

Homeserve plc



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Highlights

- Shareholder value increased by around 40% since demerger of South Staffordshire Water announced in February 2004.
- Home emergency businesses had an excellent six months:
 - 25% increase in turnover to £88.4m
 - 34% increase in operating profits* to £11.2m
 - 13% policy growth by Home Service in the UK to 3.31m
 - Continued development of service networks
- Earnings per share* growth from continuing operations of 19% to 12.7p.
- Total turnover £122.0m (2003: £145.5m) and operating profit £5.7m (2003: £17.4m) reflecting demerger of the Water businesses, subsequent business disposals and an exceptional operating cost of £1.2m.
- Disposal of remaining commercial businesses being progressed.

*excluding goodwill and exceptional items (see profit and loss account).

Chairman's Statement

Introduction

These are the first set of Interim Results for Homeserve plc following the demerger of the South Staffordshire Water businesses on 6th April 2004. The separation has been an outstanding success, creating additional value in the region of 40% for our shareholders over the last 9 months.

Homeserve is now focused on developing as a dedicated international home emergency service business. These domestic operations have had an excellent six months with substantial policy growth combined with the continued development of our services networks. This has been reflected in a 25% increase in turnover and 34% increase in operating profits* from these operations in the period.

Interim Results

In the six months ended September 2004 Homeserve's continuing operations have generated a 20% increase in turnover to £114.0m (2003: £95.0m), and a 23% increase in operating profit* to £11.7m (2003: £9.5m). Earnings per share* from continuing operations have increased by 19% from 10.7p to 12.7p on a consistent basis after taking account of the share consolidation at the point of demerger.

Total turnover was £122.0m (2003: £145.5m) and total operating profit £5.7m (2003: £17.4m). The effective tax rate increased to 31% (2003: 29.5%) and earnings per share before goodwill and exceptional costs was 12.6p (2003: 18.0p). These reductions are a consequence of the demerger, subsequent business disposals and an exceptional operating cost of £1.2m. The results for the six months include turnover of £8.0m (2003: £50.5m) and a loss before tax* of £0.1m (2003: profit before tax £8.3m*) in respect of South Staffordshire Water trading prior to demerger and the two commercial businesses prior to their sale in July and August 2004.

The exceptional operating cost of £1.2m relates to a provision made against amounts owing to Regency at 30th September 2004 from Courts Plc, which announced its intention to appoint an Administrator on 29th November 2004. An additional provision of £1.5m will be made in the year to 30th March 2005 in respect of further amounts due, unless recovered, after 30th September 2004.

The exceptional item of £19.5m (2003: £nil) arises from the disposal of the Mail Solutions and OnSite South businesses and includes the write off of goodwill and goodwill previously written off and transferred back from reserves.

The Board has approved an interim dividend of 5.1p (2003: 6.1p) providing a dividend of £3.2m compared to £3.9m in 2003. In 2003 the South Staffordshire Water Group paid an interim dividend of £1.48m.

Net debt at 30 September 2004 was £4.8m (2003: £106.4m) and cash generated from operations in the 6 months was £16.9m. During this period the Homeserve Employee Trust purchased 1.19 million shares at a total cost of £8.0m, which will be used to satisfy options granted under the Executive Share Option Plan and Long Term Incentive Plan.

Domestic Businesses

Home Service

Home Service achieved an excellent first half. Turnover increased by 28% to £53.6m (2003: £41.7m) including Servowarm and operating profit increased by 39% from £6.4m to £8.9m. The Autumn mailing campaigns are achieving excellent response rates driven by new style mailing packs combined with reduced direct mail costs and have been successfully targeted at some new customer groups.

Overall retention rates have improved from 87% to 88% for the six month period and are consistent with those achieved for the year ended 31 March 2004. This reflects our continued focus on delivering both outstanding customer service and continued customer retention initiatives.

The number of Home Service UK policies has increased by 13% to 3.31m (31 March 2004: 2.93m), comprising 2.31m plumbing policies, 0.58m electrical and 0.42m other policies. September 2004 was a record month for Home Service, achieving 157,000 new policy sales. In addition the average number of policies per customer has increased to 1.65 (30 September 2003: 1.5) reflecting the continued success of cross sell activity. Excellent take up rates continued to be achieved in Scotland following our launch with Scottish Water at the start of the year.

