

21 April 2009

# Hasgrove plc

## Strong performance by Corporate Affairs and Digital & Communication Services divisions support 17% organic growth

Hasgrove plc (AIM: HGV, 'Hasgrove'), the pan European marketing and communications services group, announces its results for the year ended 31 December 2008.

### Headlines

- Turnover increased by 68% to £36.5m (2007: £21.7m) – like for like growth 17%
- Gross Profits increase by 81% to £27.3m (2007: £15.1m)
- Headline Operating Profits increase by 93% to £5.2m (2007: £2.7m) – like for like up 17%
- Headline PBT jumps by 73% to £4.5m (2007: £2.6m)
- Headline basic EPS up by 69% to 16.6p (2007: 9.8p)
- Proposed dividend maintained at 0.5p per share
- Net debt at 31 December 2008 down to £6.0m (June 2008: £7.5m, 2007: £4.9m)
- Cash flow from operating activities of £5.0m representing a cash conversion of 96%
- Successful integration of Politics International following its acquisition in February 2008
- Merger of three digital businesses to create top 20 UK digital agency

**Rod Hyde**, Group Chief Executive, said:

***"Despite the economic environment, we have accomplished a great deal during 2008. Organic growth was maintained, a number of businesses across the UK and continental Europe were fully integrated and we delivered a strong cash conversion.***

***"Our Corporate Affairs division made significant progress during 2008, growing and consolidating its leading position in the Brussels EU Affairs market and expanding its footprint across Europe. Notably the acquisition and integration of one of the foremost Public Affairs consultancies in London, Politics International, has strengthened our position in the UK market.***

***"Our Digital and Communication Services operations, now integrated under the Amaze brand, are working well together. The operation has further developed its significant Euro based private sector client base and has also achieved further success in the UK public sector.***

***"Despite continuing to tender for significant new contracts and maintaining a strong public sector emphasis, the Group is not immune from the current economic climate. A number of clients have and are reducing their 2009 marketing and corporate affairs budgets. However, we began to cut operating costs promptly in late 2008 and will continue to ensure the cost base remains in line with revenues.***

***"As anticipated, we made a slower start than last year but are now gaining momentum following a number of new business wins and expect the outcome for 2009 to be in line with the Board's expectations"***

**Enquiries:**

**Hasgrove plc**

Rod Hyde, Group Chief Executive

**0161 817 4200**

Paul Sanders, Group Finance Director

**College Hill**

Adrian Duffield/Rozi Morris

**020 7457 2020**

**KBC Peel Hunt**

Capel Irwin

**020 7418 8900**

Oliver Stratton

Matthew Tyler – Corporate Broking

## Overview

Hasgrove has experienced organic growth and strong cash generation across the Group with the integration of recently acquired assets progressing well. The Board expects to complete the outstanding integration programme by September 2009.

The Group's strength continues to be based upon the diversity of its operations both in terms of discipline and geographical exposure. 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.

The Group's strategy remains to focus on a small number of disciplines that are mutually supportive and from which it derives operational and financial synergies: Public Affairs and Corporate Communications, Digital activities under the Amaze brand and Design.

## Financial Highlights

The Group delivered a strong performance in 2008. Turnover increased 68% to £36.5m (2007: £21.7m). Like for like turnover increased by 17%. Gross profits increased to £27.3m (2007: £15.1m).

The international activities of the Group are well-balanced with a broadly 60:40 split of both sales and costs between sterling and the Euro.

Headline operating profits, excluding the non cash items of notional finance costs and share options charges but including a £0.27m benefit from the strong Euro, increased by 93% to £5.2m (2007: £2.7m). This represented a like for like growth of 17%. Within the Group operating profits there is a head office profit, after management recharges to each division, of £0.49m (2007: £0.22m). Interest charged increased to £0.7m (2007: £0.1m) as a result of the acquisitions in late 2007, that of Politics International in February 2008 and the payment of a number of earn-outs.

Headline profit before tax increased 73% to £4.5m (2007: £2.6m). After the non cash items of notional finance costs and share options charges, Group profit before tax was £4.2m (2007: £2.4m). The effective tax rate was 21% which should be sustainable for a further two to three years.

Headline basic earnings per share increased by 69% to 16.6p (2007: 9.8p). Reported basic earnings per share increased to 15.5p (2007: 8.7p)

In light of the current economic climate, the Board is proposing to maintain the dividend of 0.5p per share. The dividend will be paid on 21 July 2009 to all shareholders on the register at 24 June 2009.

