Regulatory Story

Aukett Swanke Group PLC - AUK Final Results
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Aukett Swanke Group Plc

Announcement of final audited results
for the year ended 30 September 2017

Aukett Swanke Group Plc (the "Group"), the international group of architects and interior designers, announces its final audited results for the year ended 30 September 2017

Financial Highlights

- Revenue down 11.7% at £18.40m (2016: £20.84m)
- Loss before tax of £325k (2016: £927k profit)
- Second half profit
- Cash of £1.19m (2016: £1.84m); £960k (2016: £1.84m) net of overdrafts
- Net funds of £184k (2016: £790k)

Operational Highlights

- Won a major 1.26m sq. ft. retail mall in the UAE for a large Chinese client
- Veretec won the AJ100 'Executive Architect of the year' for the second consecutive year
- Double award for a Tishman Speyer property in Victoria, London
- Frankfurt reported its best year ever

Commenting on the results CEO Nicholas Thompson said:

"The current results reflect many external influences that we have mitigated as far as possible. However our business continues to attract a prestigious client base across all of its operations and it is this that underpins our confidence in our longer term success."

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Extracts from the Chairman's statement

As previously indicated, the year to 30 September 2017 was another difficult one for the Company as we experienced a variety of adverse conditions in each of our markets.

In the UK we suffered from the 'wait and see' climate for businesses, especially developers of commercial property, created by the continuing uncertainties over the outcome of 'Brexit'. Whilst developments which had previously been started were completed, new starts were few. In the UK revenues were consequently down 27%. This situation impacted adversely on the results for the year contributing to a reduction in overall revenue of 11.7%. We believe it will take the UK more than one year to recover its previous profitability at reduced revenue levels.

An improvement in the Company's UAE operations culminated in a major contract award for the development of a substantial retail mall in Dubai which was formally signed just after the year end. The financial benefits of these activities in the UAE should be seen over the next two years.

Meanwhile our hub in Continental Europe also suffered from a number of adverse factors. Turnover in both Russia and Turkey fell sharply, affected by well publicised domestic political upheavals. Whilst our joint ventures/associate in Germany and the Czech Republic produced a profit, this was marginally down on the previous year and not enough to offset the losses in Russia and Turkey*.

Revenue for the year amounted to £18.40m (2016: £20.84m) resulting in a small loss before tax of £325k (2016: profit before tax of £927k). Our EPS is a loss of 0.20 pence per share (2016: 0.47p (profit)). However, cash and cash equivalents at the year end remained positive at £960k (2016: £1.84m). I am encouraged that our diversified and enlarged business footprint established over the last few years should provide financial rewards in the not too distant future. However given the uncertainty with respect to near-term trading, the Board will review the position regarding dividend payments in the second half of the 2018 financial year.

As always, I would like to thank our talented staff as well as my colleagues on the Board, who continually respond positively to the challenges and opportunities that our organisation faces.

Anthony Simmonds
Chairman
10 January 2018

** Revenues from the joint ventures and associate are not included in Group revenues.*

Extracts from strategic and directors' reports

Strategy and business model

Our strategic objective is to provide a range of high quality design orientated solutions to our clients that allows us to create shareholder value over the longer term and at the same time provides a pleasant and rewarding working environment for our staff. The cyclical nature of the markets in which we operate gives rise to peaks and troughs in our financial performance. Management is cognisant that our business model needs to reflect this variable factor in both our decision making and expectation of future performance.

Over the past four years we have acquired a number of strategically located practices to reinforce our business model which we anticipate will provide a blended result over time. In the short term and since these acquisitions were completed some of our markets have been the subject of some significant economic or political changes which we had not expected and which have negatively impacted on our performance. This has very much been the case in these results for 2017.

As a Group we now have a total staff of over 400 throughout our organisation including both wholly owned and joint venture operations. We are ranked by professional staff in the WA 100 2018 at number 43 (2017: 48) and in 2017 our UK subsidiary Veretec was voted No. 1 Executive Architect for the second year running.

