Strong financial growth

Mark Watford
Finance Director

Summary

2018 was another significant year for PTSG with continued substantial earnings and revenue growth.

The acquisition of Guardian Electrical Compliance Limited extended our market dominance in our Electrical Services division and the acquisition of M&P Fire Protection Limited enhances our offering in the Fire Solutions division. To provide additional financial flexibility and help fund the acquisitions £20m (pre expenses) was raised via the successful placement of new, ordinary shares.

Another year of strong earnings and revenue growth

Revenue grew by 31% in 2018 to £69.1m (2017 £52.9m) with 21% from acquisitions and a reported 10% from pure organic growth. We have previously explained that the revenue in the Cradle Installation division is lumpy in nature, with most of the turnover on these long-term contracts being recognised when the cradle is delivered and installed on site. This lumpy nature resulted in an abnormally high turnover for this division in 2017 and a more normalised turnover in 2018. Excluding the impact of these installations shows that the underlying organic growth rate of the Group was 19%.

Access and Safety's turnover was affected by this and as such reported a 14% year on year reduction; with the remainder of the Access and Safety division (excluding Cradle Installations) growing by 14%. Despite the lower turnover, the operating margin grew to 17% (2017: 15.8%).

Electrical Services' revenue grew by 53% to £30.8m and is now the largest division accounting for 45% of the Group's revenue. The revenue growth was aided by the Guardian acquisition and 17% pure organic growth – driven by strong growth in the Lightning Protection Testing and Electrical Testing divisions. The operating margin for this division was accretive to the Group at 23%.

Following the refocusing of the Building Access Specialist division in 2017, it returned to growth in 2018 with revenue up 4%. Operating margins increased from 22% to 24%.

Key performance indicators

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

Revenue

£69.1m

↑31%

2018	£69.1m
2017	£52.9m

Gross profit

£35.0m

↑29%

2018	£35.0m
2017	£27.1m

*before adjusting items of £10.5m (2017: £8.3m) resulting in a statutory operating profit of £4.4m (2017: £2.4m) and an EPS of 2.77p (2017: 1.37p).

Revenue in the Fire Solutions division grew by 114% to £15.3m, with organic growth at 65% predominantly due to the explosive growth in UK Sprinklers. Operating margin increased by 1 percentage point to 23%.

Turnover from recurring compliance and maintenance activities accounted for 51% of the total Group turnover (2017: 48%).

Gross profit increased by 29% to £35.0m (2017: £27.1m) with the gross margin, continuing to exceed 50%, at 50.6% (2017: 51.2%). The slight reduction against the prior year margin was due to mix and in particular the strong growth in the Fire Solutions division, which has a GP lower than some of the other divisions but whose operating margin is accretive for the Group. Gross profit from recurring compliance and maintenance activities accounted for 62% of the total Group gross profit (2017: 58%).

Operating profit before adjusting items grew by 40% to £14.9m (2017: £10.6m). The adjusted operating profit margin grew by 147bps to 21.6% (2017: 20.1%) with overhead leverage and strong cost control mitigating the slight gross margin reduction. The statutory operating profit was £4.4m (2017: £2.4m) 83% ahead of last year.

Profit before tax was £3.7m (2017: £1.8m) and incorporated £10.5m (2017: £8.4m) of adjusting items. These adjusting items were either not expected to recur or non-trading in nature and were mainly associated with share option costs granted to Directors and employees of £2.4m (2017:£3.0m), £5.8m of contingent consideration payments in relation to acquisitions (£2017: £3.5m), £0.8m amortisation of acquired intangible assets (2017: £0.4m); and £1.5m of restructuring costs associated with the recent acquisitions (2017 : £1.4m). It should be noted that in 2018 the Group achieved the final share options milestone and as a result these costs will not be incurred in future years. The contingent payments on acquisition are in accordance with our acquisition strategy in which we look to reduce risk by keeping initial consideration payments low and paying deferred consideration in future years against stretching profit targets, meaning these deferred payments are effectively self-financing. The current levels are expected to continue in the near future and will cover deferred consideration from the recent Trinity acquisition.

The interest charge and other financing costs were £0.7m (2017: £0.6m). This increase was driven by an increase in finance lease charges in line with the continued expansion in our employee and engineer base.

Adjusted earnings per share increased by 22 % to 11.86p (2017: 9.73p). £1.9m of dividends were paid during the year and the Board is proposing a final dividend of 0.9p per share. This represents a 13% increase on the 2017 dividends and is in line with our progressive dividend policy. Statutory earnings per share was 2.77p (2017: 1.37p).

Net debt

Net debt, excluding finance leases, had reduced to £11.9m as of the 31 December 2018 (2017: £18.3m), which, together with the 39% increase in EBITDA, meant that net debt had reduced to only 69% of EBITDA. The reduction in net debt was predominantly driven by a surplus from the share placing £7.2m and an improved underlying operating cash conversion of 72%. This was offset by deferred consideration payments of £1.8m, and enabled the Group to spend £1.9m on dividends, £1.6m on capital expenditure and increase its working capital in line with the substantial increase in the size of the Group.

Trade and other receivables increased by £5.4m to £35.8m with the two acquisitions adding £2.4m. The acquisitions adversely affect a number of the debtors' ratios because we acquired the full debtor book but only took a proportion of the year's turnover. That said, trade receivables and accrued income, at the reported level, only increased by 13% despite turnover increasing by 31%. Accrued income reduced by 14% to £8.4m with virtually all the 2017 balance collected in the year. Trade receivables increased by £5.2m, due to a strong Q4 trading performance, with all the increase in the less than 120 days category. The level of debt in the 120+day category (from date of invoice and not due date) fell by 590bps to 20.6% due to improved cash collection.

We have a long-term relationship with our bankers, HSBC, having been a customer for over ten years. HSBC has been very supportive of the Group enabling us to develop our facilities in line with our increasing profitability. Post year end, we announced an extension to our banking facilities with the Revolving Credit Facility, taken out in 2015, increasing to £30m and a £10m term loan, repayable over four years, being taken out. Both these new facilities will give us additional flexibility for the future and are provided with the same covenant testing, but improved interest margins, as the previous facilities.

Acquisitions

We acquired M&P Fire Protection Limited and Guardian Electrical Compliance Limited during the year for a total consideration of £19.5m, £6.5m of which was deferred and is contingent on the continued employment of the vendors and the achievement of stretching milestone targets.

These acquisitions had a significant impact on the closing balance sheet adding £8.6m to goodwill, £6.2m to intangibles and £0.2m to fixed asset.

Outlook

We believe that 2019 will be another year of substantial earnings and revenue growth driven by both organic and acquisitive growth. We are a well financed group and expect to make improvements to operating cash flow and net debt throughout the year. We believe that the Group remains well placed to deliver on our strategic priorities.

Mark Watford
Finance Director

26 March 2019

Operating profit before adjusting items*

£14.9m

↑40%

2018	**£14.9m**
2017	£10.6m

Profit before tax before adjusting items*

£14.3m

↑40%

2018	**£14.3m**
2017	£10.2m

Adjusted earnings per share (EPS)*

11.86p

↑22%

2018	**11.86p**
2017	9.73p