

HASGROVE plc

HASGROVE TO LIST ON AIM WITH MARKET CAPITALISATION OF £22 MILLION

Hasgrove plc ("Hasgrove", "the Group"), the pan-European marketing and communications services group, plans to list on AIM with a market capitalisation of £22.25 million. The Group has raised £6.25 million via a placing of shares at 120p per share with institutional investors.

Hasgrove is the holding company for a diverse group of profitable and cash generative companies which provide communication services in public relations, public affairs, graphic design, advertising and digital online marketing. The Group has a network of eight offices in four European countries.

Placing details

- Placing of 5,208,333 new Ordinary Shares at 120p per share to raise £6.25 million for the Group, before expenses, to help fund and support Hasgrove's acquisition strategy.
- Unconditional dealings are expected to commence on AIM at 8.00 am 14 November 2006 (Ticker symbol HGV).
- KBC Peel Hunt Ltd is acting as Nominated Adviser and Broker.

Business summary

- Hasgrove was established to capitalise on the evolving and fragmented European communications and marketing services sectors with the intention of acquiring and developing companies within this market.
- The Group largely operates in niche areas where its operating companies can be leading brands providing services to a blue chip client base.
- The Group is focussed on high growth areas including public affairs, public relations, design and online marketing and digital services. This diverse set of disciplines provides many synergistic revenue opportunities.
- The Directors believe that the Group will benefit by providing cross-disciplinary and cross-border services to clients that are increasingly seeking multi-channel European-wide solutions for their marketing communications needs. This is being achieved by a combination of organic development and acquisitions.
- Currently there are more than 170 personnel in the Group, serving a broad client base of more than 130 clients, working in the three well established, profitable and strongly cash generative operating businesses:
 - **Connectpoint** specialises in advertising, public relations, public affairs and digital services.
 - **The Chase** is a leading UK graphic design agency.
 - **Interel** is a leading continental European communications consultancy specialising in corporate communications, European public affairs, Governmental relations and brand marketing communications.
- In the six months to 30 June 2006, on a proforma basis, Group sales were £9.6 million with gross margins of 64.1%. Operating profit was £1.2 million.

Strategy

The Board's strategy is to build a group capable of capitalising on the changing world of communications and marketing services across Europe. Hasgrove intends to create value for shareholders through a combination of organic growth and selective acquisitions by expanding its European operations, becoming a brand leader in high growth areas, acquiring other 'Best of Breed' brands and generating revenue synergies across the Group.

Current trading and prospects

Since acquiring The Chase and Interel, the Board has been pleased with the integration process and a number of significant new business wins have been achieved. Current trading is in line with the Board's expectations.

Rod Hyde, Hasgrove Chief Executive commented:

"We are a well established, profitable and cash generative group with good revenue visibility. Over the last year or so we have successfully acquired and integrated seven businesses into a diverse but complementary pan European marketing communications group. This gives us strong foundations to support further growth."

Our strategy is to widen our portfolio of operations across Europe through a combination of both organic growth and acquisition. However, we will continue to focus only on the faster growing and complementary areas of the fragmented and evolving marketing communications sector."

Our listing on AIM is the next logical step in our development. It will provide us not only with a higher profile and stronger balance sheet but also an acquisition currency. We are currently investigating a number of high quality companies and expect that a number of the opportunities should complete within nine months of the Admission."

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Background on the Group

Introduction

Hasgrove is the holding company for a group of profitable and cash generative companies which provide communication services in public relations, public affairs, graphic design, advertising and online marketing.

The Company was established to capitalise on the evolving world of communications. The Directors believe that the Group can benefit by providing services which encompass multi-channel, cross-disciplinary and cross-border activity. This is being achieved by a combination of organic development and acquisition.

The Group largely operates in niche areas where its operating companies can be leading brands providing services to a blue chip client base. The Group is focussed on growth areas like public affairs, public relations and digital services. In addition, the Board believes that it has an opportunity for high growth within its design offering. The Group offers a diverse set of disciplines and also provides many synergy opportunities to grow revenue. The Board believes that there are good growth opportunities for organisations that can respond to the changing marketplace.

Hasgrove was incorporated on 1 October 2004 with the intention of acquiring companies within the fragmented marketing communications sector. The Group operates under three business units.

Operating Businesses

Connectpoint

Connectpoint, which was established by Stephen Rodgers in 1993, is a group of companies specialising in advertising, public relations, public affairs and digital services. Connectpoint employs over 50 staff and has over 60 clients.

Connectpoint has developed into a well respected agency. The advertising business is one of the largest in Manchester and the public relations business was, in August 2006, named by Insider Magazine as the fastest growing PR agency in the North West of England over the previous 12 months.