Operating cash flows before tax increased significantly to £5.0m (2007: £1.1m) despite the increase in working capital following the acquisition of part of the trade and assets of Amaze in late 2007 and related growth in sales. The cash flow from operating activities represented a conversion rate of 96%.

The Group's year end net debt was down to £6.0m (30 June 2008: £7.5m, 31 December 2007: £4.9m) in spite of the re-translation of the Group's Euro borrowings at an all time high rate at 31 December 2008 of approximately 1.03. Total bank facilities in place at year end were £10.4m.

Cash collection has been very encouraging and will continue to be an area of focus. The year end net debt to EBITDA ratio was 1.06 and interest cover was 8.1 times compared to the bank covenants of up to 2.5:1 and at least five times.

At the year end, the estimate of future earn-outs was £6.6m with up to £1.8m of this payable in shares at the Group's option and the balance in cash over the next three years. Total estimated earn-out payments, including shares, are £3.4m 2009, £2.1m 2010, £1.1m 2011. These earn-outs are dependent on performance and are self-funding.

## **Operational Review**

### **Public Affairs and Corporate Communications**

The Public Affairs and Corporate Communications division consisting of Interel, Interel Cabinet Stewart, Politics International and Odyssey showed good growth with revenues increasing to £14.8m (2007: £10.7m) and operating profit of £2.1m (2007: £1.3m). On a like for like basis the growth in revenue was 11%.

The European corporate affairs division is at the centre of public affairs, corporate communications and association management and is underpinned by a strong digital offering. During the year Interel made significant progress towards its stated vision of becoming a recognised European leader in the area of corporate affairs.

In February 2008 the Group acquired Politics International, a leading London based public affairs consultancy, establishing a strong presence in the UK, which is the largest market for corporate affairs services in Europe. As a result the Group now has a meaningful corporate affairs presence in Brussels, Paris, London, Washington D.C, Prague, Berlin and Madrid. In addition, Interel also consolidated its European affiliate network comprising partner consultancies in Athens, Amsterdam, Budapest, Lisbon, Ljubljana, Rome, Stockholm and Warsaw.

In April 2008, Cabinet Stewart merged with Interel's European Public Affairs practice to form Interel Cabinet Stewart which relocated into new premises at the centre of the EU district in Brussels, creating one of the most prominent EU Affairs consultancies in Brussels.

In 2008 two significant milestones were achieved by Interel. The first annual €1 million client, the International Society of Nephrology, which is serviced by several Interel practices and disciplines, was won and Interel was named BENELUX consultancy of the year by the leading PR industry observer, Paul Holmes, in recognition of its efforts to establish the company as a "credible European player". Significant other client wins include Fortis and Kaupthing banks, the Bill & Melinda Gates Foundation and Opel (part of General Motors).

Odyssey Interactive, which is part of the Public Affairs and Corporate Communications Division and supplies intranet software solutions, has continued its strong growth since joining the Group in September 2007 and contributed an operating profit before central recharges of £0.6m in the year. The launch of its fourth generation intranet software, Interact 4.0, is progressing well and represents a good opportunity in 2009 particularly in the public sector.

### **Digital and Communication Services**

Digital and Communication Services, now operating under the Amaze brand, saw revenues jump to £16.3m (2007: £6.2m) with operating profit tripling to £1.8m (2007: £0.6m), a like for like increase in revenue of 23%. Amaze has had a very successful first year, both in terms of profitability and integration with many examples of successful joint activity.

Amaze was formed in 2008 when three Group-owned companies (advertising and PR specialists Connectpoint, and two top digital agencies Amaze Europe and Pavilion) merged to create a pan-European marketing and technology company. Instantly occupying a top 20 position in New Media Age's top hundred agencies of 2008, Amaze was also placed sixth in the UK for web design and build. The business units now share marketing, innovation and support services.

The Group's strategy is to build a pan European agency for the digital age with a focus on developing a reputation for creativity and excellence in execution

Amaze offers a broad range of marketing and technology services including web design and build, search, social media, user online reputation management, experience optimisation and analytics, as well as traditional PR, print and broadcast advertising and brand consulting. Amaze has over 150 people

working in offices in the north west of England and London. 2009 will see the formal launch of the Amaze brand in Continental Europe with the establishment of an office in Brussels in April.

The public sector practice has also developed during the year. In addition to Greater Manchester Integrated Transport Authority (GMITA) work and the Greater London Authority website development, the company is working with a number of health care clients and has recently started a large contract with the National Police Improvement Agency (NPIA). This work with the NPIA is being completed in conjunction with Odyssey.

