

# Parity Group plc

## Interim results

For the 6 months ended 30 June 2007

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# Agenda

## **H1 Headlines**

Summary

Check on 2007 Priorities

## **Financial Review**

## **Business Unit Headlines**

## **Outlook**



# H1 Highlights

- Recovery firmly on track with good improvement across the business
- All business units delivering operating profit in H1
- Revenue growing strongly in (higher margin) areas of focus
- Continued SG&A cost management
- New Chairman and Finance Director
- Investing in new *offerings* and infrastructure
- Step change improvement in staff morale



# Check on 2007 Priorities

- Maintain current focus
  - ◆ Build up higher margin business (Permanent, Spot, PS) √ √
  - ◆ Sustain strong delivery record, and build strong position in Microsoft MOSS market. √ √ √
  - ◆ Accelerate growth of soft skills (PPM, ITIL) public courses and training programmes √ √ √
  - ◆ Build annuity revenue streams in all businesses √ √
- Sustain internal focus on SG&A cost, back office productivity √ √
- Retain and grow key skills, whilst maintaining a high performance culture √ √ √
- Keep strong cash focus, with selective modest investments to reduce cost √ √



# H1 Financial Headlines

- Revenue up 15% to £84m for continuing operations (H1 2006: £73m)
- Adjusted\* operating profit £2.0m (H1 2006: £250k).
- Profit before tax from continuing operations £1.1m (H1 2006: loss £1.3m).
- Profit before tax £1.2m (H1 2006: £0.6m).
- EPS from continuing operations 1.12p (H1 2006: loss 6.95p).
- EPS 1.44p (H1 2006: 3.13p).
- Net Debt of £9.3m (December 2006: £5.7m) due to working capital timing.

\* Adjusted operating profit excludes the cost of share-based compensation



# H1 2007 P&L

| £'000  | H1 2007 | H1 2006 | FY 2006 |
|--|---------|---------|---------|
| Revenue  | 83,930  | 73,018  | 156,845 |
| Operating profit loss before exceptional items | 1,741   | 244     | 1,377   |
| Exceptional Items                              | -       | (600)   | (600)   |
| Operating profit (loss) after exceptionals     | 1,741   | (356)   | 777     |
| Finance costs                                  | (655)   | (961)   | (1,551) |
| Profit (loss) before tax                       | 1,086   | (1,317) | (774)   |
| Tax (charge) credit                            | (663)   | 81      | (197)   |
| Profit (loss) from continuing operations       | 423     | (1,236) | (971)   |
| Discontinued operations                        | 123     | 1,793   | 1,804   |
| Profit for the period                          | 546     | 557     | 833     |



# Balance Sheet

£'000

|                                   | H1 2007         | FY 2006         | H1 2006         |
|-----------------------------------|-----------------|-----------------|-----------------|
| Goodwill                          | 7,116           | 7,116           | 7,116           |
| Property, plant & equipment       | 1,544           | 615             | 697             |
| Deferred tax asset                | 4,269           | 5,102           | 5,160           |
| Assets held for sale              | 0               | 0               | 30              |
| <b>Non-current Assets</b>         | <b>12,929</b>   | <b>12,833</b>   | <b>13,003</b>   |
| Work in progress                  | 776             | 998             | 1,146           |
| Trade & other receivables         | 42,301          | 39,494          | 34,572          |
| Cash & cash equivalents           | 1,014           | 736             | 1,785           |
| <b>Current Assets</b>             | <b>44,091</b>   | <b>41,228</b>   | <b>37,503</b>   |
| <b>Total Assets</b>               | <b>57,020</b>   | <b>54,061</b>   | <b>50,506</b>   |
| Trade & other payables            | (27,664)        | (28,687)        | (24,092)        |
| Current tax liabilities           | (72)            | (201)           | (252)           |
| Provisions                        | (2,633)         | (3,046)         | (3,846)         |
| Pension liability                 | (4,318)         | (4,703)         | (4,620)         |
| <b>Liabilities excl Financing</b> | <b>(34,687)</b> | <b>(36,637)</b> | <b>(32,810)</b> |
| Financial liabilities             | (10,320)        | 6,395           | (6,597)         |
| <b>Total Net Assets</b>           | <b>12,013</b>   | <b>11,029</b>   | <b>11,099</b>   |



# Cash Flow & Net Debt

£'000

|   | H1 2007        | FY 2006        | H1 2006        |
|---|----------------|----------------|----------------|
| Group EBITDA (continuing operations) before excep items | 2,202          | 1,346          | (53)           |
| Working Capital Movement                                | (3,309)        | 1,750          | 857            |
| <b>Group Operating Cash Flow</b>                        | <b>(1,107)</b> | <b>3,096</b>   | <b>804</b>     |
| Interest  | (255)          | (865)          | (615)          |
| Tax   | 0              | 0              | 0              |
| Capital Expenditure                                     | (1,099)        | (272)          | (74)           |
| <b>Group Free Cash Flow</b>                             | <b>(2,461)</b> | <b>1,959</b>   | <b>115</b>     |
| Net cash flow from discontinued activities              | 153            | (3,272)        | (3,293)        |
| Proceeds on disposals                                   | -              | 4,720          | 4,649          |
| Pension Payments  | (450)          | (793)          | (396)          |
| Exceptional Cash Flows                                  | (368)          | (3,535)        | (1,371)        |
| New Share Issue   | 69             | 14,599         | 14,634         |
| Forex (gain) / loss                                     | 10             | (285)          | (98)           |
| Performance bond  | (600)          | 0              | 0              |
| <b>Net Change in Group Cash</b>                         | <b>(3,647)</b> | <b>13,393</b>  | <b>14,240</b>  |
| Net Debt at period end                                  | <b>(9,306)</b> | <b>(5,659)</b> | <b>(4,812)</b> |



