PREZZO

INTERIM REPORT 2011

PREZZO

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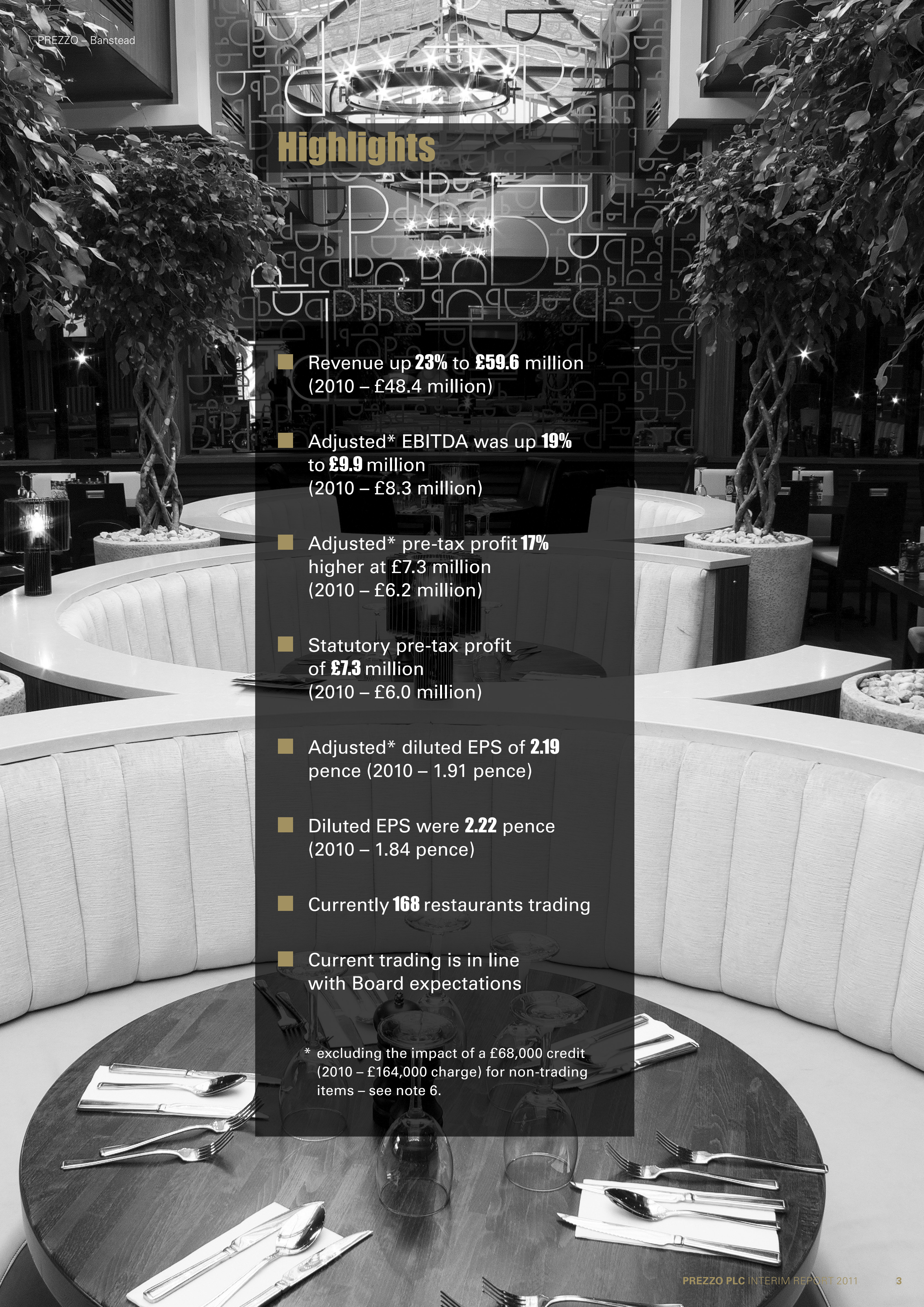

PREZZO – Banstead

Highlights

- Revenue up **23%** to **£59.6** million (2010 – £48.4 million)
- Adjusted* EBITDA was up **19%** to **£9.9** million (2010 – £8.3 million)
- Adjusted* pre-tax profit **17%** higher at £7.3 million (2010 – £6.2 million)
- Statutory pre-tax profit of **£7.3** million (2010 – £6.0 million)
- Adjusted* diluted EPS of **2.19** pence (2010 – 1.91 pence)
- Diluted EPS were **2.22** pence (2010 – 1.84 pence)
- Currently **168** restaurants trading
- Current trading is in line with Board expectations

* excluding the impact of a £68,000 credit (2010 – £164,000 charge) for non-trading items – see note 6.

