Barrie Brien
Chief Operating and
Financial Officer

Delivering a solid year of growth during this economic climate bears testament to the quality and reputation of our companies and management teams

Financial Review

Financial Highlights

Despite a worsening UK economy for much of our financial year, the performance of the Group has been positive. Our key financial priorities during the year were to capitalise on the investments we made in our client offer in 2008, maintain our industry-leading margins and continue to reduce our debt and gearing levels. These have certainly been achieved and we enter the new financial year with good momentum.

In the financial year to March 2009, revenue increased by 4 per cent (2008: 8 per cent) to £83.8 million (2008: £80.5 million). This has been achieved through organic growth from existing clients and strong new business performance across the Group. Headline PBIT increased by 2 per cent to £15.6 million (2008: £15.2 million) and Headline Profit before Taxation (PBT) increased by 5 per cent to £14.2 million (2008: £13.5 million). Reported PBIT decreased by 3 per cent to £12.3 million (2008: £12.7 million) and Reported PBT increased by 5 per cent to £10.0 million (2008: £9.6 million). The difference between the respective movements in Reported PBIT and PBT is generated by the year-on-year volatility of the deemed remuneration and notional interest charges. A reconciliation between the Group's Headline and Reported results is presented in note 4 to the financial statements.

Key Performance Indicators

The Group continues to manage its operational performance through a number of key performance indicators (KPIs) and each of these remains in the upper quartile compared to the industry averages. Revenue per head increased by 1 per cent to £91,300 (2008 restated: £90,100); Headline PBIT per head remained high at £17,000 (2008 restated: £17,100); the Group achieved its third highest Headline PBIT margin at 18.6 per cent (2008: 18.9 per cent); and Headline DEPS grew by 9 per cent to 18.58 pence (2008: 17.01 pence). Reported DEPS grew by 40 per cent to 12.10 pence (2008: 8.64 pence). The 2008 per head KPIs have been restated to include freelance/non-permanent resource.

Cash flow performance

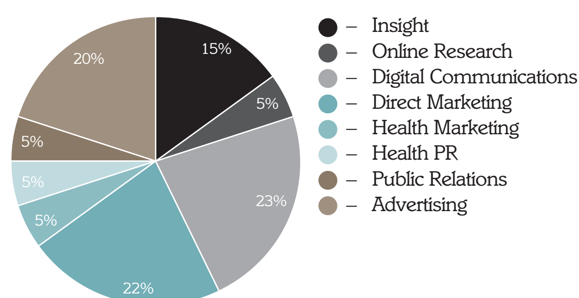
Due to the declining UK economy and the increased risk of bad debt, one of our financial priorities was to focus on our working capital balances and cash management. In this respect our performance has been strong with all companies managing their working capital in an efficient manner. Furthermore, the Group exceeded management's operating cash flow projection, thereby reducing the net debt levels.

In 2009, the Group delivered an increase in operating cash flow of 17 per cent to £20.8 million (2008: £17.8 million). The cash conversion ratio of Headline EBITDA to operating cash flow was 116 per cent (2008: 102 per cent), which is above management's long-term target of 95 per cent. Free cash flow (defined as operating cash flow having deducted taxation, net finance income/(cost), income from financial assets and capital expenditure) per share increased by 39 per cent to 26.56 pence (2008: 19.06 pence).

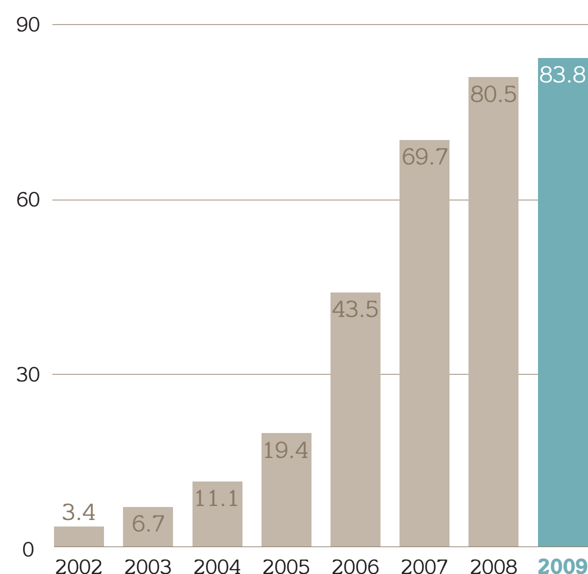
The Group's free cash flow of £14.5 million (2008: £10.6 million) plus the revolving credit facility were used to settle consideration liabilities due to DLKW (£13.9 million) and NBC (£1.4 million); bank repayments (£0.6 million); and dividends to shareholders (£1.4 million).

