

29 September 2009

# Hasgrove plc

## Challenging year but future pipeline remains strong

Hasgrove plc (AIM: HGV, "Hasgrove", "the Group"), the pan European marketing and communications services group, announces its interim results for the six month period to 30 June 2009.

### Headlines

- Turnover of £15.9m (2008: £16.4m)
- Gross Profits of £13.2m (2008: £13.1m)
- Headline PBT of £1.3m (2008: £2.1m)
- Headline basic EPS of 4.8p (2008: 7.7p)
- Net debt reduced to £5.5m (31 December 2008: £6.0m)
- Operating cash flow of £1.8m, representing a cash conversion of 166%
- Streamlined into two operating divisions; Public Affairs and Strategic Communications, and Digital and Communication Services
- Consolidation of three Amaze offices into one central Manchester location completed by end of 2009
- Future revenue pipeline remains strong

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

***"As stated previously, we had a slow start to the year with the sales cycle being extended for large projects and margins impacted by pre-sales activities. We have focussed on integrating further our businesses into two main streams as well as controlling costs.***

***"Despite the testing economic conditions, we have won significant international assignments in digital, association management and corporate communications during the last few months. On an annualised basis these recent wins will more than make up for the lost revenues earlier in the year and position us well for 2010.***

***"During the year, people across Hasgrove have shown tremendous skill, tenacity and sheer determination in extremely difficult trading conditions and have continued to deliver real growth opportunities for the Group."***

### Enquiries:

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## Overview

The Group has continued to focus on the integration of its operational units, implementing cost controls in slow growth areas whilst managing the slower sales cycle and identifying areas for organic growth.

The Group is now organised into two divisions: Public Affairs and Strategic Communications, and Digital and Communication Services. The Group is benefiting from revenue and cost synergies within the two divisions.

As a result of the economic downturn, the Group has suffered a loss of over £2m of retainer and project work. However, successful new business generation has limited the net reduction of gross income to 6% on a like for like basis, with most of the benefit due to come in 2010.

The cost base has been cut by approximately £1m on an annualised basis with a net reduction of 21 employees during the first half masking a much larger movement of people due to re-alignment and the recruitment of over 15 people in growth areas.

## Financial review

Group turnover was slightly down to £15.9m (2008: £16.4m), reflecting the slower sales cycle. Although gross income increased to £13.2m (2008: £13.1m); including a £0.8m currency benefit, on a like for like basis, there was a 6% reduction.

Group margins were affected by competitive pricing pressure, reorganisation costs that have not been taken as an exceptional charge, extensive pre-sales activity and statutorily imposed salary increases in Belgium.

Headline operating profits, excluding the exceptional costs and non cash items of notional finance costs and share options charges, were £1.5m (2008: £2.5m). This reduction partly reflects £0.7m of adverse currency costs and £0.1m from last year's acquisitions. Within the operating profits, head office cost was cut by half to £0.2m (2008: £0.4m). Interest charges reduced to £0.2m (2008: £0.4m).

Headline profit before tax was £1.3m (2008: £2.1m). After exceptional costs and the non cash items of notional finance costs and share options charges, Group profit before tax was £0.8m (2008: £2.0m). The effective tax rate was 21.6% which the Board expects to be sustainable for a further two years.

Headline basic earnings per share were 4.8p (2008: 7.7p). Reported basic earnings per share were 2.7p (2008: 6.9p).

Operating cash flows, before tax, increased significantly to £1.8m (2008: £1.6m) due to better management of working capital with a continuing focus on cash collection. The cash flow from operating activities represented a conversion rate of 166%.

The Group's year end net debt was down to £5.5m (30 June 2008: £7.5m, 31 December 2008 £6.0m). Total bank facilities in place at the period end were £9.5m.

At the period end, the estimate of future earn-outs, which are dependent on performance and are self-funding, was £3.7m, with up to £0.5m of this payable in shares and the balance in cash over the next two and a half years.

## Operational Overview

### Public Affairs and Strategic Communications

The Public Affairs and Strategic Communications division, consisting of Interel and Politics International, offers high end government relations, strategic communications and association management services, including crisis and issues communications, lobbying, intelligence and research support.

The division suffered during the first half of the year due to reduced retainers and project cancellations as a result of the global recession, although the impact was partly offset by rapid growth in Interel's Association Management practice.

Turnover increased to £6.6m (2008: £6.3m) due to a £1.0m currency benefit and operating profit reduced 63% to £0.4m (2008: £1.1m). The reduction in operating profit was accentuated by a compulsory salary indexation in Belgium of 4.5%. The like for like reduction in gross income at constant exchange rates was 6.5%.

