

Chairman's statement



2009 was a challenging year and we continued to shape our Group to withstand the difficult conditions faced by the real estate sector and position the business to ensure that we maintain our breadth of offering, standards of service, quality of people and financial strength.

Peter Smith
Chairman

Results

The Group's underlying profit before tax was £25.2m (2008: £33.2m), a 24% reduction, with revenue declining just over 1% to £560.7m (2008: £568.5m). The Group's reported profit before tax was £13.5m (2008: loss £7.7m).

Developments

The highlights of the year included the return of an active London residential market, which rebounded from the inactivity in the early part of the year to deliver a strong second half; the Asia Pacific Transaction business which improved significantly in the third quarter driven by strong demand from investors in the region; our Consultancy practices which performed well in challenging conditions and the UK and Asia Pacific Property Management businesses, which continued to grow in line with our strategy of reducing our reliance on transactions.

In contrast, our Commercial Transaction Advisory businesses worldwide were slow for most of the year picking up in the UK in the fourth quarter. This materially affected the earnings of our US and Continental European businesses, which are less diversified than our more mature UK and Asia operations and therefore have a greater reliance on transaction markets.

As part of our strategy to build the non-transactional aspects of the business, in March 2010 we announced the proposed acquisition of the 40% voting interests that we do not already own in our Fund Management business, Cordea Savills LLP. Also after the year end we finalised terms for the closure of our UK defined benefit pension scheme to future service-based accrual which will reduce our exposure to the future risk of volatility associated with such schemes.

Cost savings

During 2009, the Group has benefited from an increase in gross cost savings (excluding profit related bonuses and commissions) which were in line with our expectations at over £62m for the year (2008: £22m). In difficult market conditions, these savings have enabled us to continue to invest in our business by maintaining much of our global capacity in transaction advisory services and selectively recruiting high quality talent. The cost of achieving these savings was £3.0m (2008: £2.0m).

Dividend

In these difficult markets, the Board considers the preservation of cash to be of paramount importance both to safeguard the business against the risk of market deterioration and to enable the Group to take opportunities as they present themselves. An interim dividend of 3.0p (net) per share amounting to £3.7m (2008: £7.3m) was paid on 28 October 2009 and a second interim dividend of 6.0p will be paid on 1 April 2010 amounting to £7.4m to shareholders on the register at 12 March 2010. This is in lieu of a final dividend and results in an unchanged aggregate ordinary dividend for the year ended 31 December 2009 of 9.0p (2008: 9.0p).

Board

As previously announced, Simon Shaw joined the Board as Group Chief Financial Officer on 16 March 2009. In January 2010 we announced the restructuring of our Board to streamline the management of the Group and provide improved focus for decision making at both Plc and Group Executive Board meetings. As a result, Rupert Sebag-Montefiore, Simon Hope and Robert McKellar stood down from the Board on 18 January 2010. They retain their executive responsibilities and roles on the Group Executive Board. At the conclusion of the forthcoming Annual General Meeting, Fields Wicker-Miurin will retire from the Board and we thank her for her support over the last eight years, latterly including the role as Chairman of the Audit Committee.

Staff

During 2009 we continued selectively to recruit individuals and teams to improve our capacity to serve our clients around the world. Our financial strength has enabled us to do this and to maintain our presence in markets which currently remain challenging. In an environment where aggregate profit-related bonuses have remained at reduced levels, we have had to ensure that we retain and incentivise our key staff appropriately, principally through grants under our deferred share schemes. On behalf of the Board, I wish to express my thanks to all our staff worldwide for their hard work and continued focus on client service enabling the Group to deliver a resilient set of results despite the challenging market conditions that persisted for many of our teams. Overall, staff costs in the year, including the cost of awards under our deferred share schemes, remained within the range that we expect for these costs over the cycle of 60% to 65% of revenue.

Outlook

For 2010 the key uncertainty is whether we will continue to see broader recovery in market value and activity during the year, or whether the specific market rallies which commenced in the second half of 2009 will prove to be short lived. 2010 has started better than last year; however, we are cautious about the second half of the year for both UK residential and Asia Pacific markets, which contributed the most to our performance in 2009. This caution reflects the potential for market inertia around the UK General Election and uncertainty over whether the strong Chinese influenced markets in Asia can continue at 2009 levels. In contrast we anticipate a better performance in UK commercial, reduced losses in Continental Europe, and a broadly similar performance in the US. Against this backdrop and today's market conditions, we anticipate that our overall performance in 2010 will be similar to that of 2009 but with the relative contributions from our individual businesses likely to be somewhat different. We remain, however, well positioned with a strong balance sheet to continue our strategy of growing the business by pursuing selected investment opportunities as they arise.