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Overview

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Revenue

Revenue increased by 26.0%, of which continental Europe accounted for a 34.4% increase and the UK a 8.7% increase. At constant exchange rates, revenue increased by 12.7%. This equates to an increase in revenue per working day of 12.0%, comprising 13.8% in continental Europe and 8.3% in the UK. The contribution from current and prior year acquisitions was £28.4 million to revenue.

Profit

The profit for the year before tax increased to £18.9 million (2007 £14.9 million). Profit before amortisation and after interest was £19.7 million (2007 £15.4 million).

Return on operating capital employed

The return on operating capital employed, based on operating profit before amortisation, was 25.7% (2007 24.9%) for the total group. Organic return on operating capital employed increased from 27.9% to 28.9%.

Goodwill

Goodwill in the balance sheet stands at £83.4 million at the end of the year (2007 £54.5 million). In 2008, goodwill increased by a net £10.2 million in respect of acquisitions, by £17.4 million due to exchange movements on goodwill held in foreign currencies, and by £1.3 million of final fair value adjustments to the goodwill on the acquisitions made in 2007. Impairment reviews have been performed in accordance with IAS 36 and no impairment has been identified.

Trading during the year

Profit from operations before amortisation, interest and tax ("underlying operating profit") increased by 31.6% to £26.2 million (2007 £19.9 million), of which £14.4 million was delivered in the first half and £11.8 million in the second half (see figure 10 opposite).

For the first half, continuing the strong growth momentum from 2007, revenue increased by £59.8 million resulting in an increase in underlying profit of £5.2 million. For the second half, reflecting a slowing in the rate of growth, revenue increased by £39.0 million resulting in an increase in underlying profit of £1.1 million.

Favourable exchange rates had a significant impact on the year's results contributing 13.3% to growth in revenue and 12.5% to growth in underlying operating profit.

Interest

The net interest charge for the year was £6.4 million (2007 £4.5 million) which included a discount unwind charge on deferred consideration of £0.4 million (2007 £0.2 million). Excluding the discount unwind charge the effective interest rate on average net borrowings was 7.2% (2007 6.9%) reflecting higher base rates in both sterling and euro interest rates in 2008 together with higher interbank margins. The margin over interbank rates paid by the group remained unchanged. Profit before tax, on ordinary activities before amortisation, covers interest by 4.4x compared to 4.6x in 2007.

Tax

The tax charge for the year of £5.9 million represents an effective rate of tax of 31.4% (2007 30.0%). This includes deferred tax charges on the amortisation of goodwill, primarily in Germany, and on the costs of share options. Going forward the effective rate is anticipated to remain at a similar level.

Figure ten – Trading during the year

	First half £m	Second half £m	Full year £m
2008			
Revenue	241.6	236.8	478.4
Underlying operating profit	14.4	11.8	26.2
2007			
Revenue	181.8	197.8	379.6
Underlying operating profit	9.2	10.7	19.9

Figure eleven – Cash flow

	2008 £m	2007 £m
Cash inflow from operating activities	29.2	16.7
Net capital expenditure (purchases net of disposals)	(4.4)	(4.9)
Operational cash generation	24.8	11.8
Acquisitions (including net debt acquired)	(8.4)	(15.2)
Deferred consideration	(1.4)	–
Tax	(4.2)	(2.4)
Interest, dividends, pension obligations and other	(10.6)	(9.6)
Purchase of own shares	(2.3)	–
Net proceeds from issue of shares	0.1	15.4
Increase in net debt	(2.0)	–
Opening net debt	(59.4)	(54.2)
Exchange	(22.6)	(5.2)
Closing net debt	(84.0)	(59.4)

Figure twelve – Net operating assets and financing by currency

	Net operating assets £m	Financing £m	Net assets employed £m
Sterling	3.9	6.9	10.8
Euro	116.9	(82.5)	34.4
Other	22.3	(8.4)	13.9
	143.1	(84.0)	59.1

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Cash flow

Net debt increased by £24.6 million from £59.4 million to £84.0 million – principally reflecting the exchange impact from the strengthening of the euro. At the year end net debt/EBITDA stood at 2.7 times (2007 2.5 times).

Cash inflow from operating activities of £29.2 million was up by £12.5 million from £16.7 million in 2007.

The strong operating cash generation included a working capital increase of £2.3 million, the lower absorption reflecting the slowing in the rate of sales growth. Working capital ratios all remained broadly unchanged.

Average net borrowings in 2008 were £78.5 million compared to £60.0 million in 2007 – principally reflecting the exchange impact.