Chairman's statement

I am pleased to report that the Company produced another strong performance in the first half of the year, with revenues up 23% to £59.6m (2010 – £48.4m) and a 17% increase in adjusted* pre-tax profit to £7.3m (2010 – £6.2m).

Results

Revenue for the 26 weeks ended 3 July 2011 rose 23% from £48.4m to £59.6m, with gross or restaurant profit rising to £8.3m (2010 – £7.0m). The overall branch profit margin was 14.0% compared with 14.4% for 2010. Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) was £9.9m (2010 – £8.3m).

Adjusted* operating profit excluding non-trading items was up 18% to £7.2m (2010 – £6.2m) and there was a modest contribution of £17,000 (2010 – £31,000) from finance income.

The £68,000 credit in respect of non-trading items arises wholly as a consequence of an acquisition. It comprises £154,000 of negative goodwill on the purchase, offset by £86,000 of acquisition costs which have been written–off as incurred as required by IFRS3 (revised) (2010 – £164,000 charge as explained in note 4).

Adjusted* pre-tax profit was up 17% at £7.3m (2010 – £6.2m) and stated pre-tax profit, including the above non-trading credit was 22% higher at £7.3m (2010 – £6.0m).

The effective tax rate for the period has been calculated at 30% (2010 – 31%). Adjusted* diluted earnings per share were 2.19p (2010 – 1.91p) and diluted earnings per share were 2.22p (2010 – 1.84p).

Estate development

During the period, we opened seven new restaurants (three of these were acquired in 2010) and closed two units. In addition, the Company agreed to purchase a further six leasehold sites from Caffe Uno Brasseries and with the transfer of these sites completed before the end of the period, we are now in the process of refurbishing and rebranding them.

With a further seven new restaurants launched so far in the second half of 2011 (again, three of these were included in the above acquisition), this takes our total up to 172. Of these, four sites are currently undergoing redevelopment and rebranding and consequently the Company is currently trading from 168 sites.

The pipeline for the second half includes the development of a further two freehold properties and by the end of 2011, we would anticipate having opened approximately 20 new restaurants.

Cash flows and financing

Cashflow generated from operations was £11.2m (2010 – £7.4m), as the effect of timing differences on working capital were reversed. After £1.9m (2010 – £2.0m) of corporation tax payments, there was £9.2m (2010 – £5.4m) of free cash available for investment.

During the period, there was a cash outflow of £8.3m (2010 – £8.8m) on payments to acquire property, plant and equipment. This comprised £1.3m (2010 – £3.1m) on the purchase of freehold property, £5.9m (2010 – £4.7m) on the fit out of new restaurants and £1.1m (2010 – £1.0m) on refurbishment and rebranding in the existing estate. In addition there was a £0.6m outflow relating to the first half acquisition.

Overall, there was a net cash inflow of £0.7m (2010 – £3.4m outflow) in the period and net cash balances had risen to £6.0m as at 3 July 2011, providing us with sufficient cash resources to fund our anticipated ongoing development programme. As in previous years, no interim dividend will be paid.

Outlook

While trading patterns have been relatively stable over the first half of the year, there remains considerable uncertainty about the general health of the economy and consumer confidence. Nevertheless, we believe that our value proposition combined with our continual commitment to developing and strengthening our offer, leaves us well-positioned in these more challenging times. Consequently, the Board is confident of delivering a positive outcome for 2011 as a whole.

Michael Carlton

7 September 2011

* excluding the impact of a £68,000 credit (2010 – £164,000 charge) for non-trading items (see note 6).

