

# **Businesspost** **Group plc**

21 May 2009

## **BUSINESS POST GROUP PLC PRELIMINARY RESULTS FOR THE YEAR ENDED 31 MARCH 2009**

### **Highlights**

- Group revenues up 7.6% to £386m (2008: £359m)
- UK Mail revenues up 19.8% to £164m (2008: £137m)
- Profit before tax (before exceptional items) up 23.2% to £17.5m (2008: £14.2m)
- Pre-tax exceptional charges of £1.1m (2008: £nil)
- Profit before tax up 15.5% to £16.4m (2008: £14.2m)
- Proposed final dividend of 10.8p per share (2008: 10.8p)
- Strong balance sheet with net cash balances at year end of £9.5m (2008: £6.2m)

Guy Buswell, Chief Executive of Business Post, said:

"We have again made good progress in the year, despite the challenging trading environment in the second half. We have reacted quickly to the changing conditions, reducing our cost base further which helped us to deliver another significant improvement in financial performance.

UK Mail achieved good revenue and profit growth, and further increased its market share. Parcels profits increased with reduced operating costs more than offsetting the impact of lower revenues, and here also we grew market share. Specialist Services also performed well.

Over the past three years, Business Post's performance has been transformed and we are now the UK's leading independent integrated postal group. Our aim now is to consolidate this position, using our highly efficient and integrated network to drive profitable revenue growth.

Trading in the early weeks of the new financial year has been in line with management expectations. Whilst there have been some tentative signs of an improvement in market conditions, it is too early to discern any sustainable trend. However, our business model and strategy, underpinned by a strong balance sheet, are proving resilient in the current economic climate. We are encouraged by our performance to date and are confident of the Group's ability to continue to outperform the markets in which we operate."

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## **INTRODUCTION**

The Group has again made good progress in the year, despite an increasingly challenging trading environment in the second half. We have reacted quickly to the changing economic conditions to reduce our cost base further, whilst continuing to improve customer service and grow our market share.

UK Mail has achieved good growth in revenues and profit, driven by new business wins and further mail volumes from existing customers. We continue to make significant gains in market share, and to develop innovative new products to increase the proportion of the market available to us.

Parcels revenues are down on the previous year, reflecting the difficult economic environment in the second half, although we are confident that we outperformed the market. Parcels profits increased on last year as we have reduced our operating costs, more than offsetting the impact of the lower revenues. After three years of rigorous management action, the Parcels business is now a highly effective and competitive player in the market, with its operating margin improved by 0.9% to 9.5% in the year.

Revenues and profits in Specialist Services were up significantly on last year, with new national contracts driving a strong improvement in our Courier business, and a lower cost base delivering significant margin improvement.

Overall we have achieved a further significant improvement in financial performance against the prior year. Group revenues grew by 7.6% to £385.7m and profit before tax at £17.5m (before exceptional charges of £1.1m) was 23.2% up on last year (2008: £14.2m). At the year end, net cash balances had increased to £9.5m (2008: £6.2m).

Adjusted basic earnings per share, which exclude the impact of the exceptional items, increased 26.1% to 22.7p (2008: 18.0p). Basic earnings per share decreased 5.0% to 17.1p (2008: 18.0p).

*References to operating profit/margin throughout this report are excluding exceptional items.*

## **STRATEGIC PROGRESS**

Over the past three years, the operational and financial performance of Business Post has been very successfully transformed. We have effected wholesale changes to the operational management teams; we have reversed the structural and operational weaknesses in the Parcels business and turned it into a business delivering market leading performance; we have built UK Mail into a clear market leader; we have created an integrated business model both in terms of our network and our business development processes; we have achieved significant reductions in our cost base whilst improving our customer service levels; and we have delivered margin improvement across the group.

As a result, Business Post has become the UK's leading independent integrated postal group.

