**	(4,586)	(5,377)
Current tax liabilities	**(120)**	(63)	-
Obligations under finance leases	**(112)**	(158)	(131)
Borrowings	**(725)**	(4,695)	(241)
Deferred consideration	**(365)**	(1,116)	(764)
Liabilities associated with assets held for sale	**-**	(2,885)	-
	(6,170)	(13,503)	(6,513)
Net current assets/ (liabilities)	**386**	3,136	584
Non-current liabilities			
Borrowings	**(1,691)**	(4,014)	(2,175)
Deferred consideration	**-**	(371)	(90)
Deferred tax liability	**(929)**	(752)	(929)
	(2,620)	(5,137)	(3,194)
Total liabilities	**(8,790)**	(18,640)	(9,707)
Net assets	**16,583**	22,966	16,257
Equity			
Share capital	**2,356**	2,383	2,414
Share premium account	**15,079**	14,959	15,079
Capital redemption reserve	**58**	-	-
Translation reserve	**(3)**	2,036	-
Retained earnings	**(907)**	3,588	(1,236)
Total equity	**16,583**	22,966	16,257

Unaudited Consolidated Statement of Changes in Equity
Six months ended 30 June 2012

	Share capital £000	Share premium account £000	Capital redemption reserve £'000	Translation reserve £000	Retained earnings £000	Total £000
Balance at 1 January 2012	2,414	15,079	-	-	(1,236)	16,257
Purchase of own Shares	(58)	-	58	-	(175)	(175)
Profit for the period	-	-		-	471	471
Other comprehensive income for the period	-	-	-	(3)	-	(3)
Credit to equity for equity-settled share based payments	-	-	-	-	33	33
Balance at 30 June 2012	**2,356**	**15,079**	**58**	**(3)**	**(907)**	**16,583**

Unaudited Consolidated Statement of Cash Flows
for the six months ended 30 June 2012

	Note	**6 months to 30 Jun 12 £'000**	6 months to 30 Jun 11 £'000	Audited Year ended 31 Dec 11 £'000
Cash generated by operations	5	**1,528**	1,415	2,226
Tax paid		**33**	(205)	(53)
Net cash from operating activities		**1,561**	1,210	2,173
Cash flows from investing activities				
Interest paid		**(65)**	(124)	(214)
Interest received		**-**	1	1
Purchase of property, plant and equipment		**(183)**	(154)	(591)
Expenditure on product development		**(155)**	(230)	(321)
Payment of deferred consideration		**(495)**	(803)	(912)
Disposal of Subsidiary		**(14)**	-	5,177
Net cash used in investing activities		**(912)**	(1,310)	3,140
Cash flows from financing activities				
Dividend paid		**-**	-	(119)
Purchase of own shares		**(175)**		
New loan received		**41**	-	2,522
Drawdown of borrowings		**-**	1,792	-
Repayment of borrowings		**(60)**	(813)	(6,136)
(Decrease)/ increase in revolving loan		**-**	(2,009)	-
Net cash outflow from financing activities		**(194)**	(1,030)	(3,733)
Net decrease in cash and cash equivalents		**455**	(1,130)	1,580
Cash and cash equivalents at start of period		**1,069**	(467)	(467)
Effect of foreign exchange rate changes		**(1)**	(256)	(44)
Cash and cash equivalents at end of period		**1,523**	(1,853)	1,069

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 2012, have been prepared in accordance with the accounting policies which the Group expects to adopt in its 2012 Annual Report and are consistent with those adopted in the consolidated financial statements for the year ended 31 December 2011. 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 2012, 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 condensed consolidated interim financial statements for the six months ended 30 June 2012 have been prepared in accordance with the historical cost convention. The information relating to the six months ended 30 June 2012 and 30 June 2011 is unaudited and does not constitute statutory financial statements as defined in Section 434 of the Companies Act 2006. The comparative figures for the year ended 31 December 2011 have been extracted from the Group Report and Accounts. The auditors reported on those accounts, their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The Group Report and Accounts for the year ended 31 December 2011 have been filed with the Registrar of Companies.