We secured Barclays Additions as a new customer in August 2004 providing Home Assistance cover as an "add on" to their 1.3 million Additions account customers.

International

Homeserve has made significant progress in developing its international operations over the last twelve months with the total number of policies internationally increasing by 122% to 211,000.

Home Service USA Corp is a wholly owned subsidiary, which has been working with its first water company partner, Aqua America and has 23,000 policies (31 March 2003: 13,000). We are continuing to make good progress in signing up new water company partners.

Doméo, the joint venture in France with Veolia Water now has 189,000 policies (31 March 2004: 160,000). The agreement to increase our shareholding from 40% to 49% at a cost of £0.83m was signed in November 2004 .

In October 2004 Homeserve commenced small scale test marketing in Australia with South Australian Water.

Highway

Highway has achieved significantly improved results, which demonstrates the transformation in operating performance of the business. Turnover increased by 21% to £26.2m (2003: £21.6m) and Highway made an operating profit of £0.6m (2003: operating loss £0.2m) in this seasonally quiet trading period. The improvement in performance has been achieved through better branch management and enhanced engineer productivity. Major IT system changes have now been fully implemented which will reduce back office support costs and further improve efficiency.

Over the last eighteen months, Highway has developed a drainage repair business working predominantly for Home Service, Norwich Union, Royal and Sun Alliance and Royal Bank of Scotland Insurance. In addition, work for Zurich Insurance commences in December 2004. This operation achieved turnover of over £4.5m in the six months to 30 September 2004 and has seen the level of sales increase significantly to almost £1m for the month of September 2004.

This represents 12% of household insurance drainage repair work in the UK.

There is significant potential for further growth in this market. The Highway business model is highly attractive to Household Insurers as a result of offering a predominantly employed repairer network, operating nationally from 36 branches and providing a high quality service.

Regency

The results for Regency have been affected by the difficult trading conditions in the retail furniture market but we have continued to develop its upholstery repair and cleaning operation. Although it has increased turnover by 13% to £8.6m, operating profits have reduced by £0.4m to £1.7m, before the impact of the £1.2m exceptional cost provision for Courts' outstanding debt at 30th September 2004.

With Courts representing some 28% of Regency's turnover we are monitoring the situation carefully. Wherever possible we are taking action to mitigate the short term uncertainty by reallocating resources to alternative customers.

Commercial Businesses

In the six months ended September 2004 turnover from the continuing commercial operations increased by 4% to £25.7m (2003: £24.6m) and operating profit decreased from £1.2m to £0.5m reflecting the competitive nature of the markets in which these businesses operate.

We are currently in the process of seeking buyers for the remaining commercial businesses.

Discontinued Operations

On 6th April 2004 the Group demerged the South Staffordshire Water businesses by way of a dividend in specie to existing shareholders. At the same time, Homeserve undertook a share consolidation of 4 shares for every 5 held in order to maintain the existing share price and preserve the value of employee share options. In addition the minority interest in the Homeserve division was acquired in a share for share exchange involving the issue of 11.6m shares.

The Mail Solutions business was sold in July 2004 for a cash consideration of £7.4m. Existing goodwill of £4.9m was written off together with a transfer from reserves of goodwill previously written off of £8.4m.

OnSite South was sold in August for a cash consideration of £3.0m incurring a loss on disposal of £1.1m and a goodwill write off of £5.1m.

Prospects

We remain confident that policy growth will continue to be strong on the back of a record number of new policies sold in October 2004. The International businesses are developing well although they are still at an early stage.

The development of our service networks is progressing well. We will continue to increase the level of directly employed tradesmen, which will assist in our penetration into the £2 billion household insurance claims market.

As in prior years, profits will continue to be substantially weighted to the second half of the year reflecting the policy renewal profile and seasonal nature of much of the repair work.

The Directors remain confident of Homeserve's prospects for the year.

