11 September 2018

**Murgitroyd Group PLC ("the Group")**
**Preliminary Results for the year ended 31 May 2018**

The Group (AIM:MUR), is pleased to announce its audited results for the year ended 31 May 2018.

**Highlights**

- Underlying profit before income tax increased by 7% to £4.1m (2017: £3.8m)
- Proposed final dividend of 14.5p per share, giving a total dividend for the year of 21p (2017: 17p), an increase of 24% year-on-year
- Revenue of £43.9m (2017: £44.3m)
- Reported profit before income tax after exceptional item* decreased by 6% to £3.6m (2017: £3.8m)
- Underlying basic earnings per share increased by 21% to 34.2p (2017: 28.3p)
- Reported basic earnings per share increased to 29.7p (2017: 28.3p)
- Increased cash position at period end of £3.03m (31 May 2017: £2.54m)

* one-off, non-cash, provision against single trade receivable balance of £0.5m

Ian Murgitroyd, Non-executive Chairman of Murgitroyd Group PLC, said:

"I am pleased to report an increase in underlying pre-tax profit and record year-end cash balances for the period under review. Four years of significant investment in our pan-European footprint, software and business development, as well as back office efficiencies has put us in a strong competitive position to help offset any weakness in individual markets and to remain at the cutting edge of client-service and productivity.

“The Board remains confident that it can continue to deliver sustainable long-term growth and value to shareholders, which together with an increasingly strong balance sheet, has allowed us to again propose an increased final dividend, consistent with the Board's progressive dividend policy."

**For further information, please contact:**


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

**Financial review**

In the full year to 31 May 2018, the Group reported revenues of £43.9m (2017: £44.3m) and underlying profit before income tax of £4.08m (2017: £3.80m), an increase of 7%, in line with market expectations.

As announced in the most recent trading statement, the results for the period include an exceptional provision of £408,000, net of tax relief, in relation to a single aged debtor balance. The client in question is a longstanding client who has traded with the Group for 21 years, remitting more than £1.1m in cash over this period. The client continues to pay, does not dispute the debt, and has formally confirmed its intention to settle the balance in full. However, in view of the quantum of current payments, and the age of the current balance, 80% of which relates to financial years 2016 and earlier, the Board considered that it was prudent and appropriate to make a full provision.

Notwithstanding the provision, reported basic earnings per share for the year ended 31 May 2018 are 5% higher year-on-year at 29.7p and underlying earnings per share are 21% higher at 34.2p (2017: 28.3p). As indicated at the time of the interim results, earnings were strongly weighted towards the second half, consistent with previous years. The overall improvement in gross margin percentage reflects the net effect of changes in revenue composition, price pressures on new work and the absence of material foreign exchange rate benefits.

The underlying Group operating cash flow remained strong with record year-end cash balances of £3.03m (31 May 2017: £2.54m) and current cash balances of more than £3.3m. Net cash flow after financing was positive at £0.49m, compared to an outflow of £0.76m in the prior year. The principal reason for this positive swing was the cash outlay on the Managua acquisition in June 2016 of £1.86m, funded from internal reserves.

On this basis and in line with the Group's commitment to a progressive dividend policy, the Board recommends a final dividend of 14.5p per share, which results in a total dividend payment for the year of 21p per share, an increase of 24%.

The Group was able to improve the depth and breadth of services for larger clients, seeing support services revenue increase as a result, both in value (up 4%) and as a proportion of total revenue, increasing from 34.5% to 36.1%. The market place for these services, that includes search, illustration and docketing, continues to see the effects of commoditisation and the Group's investment in its technology platform and IT systems is necessary for the Group to compete in this fast-changing environment.

63.9% of total revenue was generated by Attorney groups and 36.1% by support service groups. The latter includes the first full year of contribution from MURGITROYD's search and docketing group in Managua, the £0.62m revenue generated by the operation in the second half of the year representing a 27% increase on the immediately preceding six-month period, and a 57% increase on the comparative period in the previous year. The office operated in line with management expectations and, in addition to fee earning activities, a number of administrative support tasks have been transferred to Managua.