Condensed statement of comprehensive income

	Note	**Unaudited 26 weeks to 3 July 2011 £'000**	Unaudited 26 weeks to 27 June 2010 £'000	Audited 53 weeks to 2 January 2011 £'000
Revenue	3	**59,559**	48,428	104,827
Cost of sales		**(51,233)**	(41,457)	(88,676)
Gross profit		**8,326**	6,971	16,151
Administration expenses		**(1,015)**	(1,140)	(2,450)
Other income		**–**	162	257
Operating profit excluding non-trading items		**7,243**	6,157	14,356
Non-trading items	4	**68**	(164)	(398)
Operating profit		**7,311**	5,993	13,958
Finance income		**17**	31	60
Profit before tax		**7,328**	6,024	14,018
Income tax expense	5	**(2,213)**	(1,812)	(4,242)
Profit and total comprehensive income for the financial period		**5,115**	4,212	9,776
Earnings per share – basic	6	**2.26p**	1.86p	4.33p
Earnings per share – diluted	6	**2.22p**	1.84p	4.27p

Condensed statement of changes in equity

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Share option reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 3 January 2011	11,307	21,024	168	1,861	32,832	67,192
Total comprehensive income for the financial period	–	–	–	–	5,115	5,115
Share-based payments – credit to equity for the period	–	–	–	48	–	48
Tax on share-based payments taken directly to equity	–	–	–	106	–	106
Transfer in respect of options exercised	–	–	–	(76)	76	–
Issue of new equity shares	64	220	–	–	–	284
Balance at 3 July 2011 (unaudited)	**11,371**	**21,244**	**168**	**1,939**	**38,023**	**72,745**
Balance at 28 December 2009	11,298	20,999	168	1,343	23,497	57,305
Total comprehensive income for the financial period	–	–	–	–	4,212	4,212
Share-based payments – credit to equity for the period	–	–	–	83	–	83
Tax on share-based payments taken directly to equity	–	–	–	94	–	94
Balance at 27 June 2010 (unaudited)	**11,298**	**20,999**	**168**	**1,520**	**27,709**	**61,694**
Balance at 28 December 2009	11,298	20,999	168	1,343	23,497	57,305
Total comprehensive income for the financial period	–	–	–	–	9,776	9,776
Dividend paid	–	–	–	–	(452)	(452)
Share-based payments – credit to equity for the period	–	–	–	180	–	180
Tax on share-based payments taken directly to equity	–	–	–	349	–	349
Transfer in respect of options exercised	–	–	–	(11)	11	–
Issue of new equity shares	9	25	–	–	–	34
Balance at 2 January 2011 (audited)	**11,307**	**21,024**	**168**	**1,861**	**32,832**	**67,192**

Condensed balance sheet

	Unaudited As at 3 July 2011 £'000	Unaudited As at 27 June 2010 £'000	Audited As at 2 January 2011 £'000
Non-current assets			
Intangible assets	**1,134**	–	1,135
Property, plant and equipment	**83,629**	68,111	78,334
Prepaid operating lease charges	**3,394**	3,077	3,391
Deferred tax asset	**750**	251	522
	88,907	71,439	83,382
Current assets			
Inventories	**3,328**	2,699	3,037
Prepaid operating lease charges	**2,919**	2,439	2,754
Trade and other receivables	**1,980**	2,090	3,608
Cash and cash equivalents	**6,022**	11,814	5,319
	14,249	19,042	14,718
Total assets	**103,156**	90,481	98,100
Current liabilities			
Trade and other payables	**(18,267)**	(18,040)	(19,404)
Current tax liabilities	**(3,493)**	(3,242)	(3,678)
	(21,760)	(21,282)	(23,082)
Non-current liabilities			
Accruals	**(3,162)**	(2,926)	(2,912)
Deferred tax liabilities	**(5,489)**	(4,579)	(4,914)
	(8,651)	(7,505)	(7,826)
Total liabilities	**(30,411)**	(28,787)	(30,908)
Net assets	**72,745**	61,694	67,192
Capital and reserves attributable to equity shareholders			
Share capital	**11,371**	11,298	11,307
Share premium	**21,244**	20,999	21,024
Capital redemption reserve	**168**	168	168
Share option reserve	**1,939**	1,520	1,861
Retained earnings	**38,023**	27,709	32,832
Capital and reserves	**72,745**	61,694	67,192