The Company's Euro based activity continues to grow with significant assignments with Siemens, Lexus and Toyota. During the year Amaze retained the Euro Lexus account following a competitive tender.

## **Design**

Design's revenue increased from £4.7m to £5.4m with a like for like increase of about 7%. Operating profit increased to £0.7m from £0.5m.

The Division is involved in activity ranging from strategic corporate consultancy through brand development and guardianship to brochure, point of sale and financial reports. Client sectors include automotive, financial, energy and utilities and the public sector. The business is characterised by regular repeat activity and many long term relationships.

The Chase, the UK graphic design agency, has contributed with a strong performance this year including initiating the Group wide project with the Transport and Innovation Fund in the North West. Landmarks, the Group's Brussels based design business, focuses on brand development, investor relations and advocacy.

The Design Division, which now represents less than 15% of total Group fee income, is a good provider of business for the rest of the Group. During 2008 this was clearly demonstrated by the introduction to the Group of the GMPTA where the Group is providing branding advice, online and offline advertising, PR, website development and search engine optimisation. The design companies share a number of clients with the other divisions. Recently Landmarks and Amaze successfully pitched for a major automotive project.

## **Outlook**

Despite continuing to tender for significant new contracts and maintaining a strong public sector emphasis, the Group is not immune from the current economic climate. A number of clients have and are reducing their 2009 marketing and corporate affairs budgets. The Board began to cut operating costs promptly in late 2008 and will continue to ensure the cost base remains in line with revenues. To date the streamlining of operations has resulted in 23 redundancies across the Group.

As anticipated, the Group has had a slower start than last year but is now gaining momentum following a number of new business wins and the outcome for 2009 is anticipated to be in line with the Board's expectations.

**Hasgrove plc**  
**Consolidated income statement**  
**Year ended 31 December 2008**

	<b>Note</b>	<b>Year ended 2008 £000</b>	<b>Year ended 2007 £000</b>
Revenue		36,536	21,675
Cost of sales		(9,209)	(6,577)
<b>Gross profit</b>		<u>27,327</u>	<u>15,098</u>
Administrative expenses		(22,177)	(12,396)
<b>Headline operating profit</b>		<u>5,150</u>	<u>2,702</u>
Share option charges		(31)	(25)
<b>Operating profit</b>		<u>5,119</u>	<u>2,677</u>
Amounts written off investments		(10)	-
Finance income		21	175
Notional finance cost on deferred consideration		(211)	(181)
Finance costs		(719)	(270)
Headline profit before tax		4,442	2,607
Share option charge		(31)	(25)
Notional finance cost on deferred consideration		(211)	(181)
<b>Profit before tax</b>		<u>4,200</u>	<u>2,401</u>
Tax		(885)	(730)
<b>Profit for the financial year</b>		<u>3,315</u>	<u>1,671</u>
Basic earnings per share (pence)	3	<u>15.5p</u>	<u>8.7p</u>
Diluted earnings per share (pence)	3	<u>15.2p</u>	<u>8.5p</u>

**Hasgrove plc**  
**Consolidated statement of recognised income and expense**  
**Year ended 31 December 2008**

	<b>Year ended 2008 £000</b>	<b>Year ended 2007 £000</b>
Losses on a hedge of a net investment taken to equity	(819)	(122)
Exchange differences on translation of foreign operations	3,430	849
<b>Net income recognised directly in equity</b>	<u>2,611</u>	<u>727</u>
<b>Profit for the period</b>	3,315	1,671
<b>Total recognised income and expense for the period</b>	<u><u>5,926</u></u>	<u><u>2,398</u></u>

