

Freshwater UK PLC annual results

Freshwater enjoys another successful year despite difficult trading conditions

Financial Highlights

	2017	2016
Turnover	£4.52m	£5.05m
Revenue	£3.77m	£3.82m
EBITDA	£0.80m	£0.92m
Headline EBITDA	£0.80m	£0.91m
Operating profit	£0.72m	£0.84m
Profit before income tax	£0.72m	£0.81m
* ¹ Net cash flow from operating activities	£0.65m	£0.75m
Net current assets increased 31 %	£0.95m	£0.72m
Earnings per share	2.84p	3.17p

Proposed payment of a final dividend for 2016/17 of 1.10p, following interim dividend of 0.75p paid in May 2017. We are also proposing a special one-off dividend payment of 0.40p

*¹ Cash flows are stated before interest and tax.

Operational highlights

- A third consecutive year of over £800k EBITDA and a good set of results against a difficult economic background.
- Balance sheet continues to strengthen with net current assets, including the cash balance, up substantially on last year. We continue to operate debt free and with a strong credit rating.
- Dividend policy continued with a further £396k paid out to shareholders in 2016/17 (2015/16: £376k).
- Secured a place on the prestigious Government Communications Services Campaign Solutions procurement framework. Over 400 agencies applied to be on the framework and Freshwater was one of only 27 agencies to be appointed.
- Another strong performance in the Transport and Healthcare sectors with several new clients on board.
- Continued to win new projects through five Welsh Government supplier frameworks.
- On March 1st 2017 Steve Howell took leave of absence from his role as Chief Executive to take up a temporary role with the Labour Party. John Underwood stepped into the Chief Executive role, and Steve became a non-executive director of Freshwater. Although Steve has now finished working for the Labour Party, this arrangement remains in place due to Steve's writing commitments.

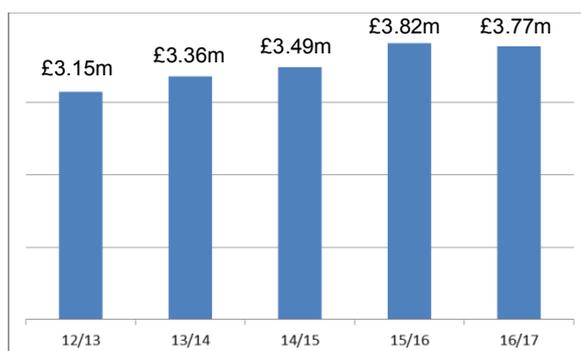
Chief Executive's and Chairman's statement

Introduction

We are pleased to report that Freshwater UK PLC has delivered another positive set of results and is continuing to deliver healthy profit margins, positive cash flow and an improving, debt-free balance sheet.

After four years of growth, revenue fell one per cent from £3.82m to £3.77m. The decrease was entirely due to a temporary reduction in delegate bookings for Waterfront Conference Company events following the 2016 EU referendum. Revenue in the consultancy divisions was at the same level as in the previous year, despite the generally difficult economic background. . EBITDA remained over £800k for the third year in a row.

Revenue



Revenue is now 20% higher than in 2012/13 when we started our organic growth drive. Our strategy of prioritising the London market along with the transport and healthcare sectors is working well as these sectors continue to form a substantial part of our revenue stream.

We offer a UK-wide service from our Cardiff and London offices, and in 2016/17 delivered projects across the country from the Isle of Wight to Edinburgh and from Anglesey to Colchester.

In 2016/17 we operated across six divisions each of which was led by a director. These directors, along with the group managing director, the finance director and head of Human Resources, form an effective senior management team responsible for day-to-day operations and delivery of budget targets.

As we moved into 2017/18 we refined our structure and created a dedicated events team and digital team as well as a group director level post dedicated to winning larger opportunities and developing new services and products.

Financial review

Revenue was slightly down in the year at £3.77M (2015/16: £3.82m) with operating profit of £0.72m (2015/16: £0.84m) and EBITDA (Earnings Before Interest Tax, Depreciation and Amortisation) of £0.80m (2015/16: £0.92m).

Uncertainty over the outcome of Brexit negotiations coupled with political uncertainty following the snap election in June 2017 made for difficult trading conditions during 2016/17. We saw a downturn in our conference division with overall delegate numbers down on the previous year and some projects delayed as clients contended with the impact of economic and political news.

EBITDA margin remains significantly above the public relations industry average at 21.3% (2015/16: 23.9%)

Cash flow from operating activities before tax and interest was £0.65m (2016: £0.75m). We closed 2016-17 with an increased cash balance of £0.55m (2016: £0.53m) after paying dividends of £0.39m and tax of £0.18m, including a partial prepayment for the year ahead in line with HMRC rules.

Freshwater's last bank loan was cleared at the beginning of 2015/16 and the business remains debt free. We retain a £0.10m unused overdraft facility with NatWest to provide added working capital headroom should it be needed. Overall, net current assets increased 31% to £0.95m (2015/16: £0.72m).