Group Activities

Performance in the current year has declined with revenues falling to £18.40m (2016: £20.84m) and the Group loss before tax improving slightly from the first half deficit of £358k to £325k (2016: profit before tax of £927k). This situation is a continuation of the decline that we saw in 2016 (from 2015) and in the Interim results. In this context our net funds reduced to £184k (2016: £790k) within which cash net of overdrafts was £960k (2016: £1.84m).

Total revenues under management (which includes 100% of our joint venture and associates revenue) totalled £34.58m (2016: £30.38m). The principle reason for the increase was a number of large General Planner led contracts from the Berlin office. Around 160 of our staff are employed by our joint ventures and associate and as non subsidiaries the income attributable to them is not shown in the consolidated revenue lines.

United Kingdom

Revenue fell by 27% to £8.92m in 2017 and resulted in small profit. Whilst this decline in revenue appears as a poor performance it does reflect the UK operation completing a large number of projects in the current cycle and less progress being made with the conversion of new commissions as a result of the general atmosphere of economic uncertainty following a prolonged Brexit period and a parliamentary election. The UK operation had originally budgeted for a reduction in revenue and a loss was the result at the halfway stage.

There have been a number of high points in the year. A 282,000 square feet office project in Victoria for Tishman Speyer won a double award at the Property Awards: Best Office Architecture and Best Office Development - an accolade indeed; and our new hotel for Four Seasons was runner up in the City of London Awards. In addition the 326,000 square feet Adelphi building for Blackstone along the Thames became fully let to prestigious tenants this year.

During the second half of the year we completed the second building at our office development site in Reading for M&G; the Flowers Building at Granta Park; and a large private dwelling in West London. In addition the Sir John Bradfield Centre for Trinity College Cambridge and the Molecular Sciences Research Hub for Imperial College London both completed. The Four Seasons hotel at Ten Trinity Square and an Embassy in West London were in the final stages. Work continued on a £9m City refurbishment in Queen Street Place. In September we won the feasibility stage for a large mixed-use project in Maidenhead for Royal London.

Outside the UK the 18 storey Mone luxury residential tower in Moscow which was designed by the London studio reached completion. Also in Russia, in the city of Perm in Siberia the studio designed three 25 storey residential towers under phased construction which are due for completion in 2018.

A number of projects are currently on hold including a series of commercial buildings in Birmingham; a large HQ building in Bristol; a number of mid tech buildings requiring pre-lets; a residential scheme in Hemel Hempstead; and a building at Cambridge Science Park.

The converted order book for 2018 has continued to decline and this operation will need to reflect this in its cost structure going forward. Our UK operation works primarily in the commercial development market which is currently in the downward part of the property cycle. Our lease expiry in July 2018 should alleviate part of our fixed cost base and provide an opportunity to reduce longer term cash outflows.

Middle East

This operation now comprises a total of 115 staff which is a considerable increase from its status pre-acquisition of 8 staff. Our acquisition of John R Harris & Partners ('JRHP') has been a success with the original purchase price being recovered in net profit terms in under three years. However, our more recent acquisition of Shankland Cox Limited ('SCL') (for net book value) has proved to be problematic and it has sustained a significant loss during the rationalisation period. Trading fell far short of the pre-acquisition forecasts, so that we needed to restructure the operation and management team and absorb significant losses. However, an amicable vendor settlement to recover our trading losses reduced the impact of what would have been a sizeable trading loss in the current year.

Over the course of the year our enlarged technical resource base has enabled us to win our first major retail mall comprising 1.26m square feet for a large Chinese client, which we announced shortly after the year end. In addition a number of other projects were instructed including the completion of the services for a hotel on Yas Island (home of the Formula 1 circuit) for an established client ALDAR. In terms of current workload the 5-star hotel refurbishments of Atlantis the Palm and The Address Dubai Mall continue with further areas being added to our scope. JRHP were also part of the team that successfully delivered the recently opened Bvlgari resort and phase 1 of the Al Qasr hotel refurbishment, both in Dubai. Requests for proposals continue to be received for a number of high quality and prestigious projects which, if we are successful, will reinforce the existing project pipeline in the short to medium term.