Condensed cash flow statement

	Note	**Unaudited 26 weeks to 3 July 2011 £'000**	Unaudited 26 weeks to 27 June 2010 £'000	Audited 53 weeks to 2 January 2011 £'000
Cash inflow from operating activities				
Cash inflow from operating activities	9	**11,182**	7,354	16,142
Income tax paid		**(1,945)**	(1,996)	(3,671)
Net cash inflow from operating activities		**9,237**	5,358	12,471
Cash outflow from investing activities				
Finance income		**17**	15	60
Payments to acquire property, plant and equipment		**(8,266)**	(8,801)	(19,595)
Proceeds from sale of property, plant and equipment		**–**	–	745
Acquisitions		**(569)**	–	(3,186)
Net cash outflow from investing activities		**(8,818)**	(8,786)	(21,976)
Cash inflow/(outflow) from financing				
Issue of new equity shares		**284**	–	34
Equity dividend paid		**–**	–	(452)
Net cash inflow/(outflow) from financing		**284**	–	(418)
Net increase/(decrease) in cash and cash equivalents		**703**	(3,428)	(9,923)
Cash and cash equivalents as at 3 January 2011		**5,319**	15,242	15,242
Cash and cash equivalents as at 3 July 2011		**6,022**	11,814	5,319

Notes to the condensed financial statements

1 General information

Prezzo plc ("Prezzo") is a public limited company ("the Company") incorporated in the United Kingdom under the Companies Act 2006 (registration number 3919682). The Company is domiciled in the United Kingdom and its registered address is Johnston House, 8 Johnston Road, Woodford Green, IG8 0XA. The Company's ordinary shares are traded on the Alternative Investment Market ("AIM"). Copies of this Interim Report will be sent out to shareholders. Further copies of the Interim Report or the Annual Report and Accounts may be obtained from the above address or on the Investor Relations section of the Company's website at www.prezzorestaurants.co.uk.

2 Basis of preparation

The condensed financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as endorsed by the European Union and in accordance with IAS34 – "Interim Financial Reporting". The same accounting policies, presentation and methods of computation have been followed in the preparation of these results as were applied in the Company's latest annual audited financial statements.

The financial information for the period ended 2 January 2011 does not constitute the full statutory accounts for that period. The Annual Report and Financial Statements for 2010 have been filed with the Registrar of Companies. The Independent Auditors' Report on the Annual Report and Financial Statements for 2010 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

The condensed financial statements are presented in sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

3 Revenue

Revenue is wholly attributable to the principal activity of the Company and arises solely within the UK.

Notes to the condensed financial statements

4 Non-trading items

	Unaudited 26 weeks to 3 July 2011 £'000	Unaudited 26 weeks to 27 June 2010 £'000	Audited 53 weeks to 2 January 2011 £'000
Loss on sale of property, plant and equipment	**–**	48	43
Site abort costs	**–**	11	27
Rent premium written-off	**–**	105	105
Expenses in connection with acquisition	**86**	–	223
Negative goodwill arising on acquisition (see note 10)	**(154)**	–	–
	(68)	164	398

There were no property disposals in the period. In 2010 H1, two leasehold sites were sold for nil proceeds and resulting in a loss on disposal of £48,000.

5 Income tax expense

The income tax charge for the 26 weeks to 3 July 2011 has been calculated by applying the estimated effective corporation tax and deferred tax rates for the 52 weeks to 1 January 2012, to the profit before tax for the 26 weeks ending 3 July 2011. The full-year effective tax rate on profit before tax is estimated to be 30% (2010 H1 – 31%).

