



Tuesday, 8 September 2009

STAFFLINE GROUP PLC

Staffline Group plc (“Staffline” or “the Group”), a leading provider of recruitment and outsourced HR services to industry, today announces its interim results for the half year ended 30 June 2009.

Financial highlights

- Revenue down 11% to £49.1m (2008: £54.9m) reflecting the difficult trading environment
- Pre tax profit held at £1.4m (2008: £1.4m), benefiting from cost reductions
- Diluted earnings per share of 4.4p (2008: 4.3p)
- Interim dividend held at 1.4p (2008: 1.4p)
- Cash generated from operations increased significantly to £2.0m (2008: £0.8m)
- Net debt reduced by £1.9m to £4.2m (31 December 2008: £6.1m); gearing reduced to 17% (2008: 24%)

Operational highlights

- The number of *OnSites* is stable at 112 following some customer churn:
 - Some significant gains and organic growth in food processing and distribution
 - Performance held back by loss of a significant customer and reduced demand in manufacturing
- Acquisitions expected to benefit the second half
- Techsearch and OSP performing well
- Benefits coming through from new board appointments
- Increased operational efficiency reflected in reduced staff numbers

Commenting on the results, Andy Hogarth, Chairman and Chief Executive, said:

“The Group has had a successful first half year considering the tough economic backdrop in many of its trading sectors. Our focused strategy of deriving a greater proportion of revenues from the more secure areas of outsourced labour, training and other business services has continued.

Trading in the first eight weeks of the second half of the year has been satisfactory in the food sector and remains subdued in logistics and manufacturing although the automotive sector appears to be showing signs of a potential recovery. Our strong financial position means we are in good shape to take advantage of acquisition opportunities and strengthen our competitive position and we expect to benefit from the recent acquisitions completed and also from the continuing positive effect of cost reductions.”

For further information, please contact:

Staffline Group plc

Andy Hogarth, Chairman and Chief Executive
Tim Jackson, Finance Director

www.staffline.co.uk

0115 950 0885
07931 175775
07720 458626

Altium

Phil Adams / Paul Lines

0161 831 9133

Smithfield

Reg Hoare / Rebecca Whitehead

020 7360 4900

*A presentation for analysts will be held at 9.15am for 9.30am at
the offices of Smithfield, 10 Aldersgate Street, London EC1A 4HJ*

*Print resolution images are available for the media to view and download from
www.vismedia.co.uk*

About Staffline

Staffline Group plc's main business is as a specialist supplier of "blue collar" temporary and contract staff to industry. It provides a fully outsourced service, managing the temporary recruitment function of its clients on their premises, at 112 *OnSite* locations nationwide and also has a network of 13 branches. In addition the Group has two smaller businesses branded as Techsearch, which specialises in temporary and permanent engineering, IT, HR and FMCG placements, and OSP, which provides permanent recruitment outsourcing services in healthcare, retail and distribution. The Group, which is managed from a head office in Nottingham, was founded in 1986 and was admitted to AIM in December 2004 (Ticker: STAF.L).

Chairman and Chief Executive's Statement

Introduction

The Group has had a successful first half year considering the tough economic backdrop in many of its trading sectors. Our focused strategy of deriving a greater proportion of revenues from the more secure areas of outsourced labour, training and other business services has continued. To reflect this, the name of the group was changed to Staffline Group plc following the vote in favour by shareholders at the AGM in May.

Financial Results

Whilst revenues have fallen by 11% to £49.1m (2008: £54.9m) reflecting the difficult trading environment, the cost reductions implemented during 2008 have enabled us to maintain pre tax profitability at the same level as 2008 at £1.4m. The business has been strongly cash generative during the first half and debt has been reduced significantly as a result.

Strategy

Our strategy remains one of organic growth and we believe that there are likely to be a number of opportunities open to us to grow in the coming months since the recession is placing our potential clients under ever increasing pressure to reduce costs. This can represent an opportunity since we have a cost structure which is one of the most competitive in the industry.

We are also looking at taking advantage of the current economic climate by making strategic acquisitions of relatively small but well run competitors in order to broaden both our client and our geographic base. These small companies can be easily integrated into Staffline's infrastructure, and as a result we have been joined by a number of well motivated, experienced and enthusiastic people.

Acquisitions

In April we entered in to an agency agreement with the administrators of Bridge Contract Services Ltd, a competitor based in Birmingham, the terms of which allowed us to continue to supply the existing clients of Bridge and to collect the outstanding debts on behalf of the debenture holder.