A number of steps were taken to realign the cost base with prevailing market conditions while focusing resources on growth areas, resulting in a net reduction in staff of eight. The restructuring process has been aided by a new finance system to improve productivity and cash collection.

This year's consolidation and promotion of Interel's European network of offices has generated a number of significant pan European client opportunities, some of which are expected to benefit 2009 results. The pipeline has also strengthened due to several sales and marketing initiatives targeting businesses that are particularly exposed to government intervention, including financial services, the energy sector and companies under scrutiny by anti-trust authorities.

Interel's fast growing association management practice, which is supporting international associations with representation and management services, emerged this year as one of the top players in Europe. The combination of high end Association Management with Public Affairs and Strategic Communications has proved very attractive to existing and potential clients, putting the practice and the division in a strong position for accelerated organic growth.

The Brussels-based European Affairs practice has progressed further to a restructuring after the merger between Interel and Cabinet Stewart in 2008. Significant synergy benefits have been derived by combining European Affairs with Association Management under the same management in one location. A further focus on Health policy and advocacy has also generated a number of new opportunities for the business, including a recent win of a €500,000 per annum client.

Interel's marketing and representation office in Washington DC continues to generate new business leads. The office is focused on generating opportunities for all offices and practices across the division.

## **Digital and Communication Services**

The Digital and Communications division now includes Odyssey, the Chase and Landmarks as a result of the increasing emphasis and importance of digital activity in their businesses.

Due to extended pre-sales activity, turnover was down to £9.3m (2008: £10.1m) with operating profit at £1.3m (2008: £1.8m).

Amaze is a digitally focussed marketing, technology and corporate communications business. Last year's merger has been successful and the business is now developing a centralised delivery capacity which includes further expanding the digital media capabilities.

Amaze's ability to advise on digital strategy for substantial international blue chip clients with its proven scale and European delivery, has resulted in a number of high profile client wins over the last few months. Well over £1m of revenue on an annualised basis has been secured and the business' pipeline of opportunities remains strong.

Odyssey, which supplies intranet software solutions, has continued its strong growth since joining the Group in September 2007. The launch of its fourth generation intranet software, Interact 4.0, has been very successful. Odyssey and Amaze have worked together on two significant projects this year and there is more work in the pipeline.

The Chase, the UK graphic design agency, has contributed with a strong performance. The company is now focussed on building its digital capacity. The Group has made significant recruitment in this area and the team is already generating healthy revenues. Chase and Amaze are working together on delivery and shared services.

Landmarks, the Group's Brussels-based design business which focuses on brand development, investor relations and advocacy, has also strengthened its links with Amaze. Landmarks will be building its digital capacity alongside Amaze during the second half. The Brussels based European HQ and Trade Association client base is strong and the pipeline is healthy.

Three Amaze operations in Manchester are due to consolidate into one building by the end of the year. This will continue the improvement in operational efficiencies and integration within the division.

## **Outlook**

Traditionally the Group's second half has been stronger than the first, with one-off projects frequently booked in the fourth quarter. Recent experience is that new business lead times have been extended and a number of large retainer assignments due in the fourth quarter are still to be confirmed.

This year the Group has made considerable progress in re-aligning the business to take advantage of the opportunities in digital, association management and corporate communications and managing its cost base to reflect the economic environment.

The economic environment is likely to continue to be demanding in 2010. However, the combination of the Group's recent wins, cost control, healthy cash generation and a strong pipeline, gives the Board considerable confidence that Hasgrove is well placed to benefit from its market position and the opportunities that it has developed.

## Unaudited Consolidated Income Statement

Six months ended 30 June 2009

	Note	6 months to 30 Jun 09 £'000	6 months to 30 Jun 08 £'000	Audited Year to 31 Dec 08 £'000
<b>Revenue</b>	2	<b>15,945</b>	16,370	36,536
Cost of sales		<b>(2,769)</b>	(3,281)	(9,209)
Gross profit		<b>13,176</b>	13,089	27,327
Administrative expenses		<b>(11,714)</b>	(10,588)	(22,127)
<b>Headline operating profit</b>	2	<b>1,462</b>	2,501	5,150
Share option charges		<b>(21)</b>	(25)	(31)
Exceptional costs		<b>(358)</b>	-	-
<b>Operating profit</b>		<b>1,083</b>	2,476	5,119
Amount written off investments		-	-	(10)
Finance income		-	12	175
Notional finance cost on deferred consideration		<b>(104)</b>	(147)	(181)
Finance cost		<b>(175)</b>	(363)	(270)
Headline profit before tax		<b>1,287</b>	2,150	2,607
Exceptional Costs		<b>(358)</b>	-	-
Share option charge		<b>(21)</b>	(25)	(25)
Notional finance cost on deferred consideration		<b>(104)</b>	(147)	(181)
<b>Profit before tax</b>		<b>804</b>	1,978	2,401
Tax		<b>(174)</b>	(535)	(730)
<b>Profit for the financial period</b>		<b>630</b>	1,443	1,671
Basic earnings per share (pence)	3	<b>2.7p</b>	6.9p	8.7p
Diluted earnings per share (pence)	3	<b>2.7p</b>	6.8p	8.5p