The hub generated revenues of £8.63m which is virtually the same as the UK. It establishes this geography as a key platform for the future and fits with our strategy to balance our operational performance. A small profit of £13,000 resulted (a reduction compared to the profit of the first half). This is disappointing as we expected a better second half performance which would have been achieved had we not had to restructure SCL for a second time after the vendor settlement due to additional provisions against contract losses. This cumulative restructuring has two key effects: one positive and the other negative. The first effect being to improve our productivity over the longer term and the second to crystallise additional large End of Service Benefit cash payments which has contributed to the decrease in our group cash position in this period.

At the end of the financial year we established Aukett Swanke Architectural Design as a newly licensed entity in the market with an award winning Emirati architect as our sponsor. The ability to market under our international brand along with our recent wins should see our operation grow in both revenue and profit terms in 2018.

Continental Europe

This operation comprises two joint ventures and an associate plus two wholly-owned subsidiaries. The businesses had very mixed results in 2017. Revenue for the partly-owned entities is not included in revenue in the Consolidated Income Statement; in line with the use of the equity method only the after tax result is included in the results.

Revenue for the hub, (i.e. the Russian and Turkish wholly owned subsidiaries only), declined by 35% to £849k and both of these operations made a loss. Economic and political issues dominated both countries.

As part of our ongoing strategy we are committed to converting both the Russian and Turkish businesses into joint ventures such that there is more local management ownership for these small operations which will secure the future succession and at the same time reduces the Group's exposure to these markets. We remain confident that these operations can add value in a different ownership format.

Russia's revenue fell dramatically and was insufficient to cover its fixed operating costs and much of the year was spent deferring or avoiding expenditure. However, the office did continue working on a large luxury apartment block in Vernadskogo, Moscow along with some smaller projects including a VIP office floor for Freight 1, a major Russian transport company.

In addition, development activity appears to be recovering with a number of developers returning to the local market. This is reflected in the number of front end design instructions that have been received including a Masterplan Concept of a town for 30,000 inhabitants at the Russian Far East in Vladivostok, a design concept for a 66,000 sq.m. residential development near Skolkovo Inograd, Moscow and also a concept for a training centre in Siberia for a major Russian oil refining company.

Turkey has not recovered from the continuation of the self-imposed State of Emergency. Many developers are not active and our workload relies upon short term interior design and fit out projects. Whilst work has come from major clients such as Allianz, Cengiz, KPMG, Vodafone and more recently Vakifbank, the projects are not of sufficient size to maintain the operation and, as with Russia, expenditure mitigation has continued to be a key focus. Once the political situation returns to normal we would expect historic projects to be reinstructed. In December the office won a major fit out project in Bulgaria and the first stages of the Bio City master plan project which should also benefit the results.

Losses in these two operations have been funded from existing local resources and the Group has provided only a small amount of additional working capital - under £40k.

Frankfurt, our 50% JV in Germany, was the best performing office and contributed over £100k in after tax profits; its best year ever. The office worked with industry heavyweights: Hochtief, Zurich, Commerzbank, Deutsche Bank, Blackstone/Office First on the MesseTurm building and Tishman Speyer on the TaunusTurm.

Berlin, our associate, also had a successful year but with a lower return as growth in the local market absorbed more staff resources than expected. The office now totals over 150 staff and has a full order pipeline. Key projects include Tacheles a large mixed use development in Berlin, Mercedes Platz with Hochtief, Berlin Airport, work for KfW bank, Siemens, Spindlers Hof, Commerzbank, a tower in Frankfurt, Google, East Side Tower with BIG, and a fit out for Howego plus numerous other projects.

The Czech operation adjusted to reduced market activity by supporting the workload in the Abu Dhabi, Berlin and London offices. Direct appointments came from a retained residential client at Churchill Square; the Riverside School Arts Centre; an Allen & Overy fit out; and a number of local clients: Tieto, Matějovský, Dimension Data and Business Lease.