With more than half of the Group's revenue being generated in either US Dollars or Euros, and a substantial part of its costs being non-Sterling, the Group retains an exposure to foreign exchange rate volatility, and, in general terms, is a net beneficiary of Sterling weakness. In this regard, the recent strength of the US Dollar has been helpful overall.

**Operating review**

The Group is trading well in challenging conditions, particularly in the UK where the uncertainty around the UK leaving the European Union ("EU") and how it might affect the European marketplace and IP systems remains. The Group has continued to off-set possible related risks by strengthening its pan-European footprint and remains extremely well-placed to continue to act for its worldwide clients at both European and international level, having an unparalleled network of offices and qualified Attorneys in fourteen offices in ten countries. This geographic spread of activities and client base puts the Group in a strong position to balance out any weakness in individual markets and provides us with a large degree of insulation irrespective of the arrangements negotiated as the UK leaves the EU.

MURGITROYD has made further good progress in the USA where the strength of the economy has been beneficial. The Group has added to its business development teams in the USA with additional hires and has seen continued blue-chip client wins. More than half of the Group's revenue is now generated in the USA. The Group has experienced increased demand for providers that can deliver commoditised elements of the IP lifecycle such as renewals, PCT and other Patent filings, and European Patent validations, underpinned by excellent client service. Investment in our office operation in Nicaragua allows us the option to provide back office services such as searching and docketing at substantially reduced cost.

The UK remains an important market for MURGITROYD, with UK clients still generating 30% of Group revenue. Business development in the UK is progressing well following the appointment of a new Head of UK Business Development at the beginning of the financial year under review, which has seen a new client profiling and segmentation strategy being introduced. This has increased new enquiry conversions considerably throughout the year. Success in major tenders include Scottish Enterprise's new recommended IP consultants roster and the North Eastern Universities Purchasing Consortium, covering 23 universities in the North of England.

In the financial year MURGITROYD commenced a major investment in its technology platform and IT systems, the largest part of the £0.75m total investment in the period relating to projects designed to improve communication with clients, internal processes and productivity, in particular its Client Portal. This investment in our Client Portal software is now beginning to bear fruit, transforming interactions with our clients.

This is necessary to provide MURGITROYD with a competitive edge when it comes to winning and retaining clients in the long term and is made possible by the Group's strong cash flow.

The EU Intellectual Property Office ("EUIPO") and the European Patent Office ("EPO") statistics are considered good indicators of the current state of the Group's principal markets. They both suggest that the numbers of Trade Mark and Patent applications filed continue to increase, which is a long-term trend. The EPO's annual statistics for 2017 indicate that European Patent filings increased by 4.4%, with 33% and 22% of filings being made by European and US applicants respectively. MURGITROYD also continues to see a growing involvement in representing clients in hearings before the EPO.

The new Unitary Patent ("UP") and Unified Patent Court ("UPC") continue their steady progress. The UK ratified the UPC Agreement in April 2018, but the Agreement still awaits ratification by Germany, where a constitutional legal challenge has delayed the process, before the UPC can start business. The UK Government confirmed in its White Paper in July 2018 that it would seek to remain within the Unitary Patent and UPC regime after the UK's departure from the EU.

**Employees**

As at 31 May 2018, the Group employed 273 staff (31 May 2017: 255). MURGITROYD's commitment to long-term growth is reflected by its continuing investment in its people. Two new qualified Patent Attorneys and two new trainee Attorneys started with MURGITROYD in the second half of the financial year. Additional resources were added to the business development teams and in Managua.

MURGITROYD's standing in the industry and high level of client service is a reflection of the hard work and dedication of its staff. On behalf of the Board I would like to thank them for their efforts during the year.

**Dividend**

The Board is proposing a final dividend of 14.5p per share, giving a total dividend for the year of 21p (2017: 17p), an increase of 24% year-on-year. This increase reflects the strength of the Group's cash flows and the Board's long-stated position of maintaining a progressive dividend policy. Subject to approval at the Annual General Meeting, the final dividend will be paid on 9 November 2018 to shareholders on the register at 12 October 2018. The ex-dividend date is 11 October 2018.