**Unaudited consolidated statement of recognised income and expense**

Six months ended 30 June 2009

	<b>6 months to 30 Jun 09 £'000</b>	6 months to 30 Jun 08 £'000	Audited Year to 31 Dec 08 £'000
(Losses)/ gains on a hedge of a net investment taken to equity	<b>553</b>	-	(819)
Exchange differences on translation of foreign operations	<b>(1,811)</b>	556	3,430
<b>Net income/ (expense) recognised directly in equity</b>	<b>(1,258)</b>	556	2,611
Profit for the period	<b>630</b>	1,443	3,315
Total recognised income and expense for the period	<b>(628)</b>	1,999	5,926

**Unaudited Consolidated Balance Sheet**

At 30 June 2009

	Note	30 Jun 09 £'000	30 Jun 08 £'000	Audited 31 Dec 08 £'000
<b>Non-current assets</b>				
Goodwill	4	32,498	31,244	34,081
Other intangible assets		226	-	168
Property, plant and equipment		1,305	1,303	1,562
Investments		-	10	-
Deferred tax asset		82	-	82
		<b>34,111</b>	32,557	35,893
<b>Current assets</b>				
Inventories		106	93	62
Trade and other receivables		8,493	10,280	11,549
Cash and cash equivalents		1,482	2,390	2,149
		<b>10,081</b>	12,763	13,760
<b>Total assets</b>		<b>44,192</b>	45,320	49,653
<b>Current liabilities</b>				
Trade and other payables		(5,491)	(6,454)	(7,882)
Current tax liabilities		(554)	(1,046)	(937)
Obligations under finance leases		(64)	(84)	(67)
Borrowings		(2,918)	(7,275)	(3,159)
Provisions	5	(3,247)	(2,580)	(3,418)
		<b>(12,274)</b>	(17,439)	(15,463)
<b>Net current assets</b>		<b>(2,193)</b>	(4,676)	(1,703)
<b>Non-current liabilities</b>				
Borrowings		(4,026)	(2,537)	(4,891)
Long-term provisions	5	(1,541)	(4,074)	(3,178)
Obligations under finance leases		(20)	-	(40)
		<b>(5,587)</b>	(6,611)	(8,109)
<b>Total liabilities</b>		<b>(17,861)</b>	(24,050)	(23,572)
<b>Net assets</b>		<b>26,331</b>	21,270	26,081
<b>Equity</b>				
Share capital		2,357	2,137	2,251
Share premium account		14,784	13,164	14,034
Translation reserve		2,007	1,209	3,264
Retained earnings		7,183	4,760	6,532
<b>Total equity</b>		<b>26,331</b>	21,270	26,081

**Unaudited Consolidated Cash Flow Statement**  
for the six months ended 30 June 2009

	Note	<b>6 months to 30 Jun 09 £'000</b>	6 months to 30 Jun 08 £'000	Audited Year ended 31 Dec 08 £'000
Cash generated by operations	6	1,793	1,571	5,043
Tax paid		(557)	(209)	(750)
<b>Net cash from operating activities</b>		<b>1,236</b>	<b>1,362</b>	<b>4,293</b>
<b>Cash flows from investing activities</b>				
Interest paid		(175)	(364)	(719)
Interest received		-	12	20
Sale of property, plant and equipment		-	27	19
Purchase of property, plant and equipment		(66)	(585)	(938)
Purchase of subsidiary undertakings		-	(2,072)	(2,308)
Net cash acquired with subsidiaries		-	380	380
Expenditure on product development		(79)	-	(168)
Payment of deferred consideration		(705)	(848)	(1,460)
<b>Net cash used in investing activities</b>		<b>(1,025)</b>	<b>(3,450)</b>	<b>(5,174)</b>
<b>Cash flows from financing activities</b>				
Dividend paid		-	-	(107)
Repayment of borrowings		(523)	(35)	(549)
Proceeds on issue of shares		-	-	895
New bank loans raised		-	-	2,355
(Decrease)/ increase in revolving loan		(55)	13	(2,424)
<b>Net cash (outflow)/ inflow from financing activities</b>		<b>(578)</b>	<b>(22)</b>	<b>170</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(368)</b>	<b>(2,110)</b>	<b>(711)</b>
<b>Cash and cash equivalents at start of period</b>		<b>2,149</b>	<b>2,955</b>	<b>2,955</b>
Effect of foreign exchange rate changes		(300)	(6)	(95)
<b>Cash and cash equivalents at end of period</b>		<b>1,482</b>	<b>839</b>	<b>2,149</b>