Brian Whitty
Executive Chairman

*Before goodwill and exceptional items (see profit and loss account)

Consolidated Profit and Loss Account

For the six months ended 30 September 2004

	Note	Six months ended 30 September 2004 £'000	Six months ended 30 September 2003 £'000	Year ended 31 March 2004 £'000
Turnover				
Continuing operations (including acquisitions of £934,000, 2003: £nil)	2	113,975	95,014	219,551
Discontinued operations		8,039	50,512	103,404
		122,014	145,526	322,955
Less share of joint ventures' turnover				
Continuing operations		(462)	(210)	(1,147)
Discontinued operations		—	(2,059)	(4,173)
		(462)	(2,269)	(5,320)
Group turnover		121,552	143,257	317,635
Operating profit				
Operating profit before goodwill and exceptional items	3			
Continuing operations		11,708	9,508	34,924
Discontinued operations		44	11,490	23,764
		11,752	20,998	58,688
Goodwill amortisation				
Continuing operations		(4,646)	(3,308)	(6,569)
Discontinued operations		(182)	(321)	(646)
		(4,828)	(3,629)	(7,215)
Exceptional operating costs	4	(1,207)	—	(2,400)
Total operating profit: Group and share of joint ventures	3			
Continuing operations (including acquisitions of £233,000, 2003: £nil)		5,855	6,200	25,955
Discontinued operations		(138)	11,169	23,118
		5,717	17,369	49,073
Exceptional costs				
Loss on disposal of subsidiary undertakings	4	(19,503)	—	—
Cost of fundamental reorganisation		—	—	(4,216)
Net interest payable				
Continuing operations		(287)	(300)	(543)
Discontinued operations		(97)	(3,236)	(6,474)
		(384)	(3,536)	(7,017)
Profit before tax, goodwill and exceptional costs				
Continuing operations		11,421	9,208	34,381
Discontinued operations		(53)	8,254	17,290
		11,368	17,462	51,671
Goodwill amortisation				
Continuing operations		(4,646)	(3,308)	(6,569)
Discontinued operations		(182)	(321)	(646)
		(4,828)	(3,629)	(7,215)
Exceptional costs		(20,710)	—	(6,616)
(Loss)/profit on ordinary activities before taxation				
Continuing operations		(13,935)	5,900	21,196
Discontinued operations		(235)	7,933	16,644
		(14,170)	13,833	37,840
Taxation on (loss)/profit on ordinary activities	5			
Continuing operations		(3,166)	(2,854)	(10,648)
Discontinued operations		17	(2,297)	(4,595)
		(3,149)	(5,151)	(15,243)
(Loss)/profit on ordinary activities after taxation				
		(17,319)	8,682	22,597
Minority shareholders' equity interests		—	(221)	(339)
(Loss)/profit for the financial period				
		(17,319)	8,461	22,258
Dividends paid and proposed	7	(3,203)	(3,859)	(12,733)
Dividend in specie	7	(28,522)	—	—
Retained (loss)/profit		(49,044)	4,602	9,525
(Loss)/earnings per share				
Basic	6	(27.9)p	13.4p	35.2p
Adjusted - basic excluding goodwill and exceptionals		12.6p	18.0p	51.0p
Diluted		(27.5)p	13.3p	34.9p
Diluted - excluding goodwill and exceptionals		12.4p	17.9p	50.6p
Dividend per share	7	5.1p	6.1p	20.0p

Consolidated Balance Sheet

As at 30 September 2004

	Note	30 September 2004 £'000	30 September 2003 £'000	31 March 2004 £'000
Fixed assets				
Goodwill		162,993	121,192	108,223
Tangible assets		26,875	176,641	186,242
Current assets				
Stocks		5,270	7,034	6,887
Debtors		75,396	74,977	90,221
Cash at bank and in hand		10,452	8,809	10,497
		91,118	90,820	107,605
Creditors – amounts falling due within one year				
Borrowings		(14,432)	(23,871)	(11,355)
Other creditors		(81,667)	(97,124)	(120,909)
		(96,099)	(120,995)	(132,264)
Net current liabilities		(4,981)	(30,175)	(24,659)
Total assets less current liabilities		184,887	267,658	269,806
Creditors – amounts falling due after more than one year				
Borrowings		(801)	(91,306)	(92,649)
Other creditors		(4,138)	(13,521)	(4,138)
		(4,939)	(104,827)	(96,787)
Provisions for liabilities and charges		(1,421)	(10,125)	(10,301)
Accruals and deferred income		(13,612)	(17,819)	(19,552)
Net assets		164,915	134,887	143,166
Capital and reserves				
Share capital		7,887	6,324	6,366
Share premium		23,036	16,776	18,902
Merger reserve		70,992	—	—
Capital redemption reserve		1,200	1,200	1,200
Own share reserve		(7,973)	—	—
Profit and loss account		69,773	106,208	110,532
Equity shareholders' funds	8	164,915	130,508	137,000
Minority shareholders' equity interests		—	4,379	6,166
		164,915	134,887	143,166