Capital expenditure for 2009 was £1.4 million (2008: £1.9 million) with the main categories of investment being in IT hardware and software plus minimal leasehold improvements.

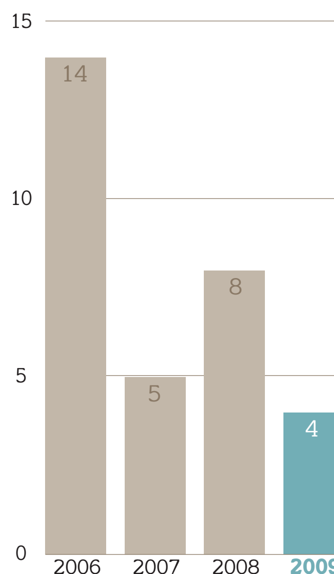
Group Revenue by Discipline

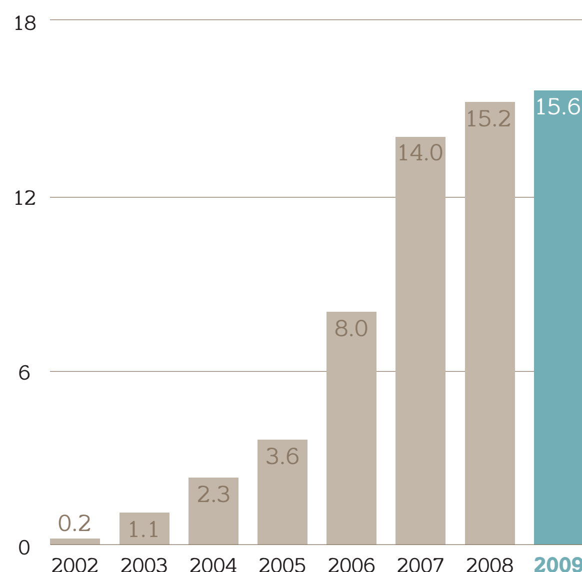


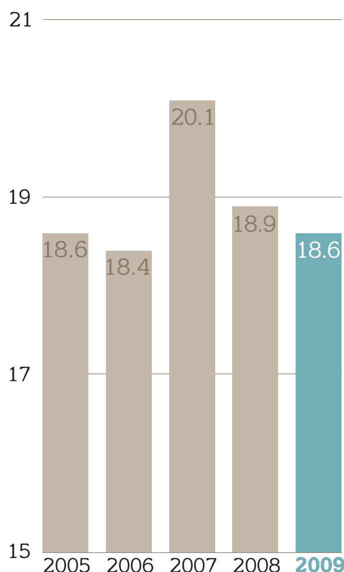
Group Revenue (£m)



Like-for-Like Revenue Growth (%)







The Group has grown revenue and profit, maintained industry-leading margins and KPIs and reduced total Headline debt by £8 million

Balance sheet, net debt and gearing

The balance sheet continued to strengthen during the year: total equity rose by £5.0 million to £87.9 million, generated by the increase in earnings; long-term liabilities reduced by £16.6 million; and working capital decreased to £3.0 million (2008: £6.8 million).

At 31 March 2009, the Group had reported net debt of £18.6 million (2008: £17.9 million), which represents a gearing level of 21 per cent (2008: 22 per cent) to total equity. Including deferred consideration of £22.3 million (2008: £29.5 million), the Group's total debt reduced to £40.9 million (2008: £47.4 million). On this basis the Group's gearing fell to 47 per cent (2008: 57 per cent).

The £0.8 million increase in net debt is due to the settlement in January 2009 of £13.9 million in respect of DLKW's final acquisition consideration, the majority of which was paid out of operating cash flow. The positive operating cash flow has continued post period end and resulted in a reduced net debt position of £13.7 million by 19 June 2009.

A primary objective of the Board is to continue to decrease the debt levels of the Group and the Board remains confident that between the strong cash flow performance and the agreed banking facility, the long-term liabilities are manageable with headroom in all banking covenants.

Headline Deferred Consideration

All remaining earn-out agreements ended as at 31 March 2009 and therefore the Headline deferred consideration (defined as the total balance due to vendors, being the reported balance at 31 March 2009 plus future deemed remuneration and notional finance costs, which will be charged to the income statement in 2010) is no longer contingent upon future profits.