Our aim now is to consolidate this position. We are focused on ensuring that our network continues to operate at the highest levels of efficiency, and on using that integrated network to drive profitable revenue growth. We will achieve this by developing innovative new products and services, and by capitalising on our leadership and differentiated positioning to increase both the size of the market available to us and our share of that market, regardless of the trading conditions.

## RESULTS

The results can be summarised as follows:

	<b>2009</b>	Year to 31 March 2008	Inc/(Dec)
	<b>£m</b>	£m	%
Group revenue	<b><u>385.7</u></b>	<u>358.6</u>	<u>7.6%</u>
Operating profit (before exceptional items)	<b>17.7</b>	14.5	22.1%
Exceptional items	<b>(1.1)</b>	-	-
Operating profit	<b><u>16.6</u></b>	<u>14.5</u>	<u>14.5%</u>
Net finance costs	<b>(0.2)</b>	(0.3)	33.3%
Profit before tax	<b><u>16.4</u></b>	<u>14.2</u>	<u>15.5%</u>
Taxation	<b>(7.1)</b>	(4.5)	(57.8%)
Profit after tax	<b><u>9.3</u></b>	<u>9.7</u>	<u>(4.1%)</u>
Basic earnings per share	<b>17.1p</b>	18.0p	(5.0%)
Adjusted earnings per share (before exceptional items - note 2)	<b>22.7p</b>	18.0p	26.1%

Revenue and operating profit are analysed as follows:

	Revenue			Operating Profit		
	<b>2009</b>	2008	Inc/ (Dec)	<b>2009*</b>	2008	Inc/ (Dec)
	<b>£m</b>	£m	%	<b>£m</b>	£m	%
Parcels	<b>172.3</b>	179.8	(4.2%)	<b>16.4</b>	15.4	6.5%
Mail	<b>164.5</b>	137.3	19.8%	<b>11.6</b>	10.0	16.0%
Specialist services	<b>48.9</b>	41.5	17.8%	<b>2.5</b>	1.3	92.3%
Total	<b><u>385.7</u></b>	<u>358.6</u>	<u>7.6%</u>	<b><u>30.5</u></b>	<u>26.7</u>	<u>14.2%</u>
Central costs				<b><u>(12.8)</u></b>	<u>(12.2)</u>	<u>(4.9%)</u>
Operating profit (before exceptional items)				<b><u>17.7</u></b>	<u>14.5</u>	<u>22.1%</u>

\*Before exceptional items

### Parcels

Revenues in Parcels, which comprises the Group's business-to-business, business-to-consumer and international parcel delivery service, were down 4.2% for the year to £172.3m (2008: £179.8m). Revenues showed good growth in the first half, but were down in the second half reflecting the increasingly difficult economic environment. However, operating profit increased by 6.5% to £16.4m with the operating margin increasing by 0.9% to 9.5% as our operations continued to achieve high levels of efficiency, enabling us to reduce our operating costs. The UK express parcels market as a whole declined significantly during the second half and we are therefore confident that we have gained market share, through a strong sales effort combined with a low cost network which allows us to win profitable business in competitive tenders.

We continue to be successful in attracting significant new corporate customers, including a large premium service B2C contract for a leading UK high street retailer, and a major B2B contract for one of the world's largest office supplies companies. At the same time, we see good growth opportunities in the Small & Medium Enterprise marketplace, to which our highly efficient and flexible network and systems are well suited.

At the start of the year we put in place plans to improve the efficiency and effectiveness of our Parcels operation, strengthening operational management at all levels, and introducing new mechanisms to plan and manage our operations to achieve challenging targets. As the economic situation worsened we acted quickly to reduce our cost base further, with a particular focus on our fixed costs. These actions included the closure of six sites, reducing the total to 52, a reduction in our vehicle fleet of some 15%, and a significant number of staff reductions.

These changes, which incurred an exceptional cost of £0.8m, a major factor in the overall exceptional cost of £1.1m, have been successful in that we have managed to substantially reduce our cost base whilst further improving service levels to customers.