Consolidated Cash Flow Statement

For the six months ended 30 September 2004

	Note	Six months ended 30 September 2004 £'000	Six months ended 30 September 2003 £'000	Year ended 31 March 2004 £'000
Net cash inflow from operating activities		16,894	31,117	77,854
Returns on investments and servicing of finance				
Net interest paid		(354)	(2,287)	(4,449)
Dividends paid to minority interests		(1,633)	(1,415)	(1,714)
		(1,987)	(3,702)	(6,163)
Corporation tax paid		(5,250)	(5,306)	(12,171)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(5,447)	(17,538)	(38,195)
Investment in joint ventures		—	—	(492)
Sale of tangible fixed assets		98	548	1,341
Capital contributions received		—	2,911	4,782
		(5,349)	(14,079)	(32,564)
Acquisitions and disposals	9			
Investment in subsidiary undertakings		(4,808)	(2,300)	(4,442)
Disposal of subsidiary undertakings		10,368	—	—
Net cash disposed with subsidiary undertakings		(135)	—	—
		5,425	(2,300)	(4,442)
Equity dividends paid		(4,488)	(7,822)	(11,683)
Financing				
Issue of ordinary share capital		2,804	265	1,834
Repayment of loan notes		(198)	(144)	(931)
Purchase of own shares		(7,973)	—	—
Finance lease and hire purchase payments		(362)	(697)	(1,419)
		(5,729)	(576)	(516)
(Decrease)/increase in cash		(484)	(2,668)	10,315
Reconciliation of operating profit to net cash inflow from operating activities				
Operating profit		5,717	17,369	49,073
Exceptional costs - demerger of South Staffordshire business	4	(3,086)	—	(1,030)
Exceptional costs		1,207	—	2,400
Depreciation and profit on disposals of assets		3,554	8,723	17,681
Amortisation of goodwill		4,828	3,629	7,215
Share of operating loss in joint ventures		194	296	564
Decrease in working capital		4,480	1,100	1,951
Net cash inflow from operating activities		16,894	31,117	77,854
Reconciliation of movement in net debt				
Decrease in cash		(45)	(1,983)	(295)
(Increase)/decrease in bank overdraft		(439)	(685)	10,610
		(484)	(2,668)	10,315
Demerged companies net debt		92,757	—	—
Assets purchased under finance leases		(245)	(200)	(527)
Increase in loan notes		(3,862)	—	—
Index-linked bond - indexation		—	(1,220)	(2,524)
Debt repayments		560	841	2,350
Decrease/(increase) in net debt in period		88,726	(3,247)	9,614
Net debt brought forward		(93,507)	(103,121)	(103,121)
Net debt carried forward	10	(4,781)	(106,368)	(93,507)

Notes

1 Financial reporting

The interim accounts for the six months ended 30 September 2004 and six months ended 30 September 2003, have been prepared on the basis of accounting policies consistent with those set out in the Group's financial statements for the year ended 31 March 2004, except for the adoption of UITF 38 'Accounting for ESOP schemes', which has been adopted in this period. There is no material impact on prior periods and therefore comparatives have not been restated.

Following the adoption of UITF 38 the investment in own shares is included in share capital and reserves with the effect of reducing net assets at 30 September 2004 by £7,973,000.

This interim financial information is unaudited and does not constitute statutory accounts. Comparative figures for the year ended 31 March 2004 have been extracted from the latest published accounts which received an unqualified audit report and have been filed with the Registrar of Companies.