Freshwater's strong balance sheet means we retain a very strong credit score, which is a positive factor when we pitch for new business particularly in the public sector and with larger clients.

Dividend

The 2016/17 final dividend of 1.20p was paid on 20 January 2017, bringing the total for that year to 1.95p. This was followed by an interim dividend for 2016/17 of 0.75p, which was paid on 18 May 2017.

Given the uncertain economic and political environment described above the board is proposing a slightly lower 1.10p final dividend for 2016/17 (2015/16:1.20p), taking the total for the year to 1.85p (2015/16: 1.95p).

The board is also proposing a special one-off dividend payment of 0.40p. During the last 12 months we have received back from RBS a total of £85,413 in repaid charges and interest resulting from a claim we had made relating to unfairly high fees we incurred when we were in the process of restructuring our facilities in 2010/11

The combined interim and final dividend of 1.85p, plus the 0.40p special dividend makes a total of 2.25p. The interim and final dividend is covered 1.5x by the group's profit after tax for the year.

The 1.10p final dividend plus the 0.40p special dividend will be paid as a combined figure on 12 January 2018 to shareholders on the register on 15 December 2017.

Operational review

The group provided services to 148 clients during the year, with the top ten being: Thompsons Solicitors, Cumbria Success Regime, Welsh Government, Colchester Hospital University NHS Foundation Trust, Unite, Stadler, Specsavers, National Cancer Transformation Programme, Cavendish Square Group and Associated British Ports. The share of revenue of top ten clients combined was 76% compared to 65% in 2015/16.

Freshwater operated through six profit centres in 2016-17 with revenue divided as follows:

London Consultancy – 22%
Wales Consultancy – 17%
Healthcare (London) – 21%
Brand and Channel Consultancy (Cardiff) – 16%
Creative Media Production (Cardiff) – 12%
Training and Conferences (Waterfront - London-based) – 12%.

A large proportion of the revenue of the three Wales-based divisions comes from clients in London and other parts of the UK.

Freshwater employed 51 staff at the year-end, compared to 54 at the end of 2015/16. The company also uses the services of a number of consultants and freelancers for ad hoc projects. Our use of freelancers and consultants has increased in recent years to meet the needs of our clients both geographically and in terms of specialist skills. Freelance and consultant costs account for 7% of the company's total employment costs.

The average annual revenue per full time equivalent employee, including consultants and freelancers, was £79,041 (2015/16: £80,167). The average annual employee costs per full time employee, calculated on the same basis, were £42,844 (2015/16: £40,369).

The group's revenue continues to be broadly spread across the public, private, not-for-profit and conference/training sectors.

	2016/17	2015/16
Private sector	53.3%	45.1%
Public sector	31.7%	33.3%
Voluntary/not-for-profit sector	3.5%	8.5%
Conference and training sectors	11.5%	13.1%

The breakdown of company revenue by market/industry type reflects the priority we have given to healthcare, transport and the union/not-for-profit sector (which is included in professional & business services). Market breakdown was as follows:

	2016/17	2015/16
Professional & Business Services	43.4%	41.4%
Healthcare	27.5%	29.9%
Transport	13.9%	15.7%
Industry	0.6%	4.5%
Consumer & Retail	11.0%	3.8%
Education	1.9%	2.7%
Leisure & Hospitality	1.2%	1.0%
Housing & Property	0.5%	1.0%

Notable new business successes during the year included new work for Stadler, Henry Howard Finance, Van Sport, Gower College Swansea and several new NHS clients, as well as extensions to several current contracts including the Welsh Government's Positive Parenting campaign and the BT Superfast Broadband roll-out.

Freshwater was selected to join the Government Communications Services Campaign Solutions procurement framework. Over 400 agencies applied to be on the framework and Freshwater was one of only 27 agencies to be appointed.

Our conference company subsidiary (Waterfront) suffered a reduction in the number of delegates attending its conferences but it managed to deliver its best ever year for sponsorship sales. The division now has a very well established portfolio of around 30 annual policy conferences.

Waterfront also continues to provide an invaluable networking platform for the wider group in the policy fields on which it focuses: transport, energy and planning/infrastructure. With an increasing focus on sponsorship through 2016/17 it is now a strong generator of contacts and leads for the rest of the group.

A key element of our success has been the maintenance of high professional standards and investment in our staff. Freshwater has been accredited under the PRCA's Consultancy Management Standard for ten years and recently passed the latest audit with a high score. We are also accredited by the Living Wage Foundation, and we go into 2017/18 operating an internship scheme with two posts filled at the real Living Wage rate.

In February 2017, the Board announced that Steve Howell, the chief executive of Freshwater UK, was to take up a senior role with the Labour Party. Freshwater's deputy chief executive, John Underwood, has stepped in as chief executive and Steve will remain on the Freshwater Board as a non-executive director.