Financing

Taking account of the year's result, total equity is now £6.76m (2016: £7.19m).

Net funds at year end were £184k (2016: £790k), comprising cash of £1.19m (2016: £1.84m), overdrafts of £228k (2016: £nil) and the loan taken out in respect of the acquisition of SCL, which now stands at £776k (2016: £1.05m). Despite the more challenging trading conditions, and notwithstanding two large client balances owed in the UK, the Group has maintained a position of positive overall cash. Had the UK received the amounts owed before year end, balances would have been as strong as in the prior year.

The Group previously had the benefit of an overdraft facility from its bankers Coutts & Co. which applied to individual accounts but was required to net to zero. During the year, in order to provide working capital flexibility and to support the UK business, this was converted to an overall overdraft of £250k. After the year end, in October 2017, the limit was increased to £500k, but reduces back to £250k on 31 March 2018.

Summary, Group Prospects and Shareholder Value

With such a varied set of results we have to be thoughtful about the outlook for 2018. However, we believe that we have turned the corner in the Middle East and this operation should generate a reasonable return in both profit and cash terms thereby justifying the investment that we have made. Continental Europe has now reached the bottom of the current cycle in Russia and Turkey and the overall result for this hub in 2018 should be positive as we expect Berlin to be profitable and Frankfurt to continue its current performance levels. The only operation lacking significant clarity is the UK. Whilst we continue to receive new enquires these are almost certainly for the next cycle which we believe may commence in 2019. Our ongoing work in implementing a structure of three geographical hubs should benefit the Group during 2018 by providing balance in performance. Considering all of the exogenous economic and political issues facing the Group, and particularly in the UK, the Board feels that the overall Group outcome is unlikely to be profitable in the 2018 financial year.

Nicholas Thompson
Chief Executive Officer

Beverley Wright
Chief Financial Officer

10 January 2018

Consolidated income statement

For the year ended 30 September 2017

	Note	2017 £'000	2016 £'000
Revenue	2	18,395	20,841
Sub consultant costs		(2,325)	(2,431)
Revenue less sub consultant costs	2	16,070	18,410
Personnel related costs		(13,114)	(13,929)
Property related costs		(2,360)	(2,632)
Other operating expenses		(2,229)	(1,901)
Other operating income		1,089	732
Operating (loss) / profit		(544)	680
Finance income		-	8
Finance costs		(34)	(28)
(Loss) / profit after finance costs		(578)	660
Share of results of associate and joint ventures		253	267
(Loss) / profit before tax	2	(325)	927

Tax credit / (charge)		21	(106)
(Loss) / profit from continuing operations		(304)	821
(Loss) / profit for the year		(304)	821
(Loss) / profit attributable to:			
Owners of Aukett Swanke Group Plc		(323)	772
Non-controlling interests		19	49
		(304)	821
Basic and diluted earnings per share for (loss) / profit attributable to the ordinary equity holders of the Company:			
From continuing operations		(0.20)p	0.47p
Total earnings per share	3	(0.20)p	0.47p

Consolidated statement of comprehensive income

For the year ended 30 September 2017

	2017 £'000	2016 £'000
(Loss) / profit for the year	(304)	821
Currency translation differences	(124)	424
Other comprehensive (loss) / income for the year	(124)	424
Total comprehensive (loss) / income for the year	(428)	1,245
Total comprehensive (loss) / income for the year is attributable to:		
Owners of Aukett Swanke Group Plc	(425)	1,158
Non-controlling interests	(3)	87
	(428)	1,245

Consolidated statement of financial position

At 30 September 2017

	Note	2017 £'000	2016 £'000
Non current assets			
Goodwill		2,377	2,409
Other intangible assets		908	1,056
Property, plant and equipment		210	506
Investment in associate		530	529
Investments in joint ventures		233	181
Deferred tax		213	219
Total non current assets		4,471	4,900
Current assets			
Trade and other receivables		7,931	9,227