**Board**

Graham Murnane will not be standing for re-election to the Board at the AGM, although he will remain as one of our most experienced Senior Attorneys. The Board would like to thank Graham for his service and contributions during his time on the Board.

**Outlook**

While macro-economic and political uncertainties persist, MURGITROYD operates in a market with good long-term prospects. The Board is satisfied with the performance of the Group for the full year and believes it can continue to deliver sustainable long-term growth and value to its shareholders.

MURGITROYD remains committed to delivering the highest quality client service at competitive prices. The level of capital investment seen in 2018 will be sustained through the current financial year, continuing the medium-term programme of investment that has reshaped the Group's processes and systems and, I believe, put us in a good position for future growth. Notwithstanding this, the Board will continue to critically assess all aspects of the Group, its activities, operations and structures, reflecting the commitment to ongoing improvement in a fast-changing marketplace.

Notwithstanding macro-economic and political uncertainties, and in particular the possible impact of these on both the value and volatility of Sterling, I remain confident that the Group can achieve its aims. This confidence is reflected in the increase in our assessment of the sustainable level of dividends, consistent with our progressive dividend policy.

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

11 September 2018

This preliminary announcement was approved by the Board of Directors on 11 September 2018.

## Consolidated statement of comprehensive income

for the year ended 31 May 2018

| | Note | Year ended 31 May 2018 Underlying £'000 | Exceptional Item £'000 | **Year ended 31 May 2018 £'000** | Year ended 31 May 2017 £'000 |
|---|---|---|---|---|---|
| **Revenue** | | 43,896 | - | **43,896** | 44,251 |
| Cost of sales | | (19,683) | - | **(19,683)** | (20,084) |
| **Gross profit** | | 24,213 | - | **24,213** | 24,167 |
| Administrative expenses | | (20,142) | (504) | **(20,646)** | (20,362) |
| **Operating profit** | | 4,071 | (504) | **3,567** | 3,805 |
| Financial income | | 11 | - | **11** | 4 |
| Financial expense | | (4) | - | **(4)** | (6) |
| **Profit before income tax** | | 4,078 | (504) | **3,574** | 3,803 |
| Income tax | | (1,002) | 96 | **(906)** | (1,260) |
| **Profit for the year attributable to equity holders of the parent** | | 3,076 | (408) | **2,668** | 2,543 |
| **Other comprehensive income** | | | | | |
| *Items that are or may be reclassified subsequently to profit or loss:* | | | | | |
| Foreign exchange translation differences – overseas undertakings | | (65) | - | **(65)** | 301 |
| *Items that will not be reclassified to profit or loss:* | | | | | |
| Revaluation of property, plant and equipment | | 27 | - | **27** | 33 |
| **Profit for the financial year and total comprehensive income all attributable to equity holders of the parent** | | 3,038 | (408) | **2,630** | 2,877 |
| **Earnings per share** | **2** | | | | |
| **Basic** | | 34.19p | (4.53p) | **29.66p** | 28.27p |
| **Diluted** | | 33.88p | (4.49p) | **29.39p** | 28.03p |

