Financial review

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Mark Watford
Finance Director

Summary

2016 was another significant year for PTSG Group with continued substantial earnings and revenue growth. The six businesses acquired towards the end of 2015 were fully integrated and helped to deliver strong organic growth in both our Electrical Services and Access and Safety Divisions. To provide additional financial flexibility we increased the Revolving Credit Facility to £10m.

Another year of strong earnings and revenue growth

In 2016, we generated revenue of £39.2m (2015: £25.8m), an increase of 52% on a reported basis or 20% pure organic growth. It was pleasing to see Access and Safety return another strong performance, especially in the Cradle Installation businesses, with 39% underlying revenue growth. Electrical Services continued to grow well with an underlying increase of 11% whereas the High Level Cleaning business's revenue declined by 7% as we moved away from some of the lower margin cleaning contracts.

Gross profit was £20.3m (2015: £14.0), an increase of 45%. The gross margin was 51.8% (2015: 54.3%, which reflected a strong underlying performance offset by a change in mix, following the high growth in the lower gross profit orientated installation businesses.

Operating profit before adjusting items, was £7.9m (2015 £5.3m), up 49%. The adjusted operating profit margin was 20.1% (2015: 20.5%) which represents a reduction of 0.4% despite a 2.5% reduction in gross margin that resulted from the changed sales mix. The statutory operating profit was £3.1m (2015: £1.3m).

Profit before tax was £2.6m (2015: £0.8m) and incorporated £4.8m (2015: £4.2m) of adjusting items. These adjusting items were either one off or non-trading in nature and were mainly associated with share option costs granted to Directors and employees, contingent payments in relation to acquisitions and other rationalisation costs. The interest charge and other financing costs were £0.5m (2015: £0.4m). This increase was driven by an increase in our bank loan, to pay for the 2015 and 2016 acquisitions, and an increase in finance lease charges in line with the continued expansion in our employee and engineer base.

Adjusted earnings per share was 7.63p (2015: 4.87p) an increase of 57%. £1.1m of dividends were paid in 2016 and the Board is proposing a final dividend of 0.7p per share, which represents a 40% increase on the 2015 dividends paid. Statutory earnings per share was 2.61p (2015: 0.57p).

Net debt at 31 December 2016 was £13.6m (2015: £7.6m) which represents an increase from 29.5% of sales in 2015 to 34.6% in 2016. The increase in the reported number followed £1.8m of payments for acquisitions made in 2016, £0.9m of deferred consideration payments and an increase in working capital due to the substantial increase in the size of the Group. The £7m Revolving Credit Facility, taken out in 2015, was increased to £10m in the year to give us additional flexibility for the future. The terms and interest rates remained unchanged. In 2016 we saw some peaks and troughs in working capital as our installation business succeeded in a buoyant construction market. Our banking facilities provide the flexibility to manage these movements.

Acquisitions

The businesses acquired towards the end of 2015 have now been fully integrated into the Group. Although the challenges of integrating five businesses at once should not be under-estimated it is pleasing to report that this has gone well with all businesses integrated and generating good results.

We acquired two further businesses in July for a total consideration of £5.6m, £2.6m of which was deferred and is contingent on the continued employment of the vendor. These acquisitions enabled the Group to enter the Dry Risers market and enhance the offering we can give to our clients.

The financial rationale for these acquisitions was well founded with both of them paying back within the Group's investment hurdle. Our focus for these businesses is revenue growth, from offering their services to our existing customer base, whilst also driving gross margin improvement following implementation of the PTSG operating model.

Outlook

The cash generation and debt management of a fast growing business is a constant demand on our financial function; however, we face the future with confidence in our ability to manage these challenges.

We believe that the Group remains well placed to deliver our strategic priorities.

Mark Watford
Finance Director

28 March 2017

Key performance indicators

There are many financial and operating performance indicators regularly monitored by the Group; the primary financial performance indicators are:

REVENUE (£)

£39.2m +52%

2016 39.2m
2015 25.8m

GROSS PROFIT (£)

£20.3m +45%

2016 20.3m
2015 14.0m

OPERATING PROFIT BEFORE ADJUSTING ITEMS *

£7.9m +49%

2016 7.9m
2015 5.3m

PROFIT BEFORE TAX BEFORE ADJUSTING ITEMS*

£7.5m +49%

2016 7.5m
2015 £5.0m

ADJUSTED EARNINGS PER SHARE*

7.63p +57%

2016 7.63p
2015 4.87p

* before adjusting items of £4.7m (2015: £4.0m) resulting in a statutory operating profit of £3.1m (2015: £1.3m) and earnings per share of 2.61p (2015: 0.57p).