Marie Louise-Windeler stepped down from the board on the 31st May 2017 after almost nine years of service and we would like to take this opportunity to thank her for her valuable contribution to Freshwater and to wish her well for the future.

Outlook

Freshwater has been established now for just over 20 years and has been operating under the Freshwater brand for over a decade. It is one of the top UK agencies to be headquartered outside of London.

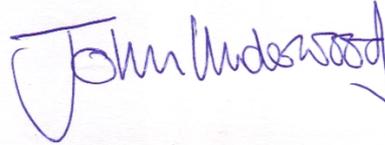
2017/18 will be a year of challenging trading conditions as we approach the UK's exit from the European Union but Freshwater's strong balance sheet, debt free position and record of above average performance means the company is well-placed to weather the difficulties of the period ahead. The board is particularly focussed in the coming year on reducing the company's reliance on a small number of large clients.

The company has for some time been actively engaged in succession planning, as evidenced by previously announced changes at board level.

It has a stable, committed and loyal workforce which continues to deliver high levels of creativity and value for our clients. The board wishes to express its thanks to our staff without whom the results of the past few years would not have been possible.



David Howell
Chairman



John Underwood
Chief Executive

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 AUGUST 2017**

	2017 £	2016 £
TURNOVER	<u><u>4,520,590</u></u>	<u><u>5,045,000</u></u>
REVENUE	3,772,883	3,823,459
Administrative expenses	<u>(3,051,129)</u>	<u>(2,981,354)</u>
OPERATING PROFIT	721,754	842,105
Finance income	9,349	1,427
Finance costs	<u>(7,811)</u>	<u>(29,389)</u>
PROFIT BEFORE INCOME TAX	723,292	814,143
Income tax expense	<u>(146,747)</u>	<u>(170,626)</u>
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u><u>576,545</u></u>	<u><u>643,517</u></u>
Basic earnings per share	<u><u>2.84p</u></u>	<u><u>3.17p</u></u>
Diluted earnings per share	<u><u>2.84p</u></u>	<u><u>3.17p</u></u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 AUGUST 2017**

	2017 £	2016 £
ASSETS		
Non-current assets		
Property, plant and equipment	198,752	242,638
Intangible assets	7,621,775	7,621,835
Deferred tax assets	-	-
	<u>7,820,527</u>	<u>7,864,473</u>
Current assets		
Cash and cash equivalents	553,384	527,463
Trade and other receivables	1,156,069	977,406
	<u>1,709,453</u>	<u>1,504,869</u>
Total assets	<u><u>9,529,980</u></u>	<u><u>9,369,342</u></u>
EQUITY		
Issued equity capital	2,030,849	2,030,849
Capital reduction reserves	6,338,700	6,734,715
Other reserves	20,000	20,000
Sustained profit	374,196	(202,349)
	<u>8,763,745</u>	<u>8,583,215</u>
LIABILITIES		
Non-current liabilities		
Deferred tax liabilities	3,157	4,939
Long term borrowings	-	-
	<u>3,157</u>	<u>4,939</u>
Current liabilities		
Trade and other payables	685,065	663,543
Short-term borrowings	-	6,441
Current tax	78,013	111,204
	<u>763,078</u>	<u>781,188</u>
Total liabilities	<u><u>766,235</u></u>	<u><u>786,127</u></u>
Total equity and liabilities	<u><u>9,529,980</u></u>	<u><u>9,369,342</u></u>

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 AUGUST 2017**

	2017 £	2016 £
Operating profit	721,754	842,105
Depreciation of property, plant and equipment	81,448	64,241
Amortisation of other intangible assets	60	17,799
Gains on derivative financial instrument		(21,433)
Net losses on disposal of fixed assets		11,605
Change in trade and other receivables	(178,662)	(210,774)
Change in trade and other payables	<u>21,522</u>	<u>46,266</u>
	646,122	749,809
Interest received	9,349	1,427
Interest paid	(7,811)	(29,389)
Income taxes paid	<u>(181,720)</u>	<u>(167,993)</u>
Net cash flow from operating activities	<u>465,940</u>	<u>553,854</u>
Proceeds from disposals of property, plant and equipment		9,500
Purchase of property, plant and equipment	<u>(37,562)</u>	<u>(100,122)</u>
Net cash flow from investing activities	<u>(37,562)</u>	<u>(90,622)</u>
Repayment of borrowings	(6,441)	(10,186)
Dividends paid	<u>(396,016)</u>	<u>(375,707)</u>
Net cash flow from financing activities	<u>(402,457)</u>	<u>(385,893)</u>
Increase in cash and cash equivalents	<u>25,921</u>	<u>77,339</u>
Cash and cash equivalents at the start of the period	<u>527,463</u>	<u>450,124</u>
Cash and cash equivalents at the end of the period	<u>553,384</u>	<u>527,463</u>