Cash at bank and in hand	1,188	1,839
Total current assets	9,119	11,066
Total assets	13,590	15,966
Current liabilities		
Trade and other payables	(4,723)	(6,553)
Current tax	-	(12)
Borrowings	(467)	(247)
Provisions	(151)	(90)
Total current liabilities	(5,341)	(6,902)
Non current liabilities		
Borrowings	(537)	(802)
Deferred tax	(71)	(100)
Provisions	(880)	(973)
Total non current liabilities	(1,488)	(1,875)
Total liabilities	(6,829)	(8,777)
Net assets	6,761	7,189
Capital and reserves		
Share capital	1,652	1,652
Merger reserve	1,176	1,176
Foreign currency translation reserve	8	110
Retained earnings	2,250	2,573
Other distributable reserve	1,494	1,494
Total equity attributable to equity holders of the Company	6,580	7,005
Non-controlling interests	181	184
Total equity	6,761	7,189

Consolidated statement of cash flows

For the year ended 30 September 2017

	Note	2017 £'000	2016 £'000
Cash flows from operating activities			
Cash (expended) / generated from operations	4	(746)	104
Interest paid		(34)	(29)
Income taxes paid		(8)	(99)
Net cash outflow from operating activities		(788)	(24)
Cash flows from investing activities			
Purchase of property, plant and equipment		(27)	(147)
Sale of property, plant and equipment		2	4
Acquisition of subsidiary, net of cash acquired		-	(761)
Interest received		-	8
Dividends received		215	-
Net cash received / (used) in investing activities		190	(896)
Net cash outflow before financing activities		(598)	(920)
Cash flows from financing activities			
Proceeds from bank loans		-	1,123
Repayment of bank loans		(250)	(175)
Dividends paid		-	(181)

Net cash (outflow) / inflow from financing activities	(250)	767
Net change in cash and cash equivalents	(848)	(153)
Cash and cash equivalents at start of year	1,839	1,873
Currency translation differences	(31)	119
Cash and cash equivalents at end of year	960	1,839
Cash and cash equivalents are comprised of:		
Cash at bank and in hand	1,188	1,839
Secured bank overdrafts	(228)	-
Cash and cash equivalents at end of year	960	1,839

Consolidated statement of changes in equity

For the year ended 30 September 2017

	Share capital	Foreign currency translation reserve	Retained earnings	Other distributable reserve	Merger reserve	Total	Non-controlling interests	Total Equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 30 September 2015	1,652	(276)	1,801	1,791	1,176	6,144	107	6,251
Profit for the year	-	-	772	-	-	772	49	821
Other comprehensive income	-	386	-	-	-	386	38	424
Total comprehensive income	-	386	772	-	-	1,158	87	1,245
Other adjustments	-	-	-	-	-	-	(10)	(10)
Dividends paid	-	-	-	(297)	-	(297)	-	(297)
At 30 September 2016	1,652	110	2,573	1,494	1,176	7,005	184	7,189
Loss for the year	-	-	(323)	-	-	(323)	19	(304)
Other comprehensive loss	-	(102)	-	-	-	(102)	(22)	(124)
Total comprehensive income	-	(102)	(323)	-	-	(425)	(3)	(428)
At 30 September 2017	1,652	8	2,250	1,494	1,176	6,580	181	6,761

The other distributable reserve was created in September 2007 during a court and shareholder approved process to reduce the capital of the Company.

The merger reserve was created through a business combination in December 2013 representing the issue of 19,594,959 new ordinary shares at a price of 7.00 pence per share.

Notes to the audited final results

1 Basis of preparation

The financial statements for the Group and parent have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Companies Act 2006 as applicable to companies reporting under IFRSs.

2 Operating segments

The Group comprises three separately reportable geographical segments ('hubs'), together with a group costs segment. Geographical segments are based on the location of the operation undertaking each project.