Examples of client work carried out in 2006 by Connectpoint include projects for Calor Gas, Sadolin, Pontins, Keycamp, Sentinel and Compass Finance.

The Chase

The Chase, which was established by Ben Casey in 1988, is a leading UK graphic design agency with offices in Manchester, London and Preston. The Chase employs around 40 staff, including over 25 fee earners, and has over 30 clients.

The main source of income is from design consultancy fees and brand development. In addition, The Chase derives other income streams from related outsourced activities, including printing costs. All work is project-based and includes design of corporate identities, design of financial statements, corporate literature, merchandising and point of sale material.

The Chase has a well established reputation for creativity. For graphic design agencies in the UK, one of the main annual awards is the D&AD Awards. The Chase has had a high level of success with work entered into these awards throughout its history. In addition, for the past

two years The Chase has been ranked second design agency overall in the UK and was ranked the best in print in Design Weeks' Annual Creativity League Table.

Examples of client work carried out in 2006 by The Chase include projects for the Co-Operative Bank both on the corporate and personal banking side, British Council, Diageo, Fujitsu, Land Securities, M&S Money Limited and Yorkshire Water.

Interel

Interel Public Relations & Public Affairs SA/NV (formerly Interel Sprl) was established in 1983 and is a leading continental European communications consultancy specialising in corporate communications, public relations and public affairs.

Interel also provides corporate design services through its Landmarks subsidiary which specialises in print and online documentation.

Interel employs over 75 people in four locations - Brussels, Antwerp, Paris and Prague - servicing over 50 clients. Over 80% of the staff are located in Brussels. Interel generates the majority of its revenue by delivering expert PR and PA advice to a variety of clients in the private and public sectors.

Examples of client work carried out in 2006 by Interel include projects for Beiersdorf, GSK, EDF, Shell, Cisco, Thalys, Citibank, Nokia and Weight Watchers. Historically a substantial source of new business has come from referrals.

Over the last three years Interel has won three European awards from the Holmes Report.

- Public Affairs: Best European Public Affairs Consultancy 2004.
- Brand and Consumer Communications: "Express Yourself" campaign developed for Nivea/Beiersdorf 2005.
- Corporate Communications: "Crisis Management Agency Of The Year" in Europe 2006.

The Holmes Group, which publishes the Holmes Report, is an independent monitor of global PR.

Market Overview

The UK advertising market grew by 2.6% in 2005 to £19 billion (Source: The UK Advertising Association). Growth is forecast to accelerate in 2006 and 2007 to 3.9% and 5.3% respectively (Source: The UK Advertising Association). An equivalent amount is spent on marketing communications in areas such as public relations, public affairs, sales promotion, market research, events and sponsorship.

The industry is evolving rapidly to the challenges and opportunities of the digital revolution. As a result revenue growth rates vary from discipline to discipline:

- Public Relations consultancies are enjoying significant growth with 70% of the top 150 consultancies posting fee growth in double digits for 2005 (PR Week). Traditionally, marketing spend in Public Relations has been a small fraction of total advertising spend. It is the Board's opinion that marketing budgets are moving to public relations activity in response to the proliferation of communication channels and the effect of the internet. The communication channels are moving from mass-market broadcasting to niche market interaction. This allows the consumer voice to be heard and new services like online reputation monitoring can be offered.

- Public Affairs, which is classified as a sub-sector of PR, is aimed at forging links between the corporate and political sectors. The discipline is relatively new in Europe with scope for significant growth. Core services include representing clients and providing them with advice concerning regulatory and legislative issues. Growth is also fuelled by services like public procurement consulting.
- On average, Direct Marketing budgets were revised higher by client companies in Q2 of 2006 (source: July 2006 Bellwether Report). Direct marketing spend in the UK was £17 billion in 2005 (source: Direct Marketing Association).
- The July 2006 Bellwether report showed further strong growth for internet marketing in Q2 of 2006 with 24.4% of companies increasing their internet marketing budget. The latest figures from the Internet Advertising Bureau, in the first half of 2006 online advertising totalled almost £1 billion and accounted for 10.5% of total advertising expenditure in the period.
- The Opera Economic and Media Forecast 2006 shows online as the third largest market by volume behind TV and press. TV has seen its share of the advertising market fall by 8% in the past decade and press by 13%. Within TV the media spend is now spread over more TV channels. TV is also vulnerable to time shift technology which will allow consumers to skip over advertisements.

Hasgrove is focussed on growth areas including public affairs, public relations and digital. The Board also believes that it has an opportunity for high growth within its design offering. The diversity of the Group provides many synergy opportunities for revenue growth.

