



Delivering managed procurement and business critical services

Half Yearly Results

for the six months to 30 June 2010

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Financial highlights

- Satisfactory results despite a softening in public sector sales since the election
- Group revenue increased by 12.2% to £107.7m (2009: £96.0m)
- Gross profit increased to £30.9m (2009: £29.8m)
- Gross margin at 28.7% (2009: 31.0%) impacted by the novated TPF contracts but improvement anticipated in H2
- Underlying profit before tax slightly down at £6.0m (2009: £6.4m)
- Net indebtedness was £32.1m (2009: £30.2m) including the cost of acquiring and integrating TPF and Martin Luck. Net indebtedness excluding these costs would have been £27.6m
- Cash generated from existing operating activities £3.3m (2009: £5.1m)
- Board declares an interim dividend of 3.6p per share (2009: 3.6p per share)



Other highlights

- Private sector accounted for 60% of Group sales activities in the period and now represents 66% going forward
- Acquisition of TPF trade and assets, making o2o a “top 5” player in the Document Process Outsourcing market
- Extension of the HMRC Collaborative Framework until at least 1 June 2011
- “Closed Loop” copier paper created from customer waste documents
- New contract secured to provide document shredding services to the public sector in Northern Ireland
- First o2o CSR Review published



Managed procurement

Helping customers to reduce the cost of their office and business products, effectively, ethically and sustainably



Managed procurement

- **Banner Business Services** enjoyed a strong Q1, but was impacted by softening public sector volumes after the election

- reflected in H1 results

However:

- no material accounts have been lost
 - margins have held up well, despite significant increases in the cost of copier paper and other commodity products
 - engaged with Government's procurement policymakers for this category
- The **Accord** business, focused on the SME market, has performed in line with expectations during H1
 - the Martin Luck acquisition has been successfully integrated into o2o operations and all material customers have been retained



Managed procurement

- HMRC Collaborative Framework (currently generating c.£28m pa) has been extended until at least 1 June 2011, as the compliant vehicle to deliver quick wins by:
 - product rationalisation
 - aggregated volumes
 - extension of the “Closed Loop” service
- Our focus is now on securing new business under the Framework and establishing clear leadership in advance of a forthcoming pan-Government tender, expected in 2011



Business critical services

Integrated document outsource service, incorporating creative design, data solutions, campaign delivery, logistics and print management



Business critical services

- Our growing services activities are now 33% (2009: 18%) of Group sales and 50% of private sector sales
- The **AccessPlus** brand delivered profitable growth in H1 as discretionary marketing spend recovered
- Acquisition of the trade and assets of **The Print Factory** has been integrated speedily and successfully:
 - no material accounts lost
 - management restructuring completed
 - significant duplicated cost eliminated
 - broadens service offer
- Rebranding as “**Banner Managed Communication**” will enable us to leverage the strong Banner brand in the corporate / public sector market



- o2o is now a “top 5” player in the UK Document Process Outsourcing market and we are optimistic that this activity will deliver further growth as the economy recovers



“Closed Loop”

- **Banner Document Services**, provides an opportunity for o2o to achieve strategic growth and market leadership
- In January 2010, o2o successfully produced the first “Closed Loop” copier paper product in Europe



- We are now producing 50,000 boxes of “Closed Loop” copier paper every quarter



“Closed Loop”

- Growth opportunity in both the public and corporate sectors
- The public sector procures 250,000 tonnes of copier paper annually, of which just 10% is recycled
- Key barrier is manufacturing capacity; there is no operational UK mill at present and insufficient office waste is collected
- The “Closed Loop” process has been presented to the Cabinet Office at ministerial level, with the following result:

“The Closed Loop initiative that HMRC has piloted with Banner has now been endorsed by the Cabinet Office and is expected to become the default position across Government...we would envisage and encourage all Departments to work with Banner to roll out this initiative during the extension period.”

Extract from a letter written by David Thomas,
Commercial Director of HMRC,
to all users of the HMRC Collaborative Framework
(30th July 2010)



Financials



Income statement

	2010		2009	
	Half Year		Half Year	
	£'m		£'m	
Revenue	107.7	+12.2%	96.0	
Gross profit	30.9	+ 3.7%	29.8	
Gross margin %	28.7%		31.0%	
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Underlying profit before finance costs and income tax*	6.5	-5.8%	6.9	
Finance costs	(0.5)		(0.5)	
Underlying profit before income tax	6.0	-6.3%	6.4	
Share option costs	(0.2)		(0.1)	
Restructuring / non-recurring items	(2.6)		(1.3)	
Negative goodwill	0.5		-	
Amortisation	(0.6)		(0.5)	
Profit before tax ("statutory")	3.1	-31.1%	4.5	

*Underlying profit before finance costs and income tax, exceptional and non-recurring costs, amortisation, negative goodwill and share option expense



Balance sheet

	2010 Half Year £'m	2009 Half Year £'m
Non current assets		
Intangible assets	61.8	58.8
Plant and equipment	3.3	4.0
Deferred tax asset	1.5	1.2
	66.6	64.0
Current assets		
Stock	8.0	8.5
Debtors	37.3	27.4
Cash*	3.5	1.9
	48.8	37.8
Creditors <1 year	(51.2)	(43.4)
Borrowings <1 year*	(14.8)	(8.5)
Borrowings >1 year*	(20.8)	(23.6)
Deferred tax liability	(3.2)	(2.3)
Provisions	(3.0)	(3.2)
	22.4	20.8
Net assets		
Stock days	18	24
Debtor days	46	40
Creditor days	86	84
*Net debt / cash	(32.1)	(30.2)
Excluding the working capital effects of TPF:		
Debtor days	39	40



Cash flow

	2010 Half Year £'m	2009 Half Year £'m
Operating profit (before share options, amortisation and negative goodwill)	6.5	6.9
Non-recurring / restructuring costs	(2.2)	(1.2)
Depreciation	0.4	0.4
Working capital movement	(4.4)	(0.1)
Cash generated from operations	0.3	6.0
Finance costs	(0.5)	(0.5)
Tax paid	(0.2)	(1.6)
Net cash (used in) / generated from operating activities	(0.4)	3.9
Increase in finance leases	0.0	(0.9)
Purchase of property, plant and equipment	(0.3)	(0.8)
Acquisitions	(0.8)	0.0
Dividends	(2.8)	(2.7)
	(4.3)	(0.5)
Net debt movement		
Net debt at 1 January	(27.8)	(29.7)
Cash generated from existing operating activities	3.3	5.1
Increase in finance leases	0.0	(0.9)
Purchase of property, plant and equipment	(0.3)	(0.8)
Dividends	(2.8)	(2.7)
Underlying net debt at 30 June	(27.6)	(29.0)
Acquisitions	(0.8)	0.0
Cash used in acquisitions	(1.5)	0.0
Non-recurring / restructuring costs	(2.2)	(1.2)
Net debt at 30 June	(32.1)	(30.2)



Outlook



Outlook

- We expect growth in our private sector volumes, as the economy recovers
- We anticipate the softening in public sector sales will continue, but o2o is engaged with the Government at a senior level and well positioned to manage the change in procurement policy
- The “Closed Loop” initiative provides a unique opportunity, having been endorsed by the Cabinet Office (“expected to become the default position in Government”)
- The integration of TPF has been completed and the re-branded business is now focused on delivering cross-selling opportunities
- Management ability to act quickly and effectively provides comfort for the near term
- We therefore look forward to H2 and beyond knowing we are better positioned than we have ever been before





Thank You