The Group's operating segments consist of the United Kingdom, the Middle East and Continental Europe. Turkey and Russia are included within Continental Europe together with Germany and the Czech Republic.

Income statement segment information

Segment revenue	2017 £'000	2016 £'000
United Kingdom	8,915	12,142
Middle East	8,631	7,383
Continental Europe	849	1,316
Revenue	18,395	20,841

Revenue by project site	2017 £'000	2016 £'000
United Kingdom	8,107	12,014
Middle East	9,032	7,349
Continental Europe	1,119	1,396
Rest of the World	137	82
Revenue	18,395	20,841

Segment revenue less sub consultant costs	2017 £'000	2016 £'000
United Kingdom	8,765	12,080
Middle East	6,833	5,424
Continental Europe	472	906
Revenue less sub consultant costs	16,070	18,410

Segment result

2017 Segment result	Before goodwill and acquisition adjustments £'000	Fair value gains on deferred consideration and acquisition settlement £'000	Goodwill Impairment and release of negative goodwill £'000	Total £'000
United Kingdom	19	-	-	19

Middle East	(687)	700	-	13
Continental Europe	(136)	-	-	(136)
Group costs	(221)	-	-	(221)
Loss before tax	(1,025)	700	-	(325)

2016 Segment result	Before goodwill and acquisition adjustments £'000	Fair value gains on deferred consideration and acquisition settlement £'000	Goodwill Impairment and release of negative goodwill £'000	Total £'000
United Kingdom	1,052	-	-	1,052
Middle East	(119)	-	160	41
Continental Europe	112	-	(17)	95
Group costs	(261)	-	-	(261)
Profit / (Loss) before tax	784	-	143	927

3 Earnings per share

The calculations of basic and diluted earnings per share are based on the following data:

Earnings	2017 £'000	2016 £'000
Continuing operations	(323)	772
(Loss) / profit for the year	(323)	772

Number of shares	2017 Number	2016 Number
Weighted average of Ordinary Shares in issue	165,213,652	165,213,652
Effect of dilutive options	-	153,916
Diluted weighted average of ordinary shares in issue	165,213,652	165,367,568

4 Cash generated from operations

Group	2017 £'000	2016 £'000
(Loss) / profit before tax - continuing operations	(325)	927
Finance income	-	(8)
Finance costs	34	28
Share of results of associate and joint ventures	(253)	(267)
Goodwill impairment provision	-	17
Intangible amortisation	110	177
Depreciation	288	359
Loss on disposal of property, plant & equipment	23	10
Decrease in trade and other receivables	913	628
Decrease in trade and other payables	(1,485)	(1,583)
Change in provisions	3	16
Negative goodwill	-	(160)
Unrealised foreign exchange differences	(54)	(40)
Net cash (expended by) / generated from operations	(746)	104

5 Analysis of net funds

Group	2017 £'000	2016 £'000
Cash at bank and in hand	1,188	1,839
Secured bank overdrafts	(228)	-

Cash and cash equivalents	960	1,839
Secured bank loan	(776)	(1,049)
Net funds	184	790

6 Status of final audited results

This announcement of final audited results was approved by the Board of Directors on 10 January 2018.

The financial information presented in this announcement has been extracted from the Group's audited statutory accounts for the year ended 30 September 2017 which will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

The auditor's report on these accounts was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and did not contain a statement under section 498 of the Companies Act 2006.

Statutory accounts for the year ended 30 September 2016 have been delivered to the registrar of companies and the auditors' report on these accounts was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and did not contain a statement under section 498 of the Companies Act 2006.

The financial information presented in this announcement of final audited results does not constitute the Group's statutory accounts for the year ended 30 September 2017.

7 Annual General Meeting

Notice of the annual general meeting will follow in due course and no later than 21 days before the meeting is due to be held.

8 Annual report and accounts

Copies of the 2017 audited accounts will be available today on the Company's website (www.aukettswanke.com) for the purposes of AIM rule 26 and will be posted to shareholders who have elected to receive a printed version in due course.

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Final Results - RNS