# Business Unit Revenue & Profit Analysis

| £'000                      | H2 2005       | H1 2006       | H2 2006       | H1 2007       | FY2006         | H107-<br>H106 | H107-<br>H206 |
|----------------------------|---------------|---------------|---------------|---------------|----------------|---------------|---------------|
| <b>Revenue</b>             |               |               |               |               |                |               |               |
| Resources                  | 47,774        | 53,737        | 60,780        | 58,538        | 114,517        | 8.9%          | (3.7)%        |
| Solutions                  | 10,440        | 10,058        | 13,864        | 16,164        | 23,922         | 60.7%         | 16.6%         |
| Training                   | 9,607         | 9,223         | 9,183         | 9,228         | 18,406         | 0.0%          | 0.5%          |
| <b>TOTAL</b>               | <b>67,821</b> | <b>73,018</b> | <b>83,827</b> | <b>83,930</b> | <b>156,845</b> | <b>14.9%</b>  | <b>0.1%</b>   |
| <b>BU Operating Profit</b> |               |               |               |               |                |               |               |
| Resources                  | 1,058         | 1,401         | 1,309         | 1,191         | 2,710          | (15.0)%       | (9.0)%        |
| Solutions                  | (14)          | 73            | 705           | 1,462         | 778            | 1902.7%       | 107.4%        |
| Training                   | (466)         | 94            | 214           | 350           | 308            | 272.3%        | 63.6%         |
| <b>TOTAL</b>               | <b>578</b>    | <b>1,568</b>  | <b>2,228</b>  | <b>3,003</b>  | <b>3,796</b>   | <b>91.5%</b>  | <b>34.8%</b>  |
| <b>Central Costs</b>       | (1,341)       | (1,324)       | (1,095)       | (1,262)       | (2,419)        | (4.7)%        | 15.3%         |
| <b>Operating Profits*</b>  | <b>(763)</b>  | <b>244</b>    | <b>1,133</b>  | <b>1,741</b>  | <b>1,377</b>   | <b>613.5%</b> | <b>53.7%</b>  |



# Solutions Headlines

- Good progress on key Northern Ireland Electric Programme: due to complete current phase during Q3
- Major investment in skills to support Parity position as early implementer of Microsoft Sharepoint 2007 (MOSS)
- Won and delivering several MOSS projects including launch portal for CEHR
- Good delivery and account development in key accounts (eg BAT, Charity Commission, Invest NI, Cabinet Office)
- Very good sequential revenue growth from early 2006 onwards
- Hiring management, technical and sales staff to support and deliver growth
- Operating within target margins in H1 2007



# Resources Headlines

- Business won with over 50 new clients, as the business focuses on smaller, higher margin contracts
- Two large, low margin clients ended during H1 07 leading to slightly lower sequential revenue
- Pricing pressure in Public Sector, but focus on key skills is helping increase selling margins in Q2 and beyond
- Significant investment in higher margin activities, expected to show returns in H2
  - ◆ Open markets team of 8 targeting SAP market
  - ◆ Dedicated Permanent recruitment operation
  - ◆ Recruitment of new heads for these two operations
- Transition to higher margin business underway, with focus on profitability through high demand, specialist skills



# Training Headlines

- Continued process of focus on higher margin products:
  - ◆ Project and Programme Management (Prince 2 etc.)
  - ◆ Service Management (ITIL3)
  - ◆ Training consultancy and programmes
  - ◆ >30% growth compared to H1 06 in these areas
- Exited delivery of technical training
  - ◆ Delivery through third parties
  - ◆ Staff exit or transfer to new products and Solutions delivery
- Key accounts delivering well (eg HBOS extended, new services) and large new accounts opened (eg Barclays)
- Investing in new and improved products, and building consulting capability
- Steady profit improvement due to revenue mix and cost control: will continue for the next year



# H2 Outlook & Priorities

- Overall markets showing modest growth
  - ◆ Skills areas on which we focus remain in good demand
- Maintain strong focus on business improvement
  - ◆ Deliver margin improvement in Resources
  - ◆ Consolidate growth in Solutions, and maintain margins
  - ◆ Continue mix change in Training and keep tight cost focus
  - ◆ Keep G&A costs under good control
- Continue to invest in people, and plan IT systems changes
- Tighten-up working capital management: cash generation
- Work on medium-term strategic focus
- Deliver budget and meet market expectations
  
- Well-positioned to continue sustained performance improvement



# Summary

- Continued to deliver against overall recovery plan in H1 2007
- Maintaining focus and operating priorities
- Investment in people, infrastructure and offerings