**Hasgrove plc**  
**Consolidated balance sheet**  
**At 31 December 2008**

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
<b>Non-current assets</b>		
Goodwill	34,081	27,888
Other intangible assets	168	-
Property, plant and equipment	1,562	785
Investments	-	10
Deferred tax asset	82	-
	<hr/> 35,893	<hr/> 28,683
<b>Current assets</b>		
Inventories	62	55
Trade and other receivables	11,549	7,868
Cash and cash equivalents	2,149	2,955
	<hr/> 13,760	<hr/> 10,878
<b>Total assets</b>	<hr/> 49,653	<hr/> 39,561
<b>Current liabilities</b>		
Trade and other payables	(7,882)	(5,521)
Current tax liabilities	(937)	(610)
Obligations under finance leases	(67)	(14)
Borrowings	(3,159)	(5,300)
Provisions	(3,418)	(2,276)
	<hr/> (15,463)	<hr/> (13,721)
<b>Net current liabilities</b>	<hr/> (1,703)	<hr/> (2,843)
<b>Non-current liabilities</b>		
Borrowings	(4,891)	(2,500)
Long-term provisions	(3,178)	(4,922)
Obligations under finance leases	(40)	(22)
	<hr/> (8,109)	<hr/> (7,444)
<b>Total liabilities</b>	<hr/> (23,572)	<hr/> (21,165)
<b>Net assets</b>	<hr/> 26,081	<hr/> 18,396
<b>Equity</b>		
Share capital	2,251	2,068
Share premium account	14,034	12,382
Translation reserve	3,264	653
Retained earnings	6,532	3,293
<b>Total equity</b>	<hr/> 26,081	<hr/> 18,396

**Hasgrove plc**  
**Consolidated cash flow statement**  
**Year ended 31 December 2008**

	<b>Note</b>	<b>Year ended 2008 £000</b>	<b>Year ended 2007 £000</b>
Cash generated by operations	4	5,043	1,087
Income taxes paid		(750)	(951)
<b>Net cash from operating activities</b>		4,293	136
<b>Investing activities</b>			
Interest paid		(719)	(271)
Interest received		20	176
Proceeds on disposal of property, plant and equipment		19	-
Purchase of property, plant and equipment		(938)	(297)
Purchase of subsidiary undertakings		(2,308)	(7,979)
Expenditure on product development		(168)	-
Net cash acquired with subsidiaries		380	1,640
Payment of deferred consideration		(1,460)	(1,765)
<b>Net cash used in investing activities</b>		(5,174)	(8,496)
<b>Financing activities</b>			
Dividends paid		(107)	-
Repayments of borrowings		(549)	(3,281)
Proceeds on issue of shares		895	5
New bank loans raised		2,355	3,000
(Decrease)/ increase in bank overdrafts and revolver		(2,424)	4,800
<b>Net cash from financing activities</b>		170	4,524
<b>Net decrease in cash and cash equivalents</b>		(711)	(3,836)
<b>Cash and cash equivalents at beginning of year</b>		2,955	6,626
Effect of foreign exchange rate changes		(95)	165
<b>Cash and cash equivalents at end of year</b>		2,149	2,955

**Hasgrove plc**  
**Notes to the consolidated financial statements**  
**Year ended 31 December 2008**

**1. Financial information**

The financial information contained in this document does not constitute statutory financial statements within the meaning of section 240 Companies Act 1985. The figures for the year ended 31 December 2008 have been extracted from the audited statutory financial statements. The financial statements for the year ended 31 December 2008 and the year ended 31 December 2007 received unqualified auditors' reports which did not contain statements under section 237 (2) or (3) Companies Act 1985.

Copies of the Company's financial statements will be posted to shareholders in June and after approval at the Annual General Meeting on 24<sup>th</sup> June 2009, 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.

**Hasgrove plc**  
**Notes to the consolidated financial statements**  
**Year ended 31 December 2008**

**3. Earnings per share**

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

**Earnings**

	<b>Year ended 2008 £000</b>	<b>Year ended 2007 £000</b>
Earnings for the purposes of basic earnings per share being net profit	3,315	1,671
	<b>Year ended 2008 000's</b>	<b>Year ended 2007 000's</b>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic earnings per share	21,406	19,184
Effect of dilutive potential ordinary shares:		
Share options	401	481
Weighted average number of ordinary shares for the purposes of diluted earnings per share	21,807	19,665

**Headline earnings per share**

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

	<b>Year ended 2008 £000</b>	<b>Year ended 2007 £000</b>
Net profit	3,315	1,671
Share option charges	31	25
Notional finance cost on deferred consideration	211	181
Headline earnings	3,557	1,877

**Hasgrove plc**  
**Notes to the consolidated financial statements**  
**Year ended 31 December 2008**

**4. Notes to the cash flow statement**

	<b>Year ended 2008 £000</b>	<b>Year ended 2007 £000</b>
Operating profit for the year	5,119	2,677
Adjustments for:		
Depreciation of property, plant and equipment	501	314
Share-based payment expense	31	25
Profit on disposal of fixed assets	(26)	-
Operating cash flows before movements in working capital	5,626	3,016
(Increase)/ decrease in inventories	(7)	29
Increase in receivables	(1,990)	(750)
Increase/ (decrease) in payables	1,415	(1,208)
Cash generated by operations	5,043	1,087

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](http://www.hasgrove.com)