2 Turnover

	Six months ended 30 September 2004 £'000	Six months ended 30 September 2003 £'000	Year ended 31 March 2004 £'000
Homeserve domestic Continuing operations	88,418	70,854	169,236
Homeserve commercial Continuing operations	25,676	24,633	51,461
Discontinued operations	7,143	29,556	60,205
	32,819	54,189	111,666
Inter division Continuing operations	(119)	(473)	(1,146)
Discontinued operations	(240)	(9,146)	(17,228)
	(359)	(9,619)	(18,374)
Homeserve total Continuing operations	113,975	95,014	219,551
Discontinued operations	6,903	20,410	42,977
Regulated water supply Discontinued operations	1,136	30,102	60,427
Turnover from continuing operations	113,975	95,014	219,551
Turnover from discontinued operations	8,039	50,512	103,404
	122,014	145,526	322,955

Inter divisional turnover relates wholly to Homeserve commercial.

3 Operating profit

	Six months ended 30 September 2004 Total £'000	Six months ended 30 September 2003 Total £'000	Year ended 31 March 2004 Total £'000
Homeserve domestic Continuing operations	11,175	8,337	32,384
Commercial outsourcing Continuing operations	533	1,171	2,540
Discontinued operations	(117)	3,346	6,742
	416	4,517	9,282
Homeserve total Continuing operations	11,708	9,508	34,924
Discontinued operations	(117)	3,346	6,742
Regulated water supply Discontinued operations	161	8,144	17,022
Amortisation of goodwill Continuing operations	(4,646)	(3,308)	(6,569)
Discontinued operations	(182)	(321)	(646)
	(4,828)	(3,629)	(7,215)
Exceptional operating costs	(1,207)	—	(2,400)
Total operating profit: Group and share of joint ventures Continuing operations	5,855	6,200	25,955
Discontinued operations	(138)	11,169	23,118
	5,717	17,369	49,073

Operating profit includes the group's share of losses in joint ventures of £194,000 for the period (six months ended 30 September 2003: £296,000, of which £224,000 was from continuing operations, and the year ended 31 March 2004: £564,000, of which £257,000 was from continuing operations).

4 Exceptional items

The exceptional costs in the current period of £19,503,000 represent the losses on disposal of Mail Solutions Limited of £13,300,000 and Onsite South Limited of £6,203,000 as detailed in note 9. The exceptional operating cost of £1,207,000 relates to a provision made against amounts owing from Courts Plc at 30 September 2004. The exceptional costs in the year ended 31 March 2004 of £6,616,000 relate to the demerger of the South Staffordshire businesses on 6 April 2004.

5 Taxation

The tax charge is based on the estimated effective tax rate for the full year to 31 March 2005 of 31.0% (six months ended 30 September 2003: 29.5%, year ended 31 March 2004: 29.5%), including deferred tax.

6 Earnings per share

Basic earnings per share is calculated by dividing the profit for the financial period by the weighted average number of ordinary shares in issue during the period. Adjusted earnings per share is calculated excluding goodwill and exceptionals.

	Six months ended 30 September 2004		Six months ended 30 September 2003		Year ended 31 March 2004	
	Continuing Operations £'000	Total £'000	Continuing Operations £'000	Total £'000	Continuing Operations £'000	Total £'000
(Loss)/profit for the financial period	(17,101)	(17,319)	2,825	8,461	10,209	22,258
Amortisation of goodwill - total	4,646	4,828	3,308	3,629	6,569	7,215
- relating to minority shareholders	—	—	(719)	(719)	(1,423)	(1,423)
Exceptional costs	19,503	19,503	—	—	6,616	6,616
Exceptional operating costs/(credit)	1,207	1,207	—	—	(2,400)	(2,400)
Tax impact arising on exceptional items	(375)	(375)	—	—	—	—
Adjusted profit for financial period	7,880	7,844	5,414	11,371	19,571	32,266
Weighted average number of shares (000's)						
Basic		62,032		63,184		63,208
Diluted		63,010		63,538		63,732

7 Dividend per share

An interim dividend of 5.1p (2003: 6.1p) per share has been approved and will be paid on 4 January 2005 to shareholders on the register at the close of business on 10 December 2004.