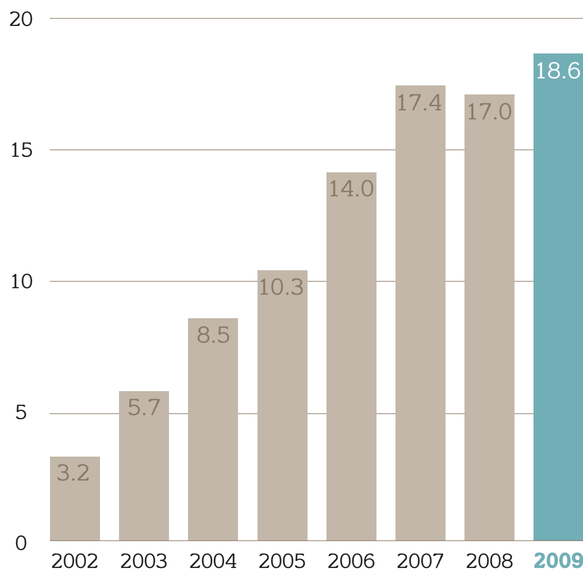
The total Headline deferred consideration is £23.0 million (2008: £31.6 million) and will be settled in a mixture of six and twelve-month loan notes that are redeemable in January 2010 and July 2010 respectively. The Group will utilise the £25 million revolving credit facility and the annual cash flow from operating activities (2009: £17.4 million) to finance its deferred consideration commitments. References to total Headline debt include the reported net debt balance and the Headline deferred consideration defined above.

Banking Facility and Covenants

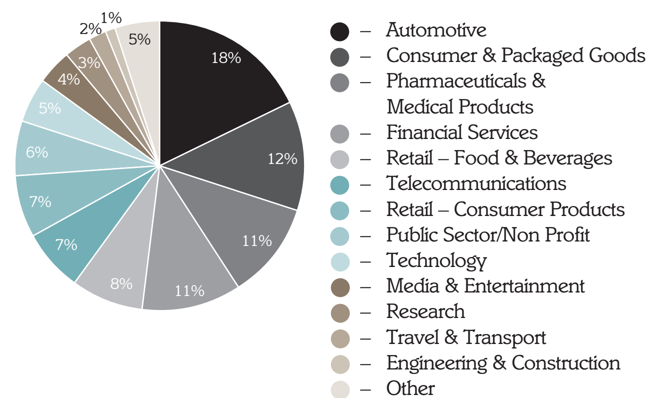
In June 2008, the Group agreed a revised £40 million banking facility, which is made up of a £15 million term loan amortising until 31 March 2011 and a £25 million revolving credit facility available until 31 March 2012. At the year end, £7 million had been drawn from the revolving credit facility and as

Financial Review continued

Group Headline DEPS (pence)



Group Revenue by Industry Sector



at 19 June 2009 before the preliminary announcement this had been repaid, so there were no funds drawn against the facility. There are three banking covenants and the Group maintains headroom under each of them.

Net finance costs

Headline net finance costs were £1.6 million (2008: £1.7 million). This decrease was driven by the positive cash performance of the Group during the year plus the reduction in LIBOR. The average margin over LIBOR paid was 1.1 per cent during the year. Headline net finance costs were covered 11 times (2008: 10 times) by Headline EBITDA. The reported net finance cost was £2.4 million (2008: £3.1 million), which includes notional finance costs of £0.9 million (2008: £1.4 million) relating to the future deferred consideration payments.

Effective tax rate

The Group's effective Headline tax rate was 29 per cent (2008: 30 per cent). The Reported effective tax rate was 34 per cent (2008: 50 per cent). The effective Headline tax rate decreased due to the reduction in the statutory corporation tax rate. The effective reported tax rate decreased as a result of a reduction in non-tax-allowable items such as notional interest and elements of deemed remuneration.

Basis of Headline results

Creston has presented Headline results as the key profit performance indicators because they eliminate the non-recurring charges incurred during the year and therefore, in the opinion of the Directors, provide a truer picture of the underlying ongoing operational performance of the Group year-on-year. The Headline results in 2009 exclude the following items (as detailed in note 4 to the financial statements):

1. Notional finance costs on future deferred consideration payments;
2. Future acquisition payments due to employees deemed as remuneration;
3. Non-recurring operational costs associated with discontinued operations and restructuring;
4. The impairment of a minority investment; and
5. Advisor fees on the aborted offer for the company in October 2008.

Summary

The results for the March 2009 financial year represent a robust performance in a tough economic climate. The Group has made excellent progress against its financial and operational goals: it has grown revenue and profit, maintained industry-leading margins and KPIs and continued the ongoing reduction in its total Headline debt levels by a further £8 million.

The financial year has started with some high profile new business wins and the pipeline remains encouraging. These wins plus new clients gained in the second half of the financial year are providing good visibility of future earnings. Our financial priorities are to continue the reduction in gearing levels, closely manage our cost base, to maintain our industry-leading KPIs and to grow organically.

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Chief Operating and Financial Officer