At the beginning of June we acquired the business and assets of The Workplace, a competitor based at Cleckheaton near Bradford and at the end of August we acquired the business and assets of La Gente Recruitment, based in Chester. Both of these organisations have a strong reputation in their local markets and are well established and professionally run businesses. They have both been acquired by using a mix of upfront cash and performance related deferred consideration.

These three businesses are expected to add, in aggregate, around £10m per annum to the Group's revenues in a full year and are expected to make a positive contribution to profitability. We are continuing to review a number of similar small acquisition opportunities. We have developed an efficient acquisition and integration proposition which minimises the risk for the Group whilst providing the vendors the opportunity to receive a fair value for their business, based on performance.

Operational Review

We have experienced a much larger than normal customer 'churn' during the period, driven largely by pressure from a significant number of competitors offering PAYE and National Insurance tax saving schemes which have been widely reported in the press. Whilst many recruitment companies operate legitimate schemes, we have been challenged by a significant increase in schemes paying below minimum wage and after a sustained campaign in both the press and Parliament we are now starting to see action being taken by HMRC and other government agencies. Also some of the major retailers are ensuring that these schemes are not used or condoned by those in their supply chain.

In addition the Group has chosen to decline to continue supply or tender where clients have requested credit terms outside of those we are prepared to offer. We have successfully replaced the majority of these customers with other new contracts which have now started or are due to do so shortly.

Our *OnSite* division has continued to perform strongly, particularly those sites operating in the food processing and distribution sectors. Performance in areas such as manufacturing and in particular the automotive sector has been less strong, with customer demand very much reduced from last year's levels. We ended the period with the same number of *OnSites* as we had at 31 December 2008, 112.

Our industrial branches have been supplemented by three, in Dudley, Cleckheaton and Chester following the recent acquisitions and we expect the second half to benefit from their contribution.

Techsearch has also performed well under its rationalised branch structure, with the single branch in Leeds contributing the same amount this year as all four branches last year.

The national response centre has also had a very strong start to the year, gaining a number of new clients in additional operating sectors.

Industry Background

We have seen a shrinking of the overall market for blue collar temporary workers during the period, with the number of whole time equivalent jobs reducing by approximately 20%. Set in this context, the fall in revenues of 11% on the prior year represents a good performance and an increase in our market share.

As a result of this, combined with a similar or larger fall in demand for labour in Eastern Europe and increased unemployment in the UK, we have not experienced any of the tightening of the labour market which occurred late in 2007.

Marshall Evans continues to sit on the board of both the Gangmaster Licensing Authority and the Recruitment Employment Confederation and I sit on the board of the Association of Labour Providers. These roles enable us to influence future legislation and ensure that Staffline continues to be at the forefront of industry thinking.

Gangmaster Licensing Authority

The GLA appears to be gaining confidence as it takes more enforcement action against labour providers found to be breaking the code; at the time of writing 1,198 companies held a licence and 102 had been refused or had their licence withdrawn.

We had a full GLA inspection in July and were found to have zero non-compliances. We have increased the size and remit of our internal audit function to ensure we continue to operate to the very highest standard ensuring that every part of our business will operate as a minimum to the standards required by the GLA for workers operating in the food sectors.

Health and Safety

Ensuring that our workers are offered safe working environments remains paramount to us.

We have recorded a reportable accident frequency rate for the first 6 months of 2009 of 0.3% which compares to the average of the industries in which we operate of 3.1%.

Our staff take a proactive role in managing health and safety matters with clients; firstly in checking that the appropriate controls such as risk assessments are in place; secondly in ensuring that health and safety is an integral part of induction and ‘on the job’ training; and thirdly in ensuring that all accidents are reported, that investigations take place and that process improvements are introduced to mitigate risk.

Board

Following Derek Mapp’s indication of his intention to step down from [the Chairmanship and as a director](#) of the Group, [in February](#) I became Chairman and Chief Executive and John Crabtree became Senior Independent Director. Shaun Brittain was [also](#) appointed to the Board as an Executive Director [at that time](#).

Since Shaun joined the Group in August 2000, he has been one of the Group’s divisional directors, with responsibility for the largest region, and has made a significant contribution to the growth of Staffline’s *OnSite* model, which now represents over 75% of Group sales.

Operational benefits are already being seen as a result of the change to our board appointments.

Current Trading

The Group has had a successful first half year considering the tough economic backdrop in many of its trading sectors. Our focused strategy of deriving a greater proportion of revenues from the more secure areas of outsourced labour, training and other business services has continued.