We have actions planned to reduce our cost base still further. The main focus will be to implement partial automation into our network, which will yield significant efficiency savings, and on which we currently plan to invest some £2m in the coming year.

## **Mail**

UK Mail showed further good growth in both revenues and profit. As expected and as previously signalled, the rate of growth has moderated from the very high levels previously achieved, but the business enjoyed continued success in attracting significant new business as well as retaining and generating further mail growth from existing customers. As a result, revenues rose 19.8% to £164.5m (2008: £137.3m), and we now enjoy a market share, by volume of mail collected in the UK, of some 17%, compared to 11% a year ago.

UK Mail operating profits were up 16.0% to £11.6m, reflecting the good revenue growth offset by a slight decrease in the operating margin to 7.1% (2008: 7.3%).

Importantly, some 70% of our mail volume is based on delivering regular statements or statutory notifications and is therefore less exposed to fluctuations in levels of economic activity. However, the volume of other more discretionary mail, such as direct marketing material, has inevitably been impacted as a result of the economic slowdown.

The improvements in our overall network performance, together with increased focus on mail customer service, has led to further enhancements in our already industry leading mail service levels.

We continue to see good growth prospects for our mail business. The primary opportunities lie through existing customers providing us with more of their mail volumes, new customers being attracted to the services we currently offer, and the development of new products and services that will further increase the proportion of the total UK mail market available to us.

We have recently won three important new contracts with leading financial services organisations who are increasingly attracted to the efficiencies that we can offer. These contracts are in the process of being implemented and the resultant volumes will come on stream progressively during the first half of the year.

To date, we have offered business customers a two-day time-definite service, meaning that the available market to us is some 33% of the total UK postal market by volume. Recent and ongoing product innovation will open up new areas of the market for us and will further reinforce our position of market leadership.

'imail', launched late last year, is a next day or two-day mail service allowing customers of any size to electronically transmit mail items to our national network of mail centres where it is printed, enveloped and sent for next day delivery. imail is developing a growing customer base and we continue to introduce new facilities to the service to further improve the benefits it offers.

Our other product innovations - 'Disguised Mail', which involves the concealing of sensitive mail items as ordinary mail and 'Returned Mail', which provides efficient returned mail handling for our customers - continue to expand their customer base.

This and other planned product innovation will increasingly allow us to provide our customers with a wider range of mail solutions and efficiencies, whilst significantly differentiating ourselves from our competition.

Following publication of the independent Hooper Review of the UK postal services sector, the resultant Postal Services Bill is currently progressing through parliament. The Bill's proposals are designed to create a stronger and more efficient Royal Mail, an outcome that we believe will be of significant benefit to the UK mail industry as a whole.

### **Specialist Services**

Overall revenues in Specialist Services, comprising our nationwide palletised goods delivery service (UK Pallets) and same-day courier activities (UK Mail – Courier) increased by 17.8% to £48.9m (2008: £41.5m). Specialist Services operating profits increased by 92.3% to £2.5m (2008: £1.3m).

UK Pallets again performed well, with revenues up 1.3% for the year to £30.8m and good profit growth driven by improvements in the quality of the pallet network, management and marketing initiatives.

This business, like our parcels business, showed good revenue growth in the first half but the second half performance was impacted by the economic environment with revenues down. This performance was nonetheless ahead of the market, and this business is therefore also gaining market share.

Revenues in our Courier business increased significantly by 63.1% to £18.1m, with profit also well ahead. This reflects the successful implementation of our strategy to develop a nationwide network of couriers to allow us to win and effectively support national courier contracts. We commenced a number of new contracts in the period, and we see further opportunities to build on the advantages that our network gives us, and on our proven ability to support national contracts with high service levels.

Both our Specialist Services businesses have taken action to further reduce their cost base, and this has been a major factor in the increase in the operating margin to 5.1% (2008: 3.1%).

## **Exceptional items**

The Group reported total exceptional costs of £3.0m (2008: £nil).

