

Financial review

Group Chief Financial Officer's report



Financial highlights

Revenue of £560.7m
(2008: £568.5m)

Underlying profit before tax
£25.2m (2008: £33.2m)

Underlying basic earnings per
share 14.5p (2008: 18.1p)

Year end net cash: £66.3m
(2008: £45.7m)

Simon Shaw
Group Chief Financial Officer

Despite continuing adverse market conditions the business benefited from a second half rally particularly in the UK Residential and Asia Pacific markets. Revenue for the year declined by approximately 1.4% to £560.7m (2008: £568.5m) which represented a year on year decline of 7.6% in constant currency. Underlying profit declined by 24% to £25.2m (2008: £33.2m), with a negligible net effect from foreign exchange movement.

Underlying profit margin

Underlying profit margin declined to 4.5% (2008: 5.8%) reflecting the effect of increased losses in our Continental European business; fee pressure particularly for valuation work within the Consultancy business; and our strategic decision to maintain and selectively build teams that continued to be adversely affected by challenging market conditions in the UK and the US.

Net interest

Net finance income in the year was £nil (2008: £2.5m). During a period of historically low interest rates and expanded credit spreads this primarily reflects the significant differential between interest received on surplus cash deposits and interest paid on borrowings, including the US acquisition loan and the revolving credit facility utilisation during the period.

Taxation

The tax charge for the year declined to £4.3m (2008: £4.6m). The effective tax rate was 31.9% (2008: (59.7)%). This is greater than the standard UK rate of corporation tax primarily as a result of the effect of non-deductible expenses, impairment charges and provisions against international tax losses net of tax credits. The underlying effective tax rate was 28.6% (2008: 36.1%).

Earnings per share and dividend

Basic earnings per share were 7.3p (2008: loss of 9.3p). Adjusting on a consistent basis for exceptional items, profit on disposals, share-based payments and amortisation of intangible assets, underlying basic earnings per share fell 20% to 14.5p (2008: 18.1p).

Fully diluted earnings per share were 6.9p (2008: loss of 9.3p). The underlying fully diluted earnings per share declined 21% to 13.8p (2008: 17.5p).

An interim dividend of 3.0p per share was paid during the year. Post year end a second interim dividend of 6.0p was declared, in lieu of a final dividend, making an unchanged 9.0p distribution for the full year (2008: 9.0p). The second interim dividend is to be paid on 1 April 2010 to shareholders on the register at the close of business on 12 March 2010. These financial statements do not reflect this dividend payable.

Cash resources, borrowings and liquidity

Year end gross cash and cash equivalents increased 8% to £81.6m (2008: £75.3m) reflecting continued tight control of expenditure and the reduction in dividends paid during the year.

There was a significant reduction in gross borrowings at year end which represented £15.3m (2008: £29.6m). These comprised £13.6m in respect of the US Dollar term loan, taken out to finance the acquisition of Savills US in 2007, £0.7m in overdrafts and £1.0m in loan notes in respect of previous acquisitions.

Cash is typically retained in a number of subsidiaries in order to meet the requirements of commercial contracts or capital adequacy. In addition cash in certain territories is retained to meet future investment requirements where to remit it, would necessitate the Group suffering withholding taxes.

The Group's cash flow profile is biased towards the second half of the year. This is as a result of the timing of trading flows and the major cash outflows associated with dividends, bonus profit share payments and related payroll taxes in the first half. The Group cash inflow for the year from operating activities was £39.7m (2008: cash outflow £5.5m), primarily as a result of the reversal of the prior year's working capital outflow.

As much of the Group's revenue is transactional in nature and it is a people business, the Board's strategy is to maintain low levels of gearing. To that end, during the year we voluntarily cancelled £20m of the Group's £80m revolving credit facility as it was deemed unlikely to be utilised. The remaining £60m facility runs to October 2011. At the year end the Group had undrawn facilities, including overdrafts of £80.2m (2008: £102.2m).

Savills pension scheme

In common with the vast majority of defined benefit schemes operated by UK companies, the funding level of the Savills pension scheme deteriorated during the year as asset values and interest rates fell. The Plan deficit at year end amounted to £37.7m (2008: £24.6m). In March 2010 we reached agreement with the Trustee for the Plan to be closed to future service accrual with effect from 1 April 2010. Plan members will instead participate in the Group's defined contribution pension plan.

Net assets

Net assets as at 31 December 2009 were £197.7m (2008: £211.0m). Goodwill and intangible assets remained in line with the previous year save for an additional £4.3m provision for impairment of the value of goodwill relating to the US business. The reduction in the year also represents the effect of an increased actuarial loss on the defined benefit pension scheme and currency differences on translation.

Capital and shareholders' interests

Minority interests

Minority interests decreased to £0.6m (2008: £2.4m) reflecting further losses in Europe and the US offset by profits attributable to B members of Cordea Savills.

Share capital

During the year ended 31 December 2009, no new shares were issued and no shares were repurchased for cancellation (2008: nil). The total number of ordinary shares in issue at 31 December 2009 was 131.8m (2008: 131.8m).

Business development

During the year the Group increased its shareholding in a number of existing subsidiaries such as our businesses in Korea and Vietnam and also completed a small acquisition in the UK. The Group paid total consideration of £7.3m (2008: £15.9m) in the year. In March 2010, we announced the proposed acquisition of the 40% voting interests in Cordea Savills that we do not already own. This transaction, which requires shareholder approval as a related party transaction, would result in the payment of consideration of between £9.1m and £15.4m, depending upon the financial performance of Cordea Savills over the next two years.

Key performance indicators

The Group uses a number of key performance indicators (KPIs) to measure its performance and review the impact of management strategies. These KPIs are detailed under the Strategy and Key Performance Indicators section of the Operating Review on pages 08 and 09. The Group continues to review the mix of KPIs to ensure that these best measure our performance against our strategic objectives, in both financial and non-financial areas.

Financial policies and risk management

The Group has financial risk management policies which cover financial risks considered material to the Group's operations and results. These policies are subject to continuous review in light of developing regulation, accounting standards and practice. Compliance with these policies is mandatory for all Group companies and is reviewed regularly by the Board.

Treasury policies and objectives

The Group Treasury policy is designed to reduce the financial risks faced by the Group, which primarily relate to funding and liquidity, interest rate exposure and currency rate exposures. The Group does not engage in trades of a speculative nature. The Group uses derivative financial instruments to hedge certain risk exposures.

The Group's financial instruments comprise borrowings, cash and liquid resources and various other items such as trade receivables and trade payables that arise directly from its operations.

Interest rate risk

The Group finances its operations through a mixture of retained profits and bank borrowings, at both fixed and floating interest rates. Borrowings issued at variable rates expose the Group cash flow to interest rate risk, which is partially offset by cash held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Group policy is to maintain 70% of its borrowings in fixed rate instruments.

Liquidity risk

The Group prepares an annual funding plan approved by the Board which sets out the Group's expected financing requirements for the next 12 months. These requirements are expected to be met through existing cash balances, loan facilities and expected cash flows for the year.

Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risks. As both revenue and costs in each location are generally denominated in the same currency, transaction related risks are relatively low and generally associated with intra group activities. Consequently, the overriding foreign currency risk relates to the translation of overseas profits and losses into sterling on consolidation. The Group does not actively seek to hedge risks arising from foreign currency translations due to their non-cash nature and the high costs associated with such hedging. The net impact of foreign exchange rate movements in 2009 was a £35.6m increase in revenue and a £0.6m increase in underlying profit before taxation.