

12 September 2016

**Murgitroyd Group PLC ("the Group")  
Preliminary Results for the year ended 31 May 2016**

The Group (AIM:MUR), is pleased to announce its audited results for the year ended 31 May 2016.

**Highlights**

- Revenue increased to £42.2m (2015: £39.8m)
- Profit before income tax increased to £4.29m (2015: £4.16m)
- Basic earnings per share increased to 35.4p (2015: 35.0p)
- Proposed final dividend of 11.25p per share, giving a total dividend for the year of 16p (2015: 14.75p), an increase of 8.5% year on year

Ian Murgitroyd, Chairman of Murgitroyd Group PLC said:

"I am pleased to be able to report an increase in pre-tax profits together with another year of record revenues. We continue to see good growth in the USA which remains the main focus of business development activity for the Group. It is the largest source of European Patent applications and our growing presence there offsets continuing weaker European demand, including in the UK. The geographic spread of our activities and customer base however puts us in a strong position to counter any weakness in individual markets.

"These results reinforce the Group's ability to deliver sustainable and long-term growth, which combined with strong cash position, underpins the Board's commitment to a continued progressive dividend policy."

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## **Murgitroyd Group PLC Chairman's Statement**

### **Financial review**

In the full year to 31 May 2016, revenue increased to £42.2m (2015: £39.8m), an increase of 6.1% on the Group's previous record revenue of 2015. It reflects the continued return on investment in sales and marketing.

Profit before income tax increased by 3% to £4.29m (2015: £4.16m), growth which is broadly in line with market expectations. Basic earnings per share increased by 1% to 35.4p (2015: 35.0p), the increase reflecting both the improvement in profit before income tax and a further reduction in the UK Corporation Tax rate.

Operational overhead costs have been kept under control with total administrative expenses increasing by less than 5% year-on-year, despite continued investment in sales and marketing following on from last year's re-branding of the operating businesses, the new website, investment in business development resource as well as improved technology interfaces with clients. The continued investment in marketing and sales was reflected in this slight increase in administrative expenses, as well as capital expenditure on the Group's IT infrastructure, client interfaces and web presence.

Notwithstanding the reduction in the UK Corporation Tax rate, the Group's overall effective corporate tax rate increased to 26.1% (2015: 24.9%) mainly due to a growth in overseas earnings. However this has to be weighed up against the benefits accruing from growth in revenue, in particular foreign currency-denominated revenue, generated in those same overseas territories that have contributed to the reported earnings growth.

Continuing strong cash flow resulted in net funds of £2.75m as at 31 May 2016 (31 May 2015: £706,000) and interest charges fell to £11,000 from £22,000 as the Group continued to pay down its debt. As at 31 May 2016, the remaining term loan debt owed by the Group amounted to just £546,000 (31 May 2015: £911,000).

### **Operating review**

The Group saw continued revenue growth from its operating businesses, trading as MURGITROYD, servicing clients from its international network which spans fifteen offices in eight countries.

Of the £2.41m increase in revenue, 31.6% was generated by MURGITROYD's Global Support Services group ("GSS") employing paralegals, specialist formalities staff, and Patent and Trade Mark Administrators. Client wins in this area have resulted in GSS revenue for the year increasing by £3.44m over the last three years. GSS revenue now represents almost a third (32.7%) of total revenue, up from 28.8% three years ago, and further growth in this area is anticipated.

The balance, and larger part, of the increase in revenue was produced by MURGITROYD's Attorney Practice Groups ("APG"), with last year's productivity gains in this area having continued into this year. These productivity gains are reflected by the fact that an average of 66 technical staff generated £28.44m of APG revenue in the current financial year, compared to £25.62m generated by an average of 76 technical staff three years ago.

MURGITROYD continues to see strong growth in the US market, still the main focus of business development activity and an important growth market. Revenue has grown by 20.1% year on year, reflecting the investments made. Revenue from the USA now represents 44.5% of total revenue and the USA remains a key focus for investment. It is the largest source of European Patent applications and MURGITROYD's growing presence in this market continues to offset weaker demand in Europe, including the UK where contraction continues.

Since the end of the year, the outcome of the European Union ("EU") referendum vote held on 23 June 2016 has become known, and although it is too early to evaluate with certainty what the longer-term consequences of the vote may be on the business, and on the European Intellectual Property ("IP") market more generally, management remains confident that the geographic spread of MURGITROYD's activities and customer base puts it in a strong comparative market position.

Market statistics nevertheless remain robust. The European Community Trade Mark Office ("OHIM") statistics show that there was an increase in Community Trade Mark ("CTM") applications filed in 2015, its official statistics reporting that more than 130,000 CTM applications were filed (2014: 117,000). In 2015 we, therefore, saw the sixth consecutive year of growth, with the number of applications filed in that year setting a new record.