Of this, £1.1m (2008: £nil) relates to the programme we instigated to reduce our cost base in the light of the changed economic environment. This programme involved a number of initiatives including reducing headcount and the closure of six sites, resulting in redundancy costs of £0.8m and property related costs of £0.3m.

The exceptional tax charge of £1.9m comprises the write-off of a £2.2m (2008: £nil) deferred taxation balance resulting from the phased abolition of the UK Industrial Building Allowances ('IBAs') following enactment of the Finance Act 2008, offset by £0.3m (2008: £nil) tax relief in respect of the exceptional restructuring costs referred to above.

## **Finance costs**

Net interest payable decreased to £0.2m (2008: £0.3m) largely due to the increase in net cash balances.

## **Cash Flow and Balance Sheet**

The Group has a very strong balance sheet with a net cash inflow £1.6m for the year, leading to net cash at the end of the year of £9.5m (2008: £6.2m).

Cash inflow from operating activities totalled £20.8m, including £0.8m of cash generated from improved working capital.

Capital expenditure for the period was £8.3m (2008: £5.6m). The capital expenditure for the period includes £3.7m on IT, as we continue to develop our systems infrastructure, and £3.7m on property, plant and equipment to support the growth of our business.

## **Dividend**

The Board has proposed an unchanged Final Dividend of 10.8p (2008: 10.8p) resulting in an unchanged total dividend for the year of 17.2p (2008: 17.2p). The total dividend for the year is covered 1.3 times by adjusted earnings (2008: 1.05 times).

The Final Dividend will be paid on 14 August 2009 to shareholders registered on 24 July 2009 with an ex-dividend date of 22 July 2009.

## **Taxation**

The taxation charge for the year includes a one-off charge of £2.2m, due to the write-off of deferred tax balances to reflect the withdrawal of Industrial Buildings allowances, following the enactment in July 2008 of the Finance Act 2008. This amount is non-cash.

## **Earnings per share**

Adjusted basic earnings per share, which exclude the impact of the exceptional items, increased 26.1% to 22.7p (2008: 18.0p). Basic earnings per share decreased 5.0% to 17.1p (2008: 18.0p).

## **CURRENT TRADING & OUTLOOK**

Our business model and strategy, underpinned by a strong balance sheet, are proving resilient in the current economic climate. After the successful implementation of change programmes over the past three years, we are now successfully building revenue streams across a broader base of activities and with a focus on longer term contracts in areas less directly exposed to levels of economic activity. We are well positioned to continue to develop our business and to benefit from further market share gains in all business areas.

Our plans and management actions are based on an assumption that economic conditions will remain challenging throughout the current financial year. We have identified further cost reduction initiatives, as well as a number of potential growth opportunities, to offset the volume impact of the recessionary conditions. The financial benefits of the recently awarded mail contracts will be felt progressively during the first half of the year.

Trading in the early weeks of the new financial year has been in line with management expectations. Whilst there have been some tentative signs of an improvement in market conditions, it is too early to discern any sustainable trend. However, we are encouraged by our performance to date and are confident of the Group's ability to continue to outperform the markets in which we operate.

## Consolidated Income Statement

for the year ended 31 March 2009

	2009 £m	2008 Restated* £m
Revenue	385.7	358.6
Cost of sales	<u>(332.4)</u>	<u>(310.5)</u>
<b>Gross profit</b>	<b>53.3</b>	48.1
Administrative expenses	<b>(36.7)</b>	(33.6)
<b>Operating profit before exceptional items</b>	<b>17.7</b>	14.5
Exceptional administrative items	<b>(1.1)</b>	-
<b>Operating profit</b>	<b>16.6</b>	14.5
Finance costs	<b>(0.5)</b>	(0.7)
Finance income	<b>0.3</b>	0.4
<b>Profit before taxation</b>	<b>16.4</b>	14.2
Taxation before exceptional items	<b>(5.2)</b>	(4.5)
Exceptional taxation items	<b>(1.9)</b>	-
Total taxation	<u><b>(7.1)</b></u>	<u>(4.5)</u>
<b>Profit for the year</b>	<u><b>9.3</b></u>	<u>9.7</u>
Basic earnings per share	<b>17.1p</b>	18.0p
Diluted earnings per share	<b>16.8p</b>	17.5p

\* See note 4

The profit for the financial year arises from the Group's continuing activities, and is wholly attributable to equity holders of the Company.