Trading in the first eight weeks of the second half of the year has been satisfactory in the food sector and remains subdued in logistics and manufacturing although the automotive sector appears to be showing signs of a potential recovery. Our strong financial position means we are in good shape to take advantage of acquisition opportunities and strengthen our competitive position and we expect to benefit from the recent acquisitions completed and also from the continuing positive effect of cost reductions.

Andy Hogarth
Chairman and Chief Executive
08 September 2009

Finance Director's Statement

Financial Results

Whilst revenues have fallen by 11% to £49.1m (2008: £54.9m) reflecting the difficult trading environment, the cost reductions implemented during 2008 and lower interest charges have enabled us to maintain pre tax profitability at the same level as 2008 at £1.4m. Post tax profits have improved slightly to £1.0m (2008: £0.9m).

Earnings per share

The undiluted earnings per share have improved to 4.5p (2008: 4.4p) with the diluted earnings per share also improved to 4.4p (2008: 4.3p).

Dividends

The Directors propose an interim dividend, held at the same level as last year, of 1.4p per share (2008: 1.4p)

Balance sheet

The Group's balance sheet has strengthened considerably during the first half with net current assets rising by £0.7m to £3.2m (2008: £2.5m). Net debt has again reduced during the period, to £4.2m at 30 June 2009 (30 June 2008: £5.8m, 31 December 2008: £6.1m), The Group continues to be focused on generating cash and maintaining a robust balance sheet.

It is also pleasing to report a further reduction in gearing to just 17% (2008: 24%), a level which provides the Group with considerable financial flexibility to grow its business both organically and by strategic acquisition.

Financing

The Group has financing facilities in place to support the future growth of the business. The current facilities include a term loan of £4.1m repayable in quarterly instalments up to 2013 and an overdraft of £5.0m.

At 30 June 2009, £4.0m of the overdraft was undrawn. The average daily bank balance during the first half was a credit of £697,000. The overdraft facility was renewed in March 2009 for a period of 12 months.

Employees

The average number of employees has fallen by 45 to 204 compared to the same period in 2008, with average sales per employee in the last 12 calendar months rising to £564,000 (2008: £485,000)

We are continuing to invest significant sums in both internal and external training courses for our staff and always promote from within wherever possible. A further 25 members of staff passed their Certificate in Recruitment Practice (Cert RP) during the period.

Tim Jackson

Finance Director

09 September 2009

Consolidated statement of comprehensive income
For the six months ended 30 June 2009

	Six month period ended 30 June 2009	Six month period ended 30 June 2008	Year ended 31 December 2008
Note	Unaudited £'000	Unaudited £'000	Audited £'000
Continuing Operations			
Sales revenue	49,136	54,853	120,784
Cost of sales	(42,534)	(46,892)	(104,046)
Gross profit	6,602	7,961	16,738
Administrative expenses	(5,174)	(6,415)	(12,992)
Profit from operations	1,428	1,546	3,746
Finance costs	(63)	(193)	(370)
Profit for the period before taxation	1,365	1,353	3,376
Tax expense	4 (406)	(418)	(1,031)
Net profit and total comprehensive income for the period	959	935	2,345
Earnings per ordinary share	5		
Basic	4.5p	4.4p	11.1p
Diluted	4.4p	4.3p	10.7p

Consolidated statement of financial position
At 30 June 2009

	30 June	30 June	31
	2009	2008	December
	Unaudited	Unaudited	Audited
Note	£'000	£'000	£'000
Assets			
Non current			
Goodwill	24,518	24,181	24,181
Other intangible assets	12	71	25
Property, plant and equipment	792	1,024	891
	25,322	25,276	25,097
Current			
Trade and other receivables	12,695	13,401	15,805
Cash and cash equivalents	1,837	1,769	892
	14,532	15,170	16,697
Total assets	39,854	40,446	41,794
Liabilities			
Current			
Trade and other payables	(8,123)	(8,762)	(10,162)
Borrowings	(2,798)	(3,405)	(3,251)
Other current liabilities	(17)	(17)	(17)
Current tax liabilities	(400)	(439)	(371)
	(11,338)	(12,623)	(13,801)
Non current			
Borrowings	(3,127)	(3,998)	(3,570)
Other non-current liabilities	(129)	(146)	(137)
Total liabilities	(14,594)	(16,767)	(17,508)
Equity			
Share capital	(2,123)	(2,123)	(2,123)
Share premium	(14,525)	(14,525)	(14,525)
Share based payment reserve	(164)	(128)	(149)
Profit and loss account	(8,448)	(6,903)	(7,489)
Total equity	(25,260)	(23,679)	(24,286)
Total equity and liabilities	(39,854)	(40,446)	(41,794)