2. Segmental analysis

	6 months to 30 June 12		6 months to 30 Jun 11		Year ended 31 Dec 11	
	Revenue £'000	**Operating profit £'000**	Revenue £'000	Operating profit £'000	Revenue £'000	Operating profit £'000
By division:						
Amaze	**9,376**	**656**	8,028	867	17,386	838
Interact	**1,584**	**383**	1,202	225	2,485	447
The Chase	**1,190**	**10**	1,260	(113)	2,888	93
	12,150	**1,049**	10,490	979	22,759	1,378
Unallocated corporate expense		**(297)**		(143)		(446)
Share option charge		**(33)**		(55)		(89)
Exceptional costs		**-**		(481)		(902)
Goodwill Impairment		**-**		-		(2,709)
Profit/(loss) from continuing operations		**719**		300		(2,768)

3. Earnings per share

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

	6 months to 30 Jun 12 £'000	6 months to 30 Jun 11 £'000	Year ended 31 Dec 11 £'000
Earnings			
Earnings for the purposes of total basic earnings per share being net profit/(loss)	**471**	(5,016)	(9,755)
Earnings for the purposes of continuing basic earnings per share being net profit/(loss)	**471**	113	(3,075)

	No. 000's	No. 000's	No. 000's
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share	**24,099**	23,831	23,863
Effect of dilutive potential ordinary shares:			
Share options	**86**	292	280
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**24,185**	24,123	24,143

Headline earnings per share

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

	6 months to 30 Jun 12 £'000	6 months to 30 Jun 11 £'000	Year ended 31 Dec 11 £'000
Net profit/(loss)	**471**	(5,016)	(9,755)
Exceptional costs (net of tax relief)	**-**	361	663
Share option charges	**33**	55	89
Notional finance cost on deferred consideration	**2**	41	19
Goodwill impairment	**-**	-	2,709
Discontinued operations	**-**	(483)	(399)
Loss on disposal of subsidiary	**-**	5,612	7,079
Headline earnings from continuing operations	**506**	570	405

4. Disposal of Subsidiary

On 27 March 2012 the Group disposed of its interest in Underwired Amaze Limited for a nominal amount.

The net assets of Underwired Amaze Limited at the date of disposal, 30 June 2011 and at 31 December 2011 were as follows:

	27 March 2012 £'000	30 June 2011 £'000	31 December 2011 £'000
Property, plant and equipment	9	9	8
Intangible assets	-	30	-
Trade receivables	153	230	230
Other receivables	6	31	5
Bank balances and cash	2	33	154
Current tax liability	(31)	-	(31)
Intergroup creditor	-	(31)	(162)
Trade payables	(23)	(102)	(71)
Other payables	(76)	(188)	(73)
Net Assets	40	12	60
Loss on disposal	(52)		
Costs of disposal	12		
Total consideration	-		
Net cash outflow arising on disposal:			
Consideration received	-		
Costs of disposal	(12)		
Less: cash and cash equivalents disposed of	(2)		
	(14)		

The loss on disposal of £52,000 together with a trading loss of £20,000 for the period from 1 January 2012 to the date of disposal are reported as part of the operating result for the period as the disposal does not meet the criteria for classification as a discontinued operation as per IFRS 5. Similarly, prior period comparatives have not been restated to reflect the disposal.

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

	6 months to 30 June 12 £'000	6 months to 30 June 11 £'000	Year to 31 Dec 11 £'000
Profit/(loss) on ordinary activities before finance costs, income from investments and taxation	**719**	300	(2,768)
Operating (loss)/profit from discontinued operations	**-**	536	574
Loss/(profit) on disposal of subsidiary	**52**	-	-
Depreciation	**227**	308	557
Amortisation	**155**	84	290
Share option charge	**33**	55	89
Impairment of goodwill	**-**	-	2,709
Operating cash flows before movements in working capital	**1,186**	1,283	1,451
(Increase)/decrease in inventories	**-**	(98)	57
Decrease/(increase) in trade receivables	**773**	(85)	(301)
(Decrease)/increase in trade payables	**(431)**	315	1,019
Operational cash flow	**1,528**	1,415	2,226

6. Discontinued operations

The results of the Group have been restated to reflect the disposal of the Interel Group on 14 July 2011, which carried out all of the Group's Public Affairs and Corporate Communications operations.

The results of the discontinued operations which have been included in the consolidated income statement for each of the periods, were as follows:

	6 months to 30 Jun 12 £'000	**6 months to 30 Jun 11 £'000**	**Year to 31 Dec 11 £'000**
Revenue	-	6,541	6,903
Expenses	-	(5,897)	(6,329)
Loss before tax	-	644	574
Attributable tax expense	-	(161)	(175)
Loss for the period from discontinued operations	-	483	399
Loss on disposal of discontinued operations	-	(5,612)	(7,079)
Net loss attributable to discontinued operations	-	(5,129)	(6,680)

7. Approval

The Interim Statement was approved by the Board on 20 September 2012. Copies of this statement are available on our web site: www.hasgrove.com or by request from the Registered Office at: 6th Floor, Number One, First Street, Manchester, M15 4FN.