## Consolidated Balance Sheet

as at 31 March 2009

	2009	2008
	£m	£m
<b>ASSETS</b>		
<b>Non-current assets</b>		
Goodwill	9.5	9.5
Intangible assets	2.0	1.2
Investment properties	1.0	1.0
Property, plant and equipment	38.2	36.9
Deferred tax assets	0.7	0.5
	<u>51.4</u>	<u>49.1</u>
<b>Current assets</b>		
Inventories	0.2	0.3
Trade and other receivables	53.6	59.5
Cash and cash equivalents	18.0	16.4
	<u>71.8</u>	<u>76.2</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Borrowings	(1.7)	(1.7)
Trade and other payables	(52.8)	(56.4)
Current tax liabilities	(2.5)	(2.1)
Provisions	(0.6)	(1.2)
	<u>(57.6)</u>	<u>(61.4)</u>
<b>Net current assets</b>	<u>14.2</u>	<u>14.8</u>
<b>Non-current liabilities</b>		
Borrowings	(6.8)	(8.5)
Deferred tax liabilities	(3.4)	(1.0)
Provisions	(0.5)	(0.4)
	<u>(10.7)</u>	<u>(9.9)</u>
<b>Net assets</b>	<u>54.9</u>	<u>54.0</u>
<b>Shareholders' equity</b>		
Ordinary shares	5.5	5.5
Share premium	16.6	16.6
Retained earnings	32.8	31.9
<b>Total shareholders' equity</b>	<u>54.9</u>	<u>54.0</u>

## Consolidated Cash Flow Statement

for the year ended 31 March 2009

	2009 £m	2008 £m
<b>Operating activities</b>		
Cash generated from operations	25.6	25.7
Finance income received	0.3	0.4
Finance costs paid	(0.5)	(0.7)
Taxation paid	(4.6)	(3.9)
<b>Net cash inflow from operating activities</b>	<u>20.8</u>	<u>21.5</u>
<b>Investing activities</b>		
Proceeds from disposal of property, plant and equipment	0.1	0.2
Purchase of property, plant and equipment	(6.8)	(5.0)
Purchase of intangible assets	(1.5)	(0.6)
<b>Net cash outflow from investing activities</b>	<u>(8.2)</u>	<u>(5.4)</u>
<b>Financing activities</b>		
Dividends paid to shareholders	(9.3)	(9.3)
Repayment of finance lease liabilities	(0.7)	(0.7)
Net proceeds from issue of ordinary share capital	-	0.3
Purchase of Business Post shares by the ESOT	-	(1.0)
Repayment of borrowings	(1.0)	(1.0)
<b>Net cash outflow from financing activities</b>	<u>(11.0)</u>	<u>(11.7)</u>
<b>Net increase in cash and cash equivalents</b>	<b>1.6</b>	<b>4.4</b>
Cash and cash equivalents at the beginning of the year	<u>16.4</u>	<u>12.0</u>
<b>Cash and cash equivalents at the end of the year</b>	<u>18.0</u>	<u>16.4</u>

## Consolidated Statement of Changes in Shareholders' Equity

for the year ended 31 March 2009

	2009	2008
	£m	£m
<b>Shareholders' equity as at the beginning of the year</b>	<b>54.0</b>	53.5
Dividends paid to shareholders	<b>(9.3)</b>	(9.3)
Purchase of Business Post shares by the ESOT	-	(1.0)
Employees' share option scheme:		
- value of employee services	<b>0.9</b>	0.9
- proceeds from shares issued	-	0.3
Tax on items taken directly to equity	-	(0.1)
Profit for the year	<b>9.3</b>	<u>9.7</u>
<b>Shareholders' equity as at the end of the year</b>	<b><u>54.9</u></b>	<u>54.0</u>