Consolidated statement of changes in equity
For the six months ended 30 June 2009

	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2009 (audited)	2,123	14,525	149	7,489	24,286
Share options issued in share based payments	-	-	15	-	15
Transactions with owners	-	-	15	-	15
Profit for the period	-	-	-	959	959
Total comprehensive income for the period	-	-	-	959	959
Balance at 30 June 2009	2,123	14,525	164	8,448	25,260

	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2008 (audited)	2,112	14,468	106	5,951	22,637
Share options issued in share based payments	-	-	39	-	39
Transfer on exercise of options	-	-	(17)	17	-
Share options exercised	11	57	-	-	68
Transactions with owners	11	57	22	17	107
Profit for the period	-	-	-	935	935
Total comprehensive income for the period	-	-	-	935	935
Balance at 30 June 2008	2,123	14,525	128	6,903	23,679

Consolidated statement of changes in equity
For the six months ended 30 June 2009

	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2008 (audited)	2,112	14,468	106	5,951	22,637
Dividends	-	-	-	(826)	(826)
Share options issued in share based payments	-	-	62	-	62
Transfer on exercise of options	-	-	(19)	19	-
Share options exercised	11	57	-	-	68
Transactions with owners	<u>11</u>	<u>57</u>	<u>43</u>	<u>(807)</u>	<u>(696)</u>
Profit for the period	-	-	-	2,345	2,345
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,345</u>	<u>2,345</u>
Balance at 31 December 2008	<u>2,123</u>	<u>14,525</u>	<u>149</u>	<u>7,489</u>	<u>24,286</u>

Consolidated statement of cash flows
For the six months ended 30 June 2009

	Six month period ended 30 June 2009	Six month period ended 30 June 2008	Year ended 31 December 2008
Note	Unaudited £'000	Unaudited £'000	Audited £'000
Cash flows from operating activities			
Profit before taxation	1,365	1,353	3,376
Adjustments for:			
Finance costs	63	193	370
Depreciation and amortisation of property, plant and equipment and intangible assets	120	178	362
Operating profit before changes in working capital and provisions	1,548	1,724	4,108
Change in trade and other receivables	3,110	3,241	833
Change in trade and other payables	(2,278)	(3,490)	(2,099)
Cash generated from operations	2,380	1,475	2,842
Adjustment for debt issue costs	13	13	-
Employee equity settled share options	-	39	62
Taxes paid	(377)	(678)	(1,359)
Net cash inflow from operating activities	2,016	849	1,545
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired	(90)	-	-
Purchases of property, plant and equipment	(9)	(209)	(214)
Net cash used in investing activities	(99)	(209)	(214)
Cash flows from financing activities			
Decrease in loans	(456)	(470)	(930)
Interest paid	(63)	(193)	(344)
Proceeds from the issue of share capital	-	64	68
Dividends paid	-	-	(826)
Net cash flows from financing activities	(519)	(599)	(2,032)
Net change in cash and cash equivalents	1,398	41	(701)
Cash and cash equivalents at beginning of period	(1,463)	(762)	(762)
Cash and cash equivalents at end of period	(65)	(721)	(1,463)
Cash and cash equivalents			
Cash and cash equivalents	1,837	1,769	892
Bank overdraft	(1,902)	(2,490)	(2,355)
	(65)	(721)	(1,463)

**Notes to the interim report
For the six months ended 30 June 2009**

1 BASIS OF PREPARATION

Staffline Group plc, a Public Limited Company, is incorporated and domiciled in the United Kingdom.

The interim financial statements for the six months ended 30 June 2009 (including the comparatives for the period ended 30 June 2008 and the year ended 31 December 2008) were approved by the board of directors on 7th September 2009. Under the Security Regulations Act of the EU, amendments to the financial statements are not permitted after they have been approved.

It should be noted that accounting estimates and assumptions are used in the preparation of the interim financial information. Although these estimates are based on management's best knowledge and judgement of current events, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the interim financial information are set out in note 3 to the interim financial information.

The interim financial information contained within this report does not constitute statutory accounts as defined in the Companies Act 2006. The full accounts for the year ended 31 December 2008 received an unqualified report from the auditors and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

2 ACCOUNTING POLICIES

The interim financial report has been prepared under the historical cost convention and in accordance with International Accounting Standard 34 'Interim Financial Reporting'.