OHIM was renamed the European Union Intellectual Property Office ("EUIPO") on 23 March 2016, and, since that date, the CTM is called the EU Trade Mark.

2015 statistics from the European Patent Office ("EPO") showed a 1.6% year on year increase in Patent filings, with the number rising to more than 278,000, an all-time high. The composition of these filings shows that filings originating in the US represent 24% of the total.

The EUIPO's and the EPO's statistics continue to be considered good indicators of the current state of the European IP market.

Since the end of the year, the Group announced that its principal operating subsidiary, Murgitroyd & Company Limited completed the acquisition of certain trade and assets from Dallas-based MDB Capital Group, LLC and Managua-registered Patentvest S.A, for a consideration of \$2.43m. The transaction is anticipated to be broadly earnings neutral in its first year.

The first revenue from the acquired business was generated in June 2016.

The acquisition reflects the operating businesses' strategy of offering a comprehensive suite of IP advisory and support services to global companies and international law firms in its largest geographical market, the USA, with the objective of increasing MURGITROYD's market share of high value European Patent Attorney services purchased by them.

## **Employees**

As at 31 May 2016 the Group employed 234 staff (31 May 2015: 250), the reduction continuing to reflect both the mix of revenue, and the investment in systems and processes that have facilitated increased amounts of fee earning work being carried out by paralegal and specialist formalities staff instead of Attorneys.

I would like to take this opportunity to thank all staff for their continued enthusiasm and commitment to the business.

## **Board**

During the period under review, Dr Christopher Masters and John Reid were appointed as non-Executive Directors. The Board was further enhanced by the appointment of an additional Executive Director, Gordon Stark, MURGITROYD's Chief Operations Officer. Christopher has been appointed to the Remuneration Committee, and John to the Audit Committee, with both also joining the Nomination Committee.

As previously announced, my intention is to move from Executive to non-Executive Chairman. This change will take effect from the conclusion of the Annual General Meeting, in October 2016.

## **Dividend**

The Board is proposing a final dividend of 11.25p per share, giving a total dividend for the year of 16p (2015: 14.75p), an increase of 8.5% year on year. This increase reflects the performance of the Group, the strength of its cash flows and the Board's stated intention to maintain a progressive dividend policy.

Subject to approval at the Annual General Meeting, the final dividend will be paid on 11 November 2016 to shareholders on the register on 7 October 2016. The ex-dividend date is 6 October 2016.

## **Outlook**

We are pleased to once again report growth for the year, having been able to build on the record revenues from the prior year.

The new financial year has seen the Group absorb one-off transaction and integration costs attaching to the acquisition that completed in late June which will be reflected in the Group's 2017 interim results.

Notwithstanding the uncertainty resulting from the EU referendum vote, including but not limited to the consequential volatility seen in foreign exchange markets, and the continuing, broader, macro-economic challenges to be addressed across Europe, we remain encouraged by our ability to win new business, particularly in the USA, and are committed to the delivery of sustainable higher earnings as well as increased revenue over the longer term.

**Ian G Murgitroyd**  
**Chairman**

12 September 2016

This preliminary announcement was approved by the Board of Directors on 12 September 2016.

## Consolidated statement of comprehensive income

for the year ended 31 May 2016

	Note	Year ended 31 May 2016 £'000	Year ended 31 May 2015 £'000
<b>Revenue</b>		<b>42,231</b>	39,819
Cost of sales		<b>(19,565)</b>	(17,750)
<b>Gross profit</b>		<b>22,666</b>	22,069
Administrative expenses		<b>(18,372)</b>	(17,887)
<b>Operating profit</b>		<b>4,294</b>	4,182
Financial income		<b>3</b>	3
Financial expense		<b>(11)</b>	(22)
<b>Profit before income tax</b>		<b>4,286</b>	4,163
Income tax		<b>(1,120)</b>	(1,039)
<b>Profit for the year attributable to equity holders of the parent</b>		<b>3,166</b>	3,124
<b>Other comprehensive income</b>			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Foreign exchange translation differences			75
– overseas undertakings		<b>103</b>	
Revaluation of property, plant and equipment		<b>33</b>	33
<b>Profit for the financial year and total comprehensive income all attributable to equity holders of the parent</b>		<b>3,302</b>	3,232
<b>Earnings per share</b>	<b>2</b>		
<b>Basic</b>		<b>35.35p</b>	35.00p
<b>Diluted</b>		<b>35.03p</b>	34.51p