Strategy

The Board believes that its strategy will enable it to build a group that is capable of capitalising on the changing world of communications. Hasgrove intends to create value for shareholders through a combination of organic growth and selective acquisitions. Hasgrove's strategy can be summarised as follows:

- to expand its European operations
- to be brand leaders in high growth areas
- to acquire other 'Best of Breed' brands
- to generate revenue synergies throughout the Group

European Expansion

The acquisition of Interel provides a profitable platform for expansion into Europe. Hasgrove's European strategy is to build a hub based on the Interel offices in Brussels to be supported by a significant presence in key European capitals and a network of smaller offices and affiliates in other countries. It is anticipated that referrals will flow from this network to the hub and vice versa. The Board believes this strategy will allow Hasgrove to improve its offering to international clients.

It is the Board's opinion that Hasgrove can benefit from access to the market created by the many multinational European headquarters being established in Brussels.

Brand Leaders In High Growth Areas

Hasgrove focuses on sectors in which it is or is capable of becoming a leading brand. By operating in niche areas Hasgrove has established a blue chip client base which provides a number of growth opportunities.

Acquisitions of Best of Breed Brands

The areas in which the Group operates remain highly fragmented and there are still numerous independent communications and marketing services companies both in the UK and Continental Europe that may provide acquisition opportunities. Throughout the Group there is an emphasis on creativity and giving the local management the opportunity to grow in an environment supported by the Hasgrove board. The Board believe that this represents an attractive option for ambitious acquisition targets.

Hasgrove was established with a 'buy and build' strategy and has completed seven acquisitions to date. Hasgrove intends to create value for shareholders through a combination of organic growth and selective acquisitions. The Directors are currently investigating a number of high quality targets and expect that a number of the opportunities should complete within nine months of Admission.

Revenue Synergies

The Board has implemented a number of initiatives to drive revenue synergies, including joint pitches, cross referrals, cross discipline co-operation and the introduction of new products and services, such as search engine optimisation.

Reasons for Placing and Admission

The Group is raising £5.4 million (net of expenses) pursuant to the Placing to fund anticipated acquisitions.

Directors and management of the Group

The Group has experienced management at both holding and operating company level. At the holding company level there is substantial experience in acquisitions, fiscal control and corporate governance. At the operating level, senior management have many years of experience of growing profitable communication and marketing services companies. The Group's management is actively working together to encourage cross referral and other synergy benefits.

Godfrey Taylor (53), Chairman and Non-executive

Godfrey was the Senior Partner of Deloitte & Touche LLP (and formerly Arthur Andersen) in Manchester from 1997 to 2003 with responsibility for 30 partners and 700 personnel. Godfrey branched out into his own enterprises, developing property and sports interests. Godfrey was a founding director of Hasgrove (November 2004).

Rod Hyde (57), Chief Executive

Rod is responsible for delivering the Board's strategy and is actively involved in acquisitions, integration and fund-raising. Rod spent his early career at ICI in various design and management roles. He then founded and managed a successful flight simulation games company that he sold in 2000. Since then Rod has been involved in corporate finance activities, specialising in the technology sector. He has raised capital for clients and has advised venture capitalists by undertaking due diligence and "company doctor" roles. This work has included running large web-based market services operations. Rod was a founding director of Hasgrove (November 2004).

Rob McLoughlin (47), Deputy Chairman

Rob is an award winning TV presenter and producer. He is a former director of Granada Television and he has created and produced programmes for channels across the UK and abroad, including ITV, BBC, Channel Four, Discovery and many others. He has presented news, current affairs and other programmes for ITV Granada since the 1980s and now hosts 'Party People' on the channel. Rob was a founding director of Hasgrove (November 2004).

Paul Sanders (42), Group Finance Director

Paul is a member of the Institute of Chartered Accountants in England and Wales. Paul has been finance director of a number of public and private companies, including SSL International plc and Baltimore Technologies plc and was also acting CEO of the latter. He has been involved with Hasgrove for 12 months.

Stephen Rodgers (50), Non-executive Director

Stephen began his career in advertising as a junior creative, before working through the disciplines of print buying, media and account handling. In 1990 Stephen joined the board of Brunnings, an advertising agency in Manchester, which he then left in 1993 to found Connectpoint, a specialist creative agency, which soon flourished into an integrated marketing services agency offering advertising, public relations and digital services.

Jean-Léopold Schuybroek (58), President of Interel and Non-executive Director

Jean-Léopold was a founding partner of Interel. He is past President of ICCO, the worldwide public relations consultancy association, and of ABCRP, the Belgian association of public relations consultancies. He is currently a member of the executive committee of ICCO and Chairman of the membership and governance committee of ICCO. He is also one of the three members of the executive committee of the ABCRP.