Treasury

In November 2008 the group successfully renegotiated its €66 million 364 day revolving facility to be coterminous with its €99 million term loan so that fully committed facilities of €165 million are in place through to 28 February 2012.

The companies in the group account in their local currency, principally either sterling or euros and mostly trade within their domestic markets in their local currency. Where companies trade into export markets, this is generally in response to the requirements of domestic customers who trade globally.

The group does not enter into speculative currency transactions.

Net operating assets and financing by currency at 31 December 2008 were as illustrated in figure 12 on page 17.

Included in net operating assets is a pension fund liability primarily relating

to the UK scheme of £13.3 million (£9.6 million net of deferred tax) which in 2007 was £14.3 million (£10.3 million net of deferred tax). The fall in the market value of the schemes' assets, and expected returns thereon, has been offset by a reduction in the liabilities reflecting the higher discount rate used in the actuarial calculations. With effect from 1 March 2006, the UK scheme was closed to future accrual. The company paid £2.1 million in 2008 (2007: £2.0 million) by way of contributions to close the deficit and has currently agreed to pay £1.95 million per annum, indexed for inflation, in each of the years 2007 to 2017 (inclusive). A full funding valuation of the scheme will be carried out with an effective date of 31 December 2008.

Overall therefore, at 31 December 2008, £34.4 million of the group's net assets employed were held in euros, £10.8 million of net assets in sterling and £13.9 million net assets in other currencies. Net worth is £59.1 million (2007 £44.3 million).

The directors consider the group to have adequate resources to continue operations for the foreseeable future and therefore continue to use the going concern basis in the preparation of the financial statements.

We will continue to focus on generating cash to enable us to expand operations in Europe, organically and by acquisition.

Risks and uncertainties

The management of the business and the execution of strategy are subject to a number of risks and uncertainties.

Operational risks are assessed by Brammer subsidiaries. These are reviewed with appropriate mitigation considered by Brammer management. The Board reviews these assessments on a regular basis. A formal group-wide review of strategic risks is performed by the Board.

Appropriate processes and controls are also put in place to monitor and mitigate these risks.

The key strategic level risks affecting the group are as follows:

Slowdown of industrial activity greater than anticipated

The group has a well spread market and geographic presence and has concentrated growth activities in defensive sectors such as food and drink, utilities and fast moving consumer goods.

Withdrawal of a major supplier

Brammer represents major suppliers in a multibrand environment to its broad customer base. The relationship with strategic suppliers is mutually dependant and enhanced by our partnership approach to Key Accounts. Brammer is continuing to secure additional support for its efforts to increase market share.

Loss of major customer

Brammer does not have dependency on a single customer. Key Account customers are, however, continually monitored by the senior management team, who also document the acknowledged cost savings achieved. Further growth in Key Accounts suggests the template offering is proving attractive to a profit conscious customer base.

Customers relocating to lower cost Eastern European countries

Brammer continues to grow its business successfully by expanding in a fragmented market including a recent acquisition in Poland, and a 25% stake in a business in Romania. We will continue to review suitable opportunities in this region.

Loss of infrastructure/systems

As with most large organisations that depend on IT for its day to day operations, there are disaster recovery plans in place for the major countries where Brammer

operates. In these territories, there are overnight back up systems in place which can be expected to mitigate the worst affects of such disruption.

Adverse euro exchange rates

Brammer reports its results in sterling however trades significantly in Euros. Whilst there is a natural hedge between buying and selling for the majority of our business the ultimate profitability is expressed at the year's average exchange rate.

Financial and capital risks

The inherent interest rate risks associated with the group's net debt have been fully explained on page 54. Following the renewed and extended medium term facility, now with an enlarged banking group, Brammer has sufficient available resources to meet its foreseeable requirements. The assumptions applied to the UK defined benefit scheme which was closed to future accruals in February 2006 are detailed on page 76.

Loss of key employees

The group regularly reviews its succession plan arrangements to ensure that key managers are recognised and developed. The group remains committed to a number of incentive schemes linked to the group's results, which have been designed to retain key managers.

Earnings per share

Basic earnings per share increased by 20.1% from 20.4p to 24.5p in 2008. Earnings per share, on profit before amortisation, increased by 22.4% from 21.0p in 2007 to 25.7p in 2008.

“The group has a well spread market and geographic presence and has concentrated growth activities in defensive sectors such as food and drink, utilities and fast moving consumer goods.”

Paul Thwaite Finance director