The principal accounting policies and methods of computation adopted to prepare the interim financial information are consistent with those detailed in the 2008 financial statements except for the first time adoption of IAS 1 'Presentation of Financial Statements (Revised 2007)' and IFRS 8 'Operating Segments'.

The adoption of IAS 1 (Revised 2007) does not affect the financial position or profits of the Group, but gives rise to additional disclosures. The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged, however some items that were recognised directly in equity are now recognised in other comprehensive income. IAS 1 (Revised 2007) affects the presentation of owner changes in equity and introduces a 'Statement of comprehensive income'.

The adoption of IFRS8 has required management to review the disclosure of segmental information based on internal management reporting practices, as opposed to the risks and rewards approach as required within IAS14. Management maintain the view that the Group continues to have one primary segment, being the provision of temporary staff, operating solely within the UK.

The Group's other accounting policies have been applied consistently throughout the Group for the purposes of preparation of the consolidated interim report.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting year are as follows:

Impairment of goodwill

The annual impairment assessment in respect of goodwill requires estimates of the value-in-use of cash generating units to which goodwill has been allocated to be calculated. As a result, estimates of future cashflows are required, together with an appropriate discount factor for the purpose of determining the present value of those cashflows.

Critical judgments in applying the Group's accounting policies

The Directors do not consider they have had to make any critical judgments in applying the accounting policies which have been adopted.

4 TAX EXPENSE

The relationship between the expected tax expense at 28% or 30% and the tax expense actually recognised in the income statement can be reconciled as follows:

	Six month period ended 30 June 2009		Six month period ended 30 June 2008		Year ended 31 December 2008	
	Unaudited		Unaudited		Audited	
	£'000	%	£'000	%	£'000	%
Profit for the period before taxation	<u>1,365</u>		<u>1,353</u>		<u>3,376</u>	
Expected tax expense	382	28.0	379	28.0	962	28.5
	15	1.1				
Adjustment for non-deductible expenses relating to short term timing differences			9	0.7	27	0.8
Other non-deductible expenses	<u>9</u>	<u>0.6</u>	<u>30</u>	<u>2.2</u>	<u>42</u>	<u>1.2</u>
	<u>406</u>	<u>29.7</u>	<u>418</u>	<u>30.9</u>	<u>1,031</u>	<u>30.5</u>
Comprising:						
Current tax expense	406		418		1,031	

There is no tax expense or credit in relation to the share based payment reserve credited to equity.

5 EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the period. The calculation of the diluted earnings per share is based on the basic earnings per share adjusted to allow for all dilutive potential ordinary shares.

Details of the earnings and weighted average number of shares used in the calculations are set out below:

	Basic			Diluted		
	Six months ended 30 June 2009	Six months ended 30 June 2008	Year ended 31 December 2008	Six months ended 30 June 2009	Six months ended 30 June 2008	Year ended 31 December 2008
Earnings (£'000)	<u>959</u>	<u>935</u>	<u>2,345</u>	<u>959</u>	<u>935</u>	<u>2,345</u>
Weighted average number of shares	<u>21,229,081</u>	<u>21,143,202</u>	<u>21,189,551</u>	<u>21,690,230</u>	<u>21,985,351</u>	<u>21,865,339</u>
Earnings per share (pence)	<u>4.5p</u>	<u>4.4p</u>	<u>11.1p</u>	<u>4.4p</u>	<u>4.3p</u>	<u>10.7p</u>

The weighted average number of shares has been increased by 461,149 (period ended 30 June 2008: 842,149 and 31 December 2008: 675,788) shares to take account of all dilutive potential ordinary shares that could be issued under the share option scheme.

Dividends

Staffline Group plc paid a final dividend of £318,436 as proposed in the annual report for the year ended 31 December 2008 on 8 July 2009. An interim dividend of £297,500 (2008: £295,521) has been proposed but has not been accrued within these financial statements. This represents a payment of 1.4 pence (2008: 1.4 pence) per share.

6 ACQUISITIONS

On 1st June 2009 we acquired the business and assets of The Workplace, a competitor based at Cleckheaton near Bradford and on the 24th August we acquired the business and assets of La Gente Recruitment, based in Chester. Both of these organisations have a great reputation in their local markets and are well established and professionally run businesses. These businesses will add, in aggregate, around £7.6m per annum to the group's revenues and are expected to make a positive contribution to profitability. These businesses have been acquired with small upfront payments followed by profit related payments over the following year.