# Consolidated balance sheet

at 31 May 2018

| | **31 May 2018 £'000** | 31 May 2017 £'000 |
|---|---|---|
| **Assets** | | |
| **Non-current assets** | | |
| Property, plant and equipment | **2,688** | 2,371 |
| Intangible assets and goodwill | **17,456** | 16,846 |
| **Total non-current assets** | **20,144** | 19,217 |
| | | |
| **Current assets** | | |
| Work in progress | **438** | 301 |
| Trade and other receivables | **15,341** | 15,628 |
| Taxation recoverable | **174** | 506 |
| Cash and cash equivalents | **3,026** | 2,539 |
| **Total current assets** | **18,979** | 18,974 |
| **Total assets** | **39,123** | 38,191 |
| | | |
| **Current liabilities** | | |
| Other interest-bearing loans and borrowings | **(111)** | (144) |
| Trade and other payables | **(5,954)** | (5,888) |
| **Total current liabilities** | **(6,065)** | (6,032) |
| | | |
| **Non-current liabilities** | | |
| Other interest-bearing loans and borrowings | **(84)** | (207) |
| Deferred tax liabilities | **(28)** | (79) |
| Provision for liabilities | **-** | (17) |
| **Total non-current liabilities** | **(112)** | (303) |
| **Total liabilities** | **(6,177)** | (6,335) |
| **Net assets** | **32,946** | 31,856 |
| | | |
| **Equity** | | |
| Share capital | **901** | 900 |
| Share premium | **3,509** | 3,497 |
| Merger reserve | **6,436** | 6,436 |
| Revaluation reserve | **49** | 47 |
| Foreign currency translation reserve | **296** | 361 |
| Retained earnings | **21,755** | 20,615 |
| **Total equity attributable to equity holders of the parent** | **32,946** | 31,856 |

## Consolidated statement of cash flows

for the year ended 31 May 2018

| | **Year ended 31 May 2018 £'000** | Year ended 31 May 2017 £'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit for the year | **2,668** | 2,543 |
| *Adjustments for:* | | |
| Depreciation | **299** | 271 |
| Amortisation | **138** | 64 |
| Loss/(gain) on disposal of property, plant and equipment | **4** | (1) |
| Net financing (income)/costs | **(7)** | 2 |
| Equity settled share-based payment expense | **44** | 34 |
| Income tax expense | **906** | 1,260 |
| | **4,052** | 4,173 |
| Other reserves movements | **(65)** | 301 |
| Decrease/(increase) in trade and other receivables | **287** | (652) |
| (Increase)/decrease in work in progress | **(137)** | 295 |
| Increase in trade and other payables | **66** | 242 |
| (Decrease)/increase in provision for liabilities | **(17)** | 17 |
| | **4,186** | 4,376 |
| Interest paid | **(4)** | (6) |
| Interest received | **11** | 4 |
| Income tax paid | **(558)** | (1,213) |
| **Net cash from operating activities** | **3,635** | 3,161 |
| **Cash flows from investing activities** | | |
| Acquisition of property, plant and equipment | **(592)** | (318) |
| Acquisition of intangible fixed assets | **(748)** | (95) |
| Business combinations | **-** | (1,862) |
| Proceeds from disposal of property, plant and equipment | **-** | 2 |
| **Net cash used in investing activities** | **(1,340)** | (2,273) |
| **Cash flows from financing activities** | | |
| Proceeds from exercise of share options | **13** | 10 |
| Repayment of borrowings | **(156)** | (195) |
| Dividends paid | **(1,665)** | (1,462) |
| **Net cash used in financing activities** | **(1,808)** | (1,647) |
| Net increase /(decrease) in cash and cash equivalents | **487** | (759) |
| Cash and cash equivalents at start of year | **2,539** | 3,298 |
| **Cash and cash equivalents at year end** | **3,026** | 2,539 |

### 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 2017 or 2018 but is derived from those accounts. Statutory accounts for 2017 have been delivered to the registrar of companies, and those for 2018 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.

| | | | 2018 | | | **2018** | | | 2017 |
|---|---|---|---|---|---|---|---|---|---|
| | Profit for the year £'000 | Weighted average number of shares Number | Underlying Earnings per share p | **Profit for the year £'000** | **Weighted average number of shares Number** | **Earnings per share p** | Profit for the year £'000 | Weighted average number of shares Number | Earnings per share p |
| Basic earnings per share | 3,076 | 8,997,693 | 34.19p | **2,668** | **8,997,693** | **29.55p** | 2,543 | 8,994,849 | 28.27p |
| Dilutive share options | - | 82,772 | (0.31p) | **-** | **82,772** | **(0.16p)** | - | 76,640 | (0.24p) |
| Diluted earnings per share | 3,076 | 9,080,465 | 33.88p | **2,668** | **9,080,465** | **29.39p** | 2,543 | 9,071,489 | 28.03p |

## 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 2 November 2018.

## 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