The dividend in specie of £28,522,000 represents the net assets of the South Staffordshire businesses demerged on the 6 April 2004.

The dividend per share for the six months to 30 September 2003 was 6.1p. On a restated basis, after adjusting for the impact of the demerged businesses and share consolidation, the dividend per share is 4.7p. A reconciliation of dividend per share is provided in the table below.

	Six months ended 30 September 2003
Dividend per share as previously reported	6.1p
Amount relating to the demerged Water business	(2.3p)
	3.8p
Increase in dividend per share following the share consolidation	0.9p
Restated dividend per share	4.7p

8 Reconciliation of movements in shareholders' funds

	Six months ended 30 September 2004 Total £'000	Six months ended 30 September 2003 Total £'000	Year ended 31 March 2004 Total £'000
(Loss)/profit for the financial period	(17,319)	8,461	22,258
Dividends	(31,725)	(3,859)	(12,733)
	(49,044)	4,602	9,525
Goodwill previously written-off included in retained loss for the year	8,285	—	—
Investment in own shares	(7,973)	—	—
New share capital subscribed	76,647	265	1,834
Net additions to shareholders' funds	27,915	4,867	11,359
Opening shareholders' funds	137,000	125,641	125,641
Closing shareholders' funds	164,915	130,508	137,000

9 Acquisitions and Disposals

i) Acquisitions

The following acquisitions were made during the financial period:

	Principal Choice Limited	Disaster Restoration Limited	Purchase of Minority Interest	
Date acquired:	28 May 2004	29 July 2004	6 April 2004	
Acquired by:	Home Service (GB) Limited	Regency At Home Limited	Homeserve plc	
	£'000	£'000	£'000	Total £'000
Consideration:				
Cash including expenses	1,394	750	664	2,808
Issue of shares	—	—	72,442	72,442
Deferred consideration	600	400	—	1,000
	1,994	1,150	73,106	76,250
Fair value of net assets acquired:				
Tangible fixed assets	—	87	—	87
Cash	105	—	—	105
Minority Interest	—	—	6,166	6,166
Other net current (liabilities)/assets	(97)	410	—	313
	8	497	6,166	6,671
Goodwill on acquisition	1,986	653	66,940	69,579

The amounts stated above for consideration, fair value of net assets acquired and goodwill are provisional.

Deferred consideration of £2,000,000 (six months ended 30 September 2003: £2,300,000) was paid in the period in respect of Regency Financial Holdings Limited.

ii) Disposals

The following disposals were made during the financial period:

	South Staffordshire Businesses	Mail Solutions Limited	Onsite South Limited	
Date disposed:	6 April 2004	23 July 2004	24 August 2004	
	£'000	£'000	£'000	Total £'000
Tangible fixed assets	(154,043)	(5,889)	(1,562)	(161,494)
Stocks	(1,047)	(1,413)	(16)	(2,476)
Debtors	(8,820)	(4,559)	(2,002)	(15,381)
(Cash)/overdraft	1,301	(441)	(1,100)	(240)
Other net assets	134,087	4,936	585	139,608
Net assets disposed of	(28,522)	(7,366)	(4,095)	(39,983)
Related goodwill	—	(13,215)	(5,052)	(18,267)
Disposal costs	—	(87)	(56)	(143)
Consideration	—	7,368	3,000	10,368
Dividend in specie/loss on disposal of business	(28,522)	(13,300)	(6,203)	(48,025)

10 Analysis of net debt

	30 September 2004 £'000	30 September 2003 £'000	31 March 2004 £'000
Cash at bank and in hand/(bank overdraft)	1,734	(10,765)	2,218
Irredeemable debenture stock	—	(1,633)	(1,633)
Index-linked bond	—	(86,637)	(87,941)
Obligations under finance leases	(1,361)	(5,056)	(4,661)
Loan notes	(5,154)	(2,277)	(1,490)
Net debt	(4,781)	(106,368)	(93,507)

11 Other information

This interim report is being sent to shareholders and further copies will be available from the registered office at Cable Drive, Walsall, WS2 7BN.

12 – Homeserve plc

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