# Consolidated balance sheet

at 31 May 2016

	31 May 2016 £'000	31 May 2015 £'000
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	2,292	2,360
Intangible assets and goodwill	14,953	14,924
<b>Total non-current assets</b>	<u>17,245</u>	<u>17,284</u>
<b>Current assets</b>		
Work in progress	596	254
Trade and other receivables	14,976	16,086
Taxation recoverable	548	12
Cash and cash equivalents	3,298	1,617
<b>Total current assets</b>	<u>19,418</u>	<u>17,969</u>
<b>Total assets</b>	<u>36,663</u>	<u>35,253</u>
<b>Current liabilities</b>		
Other interest-bearing loans and borrowings	(185)	(304)
Trade and other payables	(5,646)	(5,980)
<b>Total current liabilities</b>	<u>(5,831)</u>	<u>(6,284)</u>
<b>Non-current liabilities</b>		
Other interest-bearing loans and borrowings	(361)	(607)
Deferred tax liabilities	(34)	(21)
<b>Total non-current liabilities</b>	<u>(395)</u>	<u>(628)</u>
<b>Total liabilities</b>	<u>(6,226)</u>	<u>(6,912)</u>
<b>Net assets</b>	<u>30,437</u>	<u>28,341</u>
<b>Equity</b>		
Share capital	899	893
Share premium	3,488	3,368
Merger reserve	6,436	6,436
Revaluation reserve	47	47
Foreign currency translation reserve	60	(43)
Retained earnings	19,507	17,640
<b>Total equity attributable to equity holders of the parent</b>	<u>30,437</u>	<u>28,341</u>

## Consolidated statement of cash flows

for the year ended 31 May 2016

	Year ended 31 May 2016 £'000	Year ended 31 May 2015 £'000
<b>Cash flows from operating activities</b>		
Profit for the year	3,166	3,124
<i>Adjustments for:</i>		
Depreciation	265	285
Amortisation	30	52
Gain on disposal of property, plant and equipment	(4)	-
Financing costs	8	19
Equity settled share-based payment expense	22	-
Income tax expense	1,120	1,039
	<b>4,607</b>	<b>4,519</b>
Other reserves movements	103	75
Decrease/(increase) in trade and other receivables	1,110	(1,571)
(Increase)/decrease in work in progress	(342)	417
Decrease in trade and other payables	(334)	(20)
	<b>5,144</b>	<b>3,420</b>
Interest paid	(11)	(21)
Interest received	3	3
Income tax paid	(1,632)	(896)
	<b>3,504</b>	<b>2,506</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	(165)	(150)
Acquisition of intangible fixed assets	(59)	(40)
Proceeds from disposal of property, plant and equipment	5	-
	<b>(219)</b>	<b>(190)</b>
<b>Cash flows from financing activities</b>		
Proceeds from exercise of share options	126	-
Repayment of borrowings	(365)	(929)
Dividends paid	(1,365)	(1,227)
	<b>(1,604)</b>	<b>(2,156)</b>
<b>Net cash used in financing activities</b>		
	<b>(1,604)</b>	<b>(2,156)</b>
Net increase in cash and cash equivalents	1,681	160
Cash and cash equivalents at start of year	1,617	1,457
<b>Cash and cash equivalents at year end</b>	<b>3,298</b>	<b>1,617</b>

## Notes to the announcement:

### 1. Basis of preparation

The financial statements are prepared on the historical cost basis except that freehold property is stated at fair value. The preparation of the financial statements requires the Directors to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These consolidated financial statements are presented in Pounds which is the parent company's functional currency. All financial information presented in Pounds has been rounded to the nearest thousand.

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 May 2015 or 2016 but is derived from those accounts. Statutory accounts for 2015 have been delivered to the registrar of companies, and those for 2016 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

### 2. Earnings per share

Earnings per 10p ordinary share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potential dilutive shares.

	<b>Profit for the year</b>	<b>Weighted average number of shares</b>	<b>2016 Earnings per share</b>	<b>Profit for the year</b>	<b>Weighted average number of shares</b>	<b>2015 Earnings per share</b>
	<b>£'000</b>	<b>Number</b>	<b>p</b>	<b>£'000</b>	<b>Number</b>	<b>p</b>
Basic earnings per share	<b>3,166</b>	<b>8,955,757</b>	<b>35.35p</b>	3,124	8,926,847	35.00p
Dilutive share options	-	<b>82,629</b>	<b>(0.32p)</b>	-	125,769	(0.49p)
Diluted earnings per share	<b>3,166</b>	<b>9,038,386</b>	<b>35.03p</b>	3,124	9,052,616	34.51p

### 3. Annual General Meeting

The Annual General Meeting of the company will be held at Scotland House, 165-169 Scotland Street, Glasgow G5 8PL at 11am on 27 October 2016.

#### **4. Further copies**

Further copies of the Directors' report and financial statements will be available, free of charge, for a period of one month following posting to shareholders from the company's Nominated Adviser and Broker, N+1 Singer, 1 Bartholomew Lane, London EC2N 2AX, telephone: 0207 496 3000. Copies of the full financial statements will be posted to shareholders as soon as practicable. A copy of this announcement will be made available on the company's website: [www.murgitroyd.com](http://www.murgitroyd.com)