## Notes to the Consolidated Financial Information

### 1 Segmental information

	2009 £m	2008 £m
<b>Revenue</b>		
Parcel services	<b>172.3</b>	179.8
Mail services	<b>164.5</b>	137.3
Specialist services	<b>48.9</b>	41.5
	<u><b>385.7</b></u>	<u>358.6</u>
<b>Operating profit</b>		
Parcel services - before exceptional items	<b>16.4</b>	15.4
- exceptional items	<b>(0.8)</b>	-
	<u><b>15.6</b></u>	<u>15.4</u>
Mail services - before exceptional items	<b>11.6</b>	10.0
- exceptional items	-	-
	<u><b>11.6</b></u>	<u>10.0</u>
Specialist services - before exceptional items	<b>2.5</b>	1.3
- exceptional items	<b>(0.3)</b>	-
	<u><b>2.2</b></u>	<u>1.3</u>
Central costs	<b>(12.8)</b>	(12.2)
	<u><b>16.6</b></u>	<u>14.5</u>

### 2 Exceptional items

	2009 £m	2008 £m
Operations restructure	<b>1.1</b>	0.7
FedEx termination costs	-	(0.7)
Exceptional taxation charge	<b>1.9</b>	-
	<u><b>3.0</b></u>	<u>-</u>

## **Operations restructure**

During the year ended 31 March 2008, the board approved a 3 year change programme, designed to both integrate the different parts of the Group more, and to improve the network infrastructure. This resulted in a number of structural changes in operational and sales management, and the regionalisation of customer care centres, the costs of which were £0.7m.

Further structural changes were made during the year ended 31 March 2009, including the closure of a number of owned and franchised operational sites (with relevant operations transferred to nearby locations), and the restructuring of some central functions. This resulted in one-off redundancy costs of £0.8m and property related costs of £0.3m.

## **FedEx termination costs**

Following the cessation of the contract from 30 April 2007 to act as FedEx's global service participant in the UK, anticipated exit costs of £1.3m were provided for, including one-off redundancy and management restructuring costs, vehicle livery removal, uniform replacement and legal expenses.

During the year ended 31 March 2008, a surplus provision of £0.7m was released, following a number of successful management initiatives, including redeployment of a number of staff, a phased roll-out programme of the new fleet complete with new livery, and a number of other locally driven site-based initiatives.

## **Exceptional taxation charge**

The exceptional taxation charge comprises a £2.2m write-off (2008: £nil) of a deferred taxation balance resulting from the phased abolition of UK Industrial Building Allowances ('IBAs') following enactment of the Finance Act 2008, offset by £0.3m (2008: £nil) taxation relief in respect of the exceptional operations restructuring costs included above.

## **3 Earnings per share**

Basic earnings per share have been calculated by dividing the profit for the year by the weighted average number of ordinary shares in issue for the year ended 31 March 2009 of 54,049,420 (2008: 54,068,346). Diluted earnings per share have been calculated by adjusting the weighted average number of ordinary shares for the effect of the exercise of share options, increasing the number of shares to 55,107,864 (2008: 55,480,127).

## **4 Restatement**

During the year the Group reviewed the categorisation of depreciation costs. As a result, £3.9m of depreciation cost which in the results for the year ended 31 March 2008 had previously been included in administrative expenses, has been re-classified within cost of sales, reflecting the purpose in which these assets are used.

## **5 General information**

The above figures have been extracted from the Group's full financial statements for the year ended 31 March 2009, which will be delivered to the Registrar of Companies. Those financial statements carry an unqualified audit opinion. They have been prepared in accordance with the Companies Act 1985 and International Financial Reporting Standards as adopted by the European Union. The accounting policies, which have been applied consistently to all the years presented, are set out in those financial statements. These extracts do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985.