## 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 2009, have been prepared in accordance with the accounting policies which the Group expects to adopt in its 2009 Annual Report and are consistent with those adopted in the consolidated financial statements for the year ended 31 December 2008. 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 2009, 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 2009 have been prepared in accordance with the historical cost convention. The information relating to the six months ended 30 June 2009 and 30 June 2008 is unaudited and does not constitute statutory financial statements as defined in Section 240 of the Companies Act 1985. The comparative figures for the year ended 31 December 2008 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 2008 have been filed with the Registrar of Companies.

### 2. Segmental analysis

	<b>6 months to 30 June 09</b>		6 months to 30 Jun 08 (restated)		12 months to 31 Dec 08 (restated)	
	<b>Turnover</b>	<b>Operating profit</b>	Turnover	Operating profit	Turnover	Operating profit
	<b>£'000</b>	<b>£'000</b>	£'000	£'000	£'000	£'000
By division:						
<b>Public Affairs and Strategic Commu- nications</b>	<b>6,610</b>	<b>405</b>	6,255	1,080	13,212	1,708
<b>Digital and Communication Services</b>	<b>9,335</b>	<b>1,259</b>	10,115	1,771	23,324	2,920
	<b>15,945</b>	<b>1,664</b>	16,370	2,851	36,536	4,628
<b>Unallocated corporate (expense)/ income</b>		<b>(223)</b>		(375)		491
<b>Exceptional costs</b>		<b>(358)</b>		-		-
<b>Profit from operations</b>		<b>1,083</b>		2,476		5,119

### 3. Earnings per share

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

#### Earnings

	<b>6 months to 30 Jun 09 £'000</b>	6 months to 30 Jun 08 £'000	Year ended 31 Dec 08 £'000
Earnings for the purposes of basic earnings per share being net profit	<b>630</b>	1,443	3,315
	<b>No. 000's</b>	No. 000's	No. 000's
Number of shares Weighted average number of ordinary shares for the purposes of basic earning per share	<b>23,041</b>	20,896	21,406
Effect of dilutive potential ordinary shares: Share options	<b>313</b>	429	401
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>23,354</b>	21,325	21,807

At 30 June 2009, there were outstanding share options issued under the Long Term Incentive Plan over Nil ordinary shares (31 December 2008 and 30 June 2008 1,075,000) which are not regarded as being dilutive and therefore these have not been included in the diluted earnings per share calculations.

#### Headline earnings per share

	<b>6 months to 30 Jun 09 £'000</b>	6 months to 30 Jun 08 £'000	Year ended 31 Dec 08 £'000
Net profit	<b>630</b>	1,443	3,315
Share option charges	<b>21</b>	25	31
Notional finance cost on deferred consideration	<b>104</b>	147	211
Exceptional costs	<b>358</b>	-	-
Headline earnings	<b>1,112</b>	1,615	3,557

### 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**

	<b>6 months to 30 June 09 £'000</b>	6 months to 30 June 08 £'000	Year to 31 Dec 08 £'000
Profit on ordinary activities before finance costs, income from investments and taxation	<b>1,083</b>	2,476	5,119
Depreciation	<b>272</b>	234	501
Amortisation	<b>20</b>	-	-
(Loss)/ profit on disposal of fixed assets	<b>50</b>	(27)	(26)
Share option charge	<b>21</b>	25	31
(Increase)/decrease in inventories	<b>(44)</b>	(38)	(7)
Decrease/(increase) in trade receivables	<b>2,466</b>	(1,790)	(1,990)
(Decrease)/ increase in trade payables	<b>(2,076)</b>	691	1,415
<b>Operational cash flow</b>	<b>1,793</b>	1,571	5,043

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 28 September 2009.

8. Copies of this statement are available on our web site: [www.hasgrove.com](http://www.hasgrove.com) or by request from the Registered Office at: St Johns Court, Quay Street, Manchester, M3 3HN.