6 Earnings per share

	Unaudited 26 weeks to 3 July 2011 Pence	Unaudited 26 weeks to 27 June 2010 Pence	Audited 53 weeks to 2 January 2011 Pence
Basic earnings per share	**2.26**	1.86	4.33
Diluted earnings per share	**2.22**	1.84	4.27
Adjusted earnings per share	**2.23**	1.94	4.50
Adjusted diluted earnings per share	**2.19**	1.91	4.43

Earnings per share has been calculated using the numbers shown below -

	Unaudited 26 weeks to 3 July 2011 £'000	Unaudited 26 weeks to 27 June 2010 £'000	Audited 53 weeks to 2 January 2011 £'000
Profit for the financial period	**5,115**	4,212	9,776
Non-trading items (see note 4)	**(68)**	164	398
Estimated taxation effect of non-trading items	**–**	–	(14)
Adjusted profit for the financial period	**5,047**	4,376	10,160

	Number	Number	Number
Weighted average number of ordinary shares in issue	**226,425,563**	225,944,175	225,977,463
Impact of dilutive share options	**3,974,663**	2,608,062	3,207,693
Diluted number of ordinary shares in issue	**230,400,226**	228,552,237	229,185,156

The weighted average number of ordinary shares is adjusted to take into account the dilutive impact of share options granted to employees. There were no options in issue that were non-dilutive (2010 H1 – 4,807,000) on the basis of the average share price during the period.

An adjusted earnings per share figure has been provided, principally to show the level of earnings per share before the impact of non-trading items as set out in note 4.

Adjusted profit before tax for headline reporting purposes was calculated as follows -

	Unaudited 26 weeks to 3 July 2011 £'000	Unaudited 26 weeks to 27 June 2010 £'000	Audited 53 weeks to 2 January 2011 £'000
Profit before taxation	**7,328**	6,024	14,018
Non-trading items (see note 4)	**(68)**	164	398
Adjusted profit before taxation	**7,260**	6,188	14,416

Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) was £9,911,000 (2010 H1 – £8,288,000).

Notes to the condensed financial statements

7 Purchase of property, plant and equipment

During the period there were additions to property, plant and equipment to the value of £7,549,000 (2010 H1 – £9,743,000) and disposals of items of property, plant and equipment with a net book value of £192,000 (2010 H1 – £156,000).

8 Capital commitments

	Unaudited 26 weeks to 3 July 2011 £'000	Unaudited 26 weeks to 27 June 2010 £'000	Audited 53 weeks to 2 January 2011 £'000
Authorised and contracted	**4,097**	2,805	841

9 Reconciliation of profit before tax to cash inflow from operating activities

	Unaudited 26 weeks to 3 July 2011 £'000	Unaudited 26 weeks to 27 June 2010 £'000	Audited 53 weeks to 2 January 2011 £'000
Profit before taxation	**7,328**	6,024	14,018
Finance income	**(17)**	(31)	(60)
Depreciation and amortisation	**2,668**	2,131	4,420
Share-based payment charge	**48**	83	180
Loss on disposal of property, plant and equipment	**192**	176	464
Write-off of rent premium	**–**	105	105
Negative goodwill recognised on acquisition	**(154)**	–	–
Increase in inventories	**(272)**	(54)	(387)
Decrease/(increase) in receivables	**1,560**	69	(1,628)
Decrease in payables	**(171)**	(1,149)	(970)
Cash inflow from operating activities	**11,182**	7,354	16,142

10 Acquisition

On 30 March 2011, the Company purchased six leasehold sites from Caffe Uno Brasseries Limited for cash consideration. The assets acquired continued to trade in their existing state initially, before subsequently closing for refurbishment and rebranding as one of Prezzo's successful trading formats.

This transaction has been treated as a business combination under IFRS3 (Revised). Details of the fair value of the identifiable assets and liabilities, purchase consideration and goodwill are set out below.

	Fair Value £'000
Property, plant and equipment	604
Rent premium	100
Inventories	19
Total net assets acquired	723
Consideration paid	
All in cash	569
Negative goodwill arising on acquisition	**(154)**

The £154,000 of negative goodwill arising on this purchase has been recognised in the income statement during the period in accordance with IFRS3 (revised), with the credit included in non-trading items (see note 4).

Notes to the condensed financial statements

11 Risks and uncertainties

The principal risks and uncertainties faced by the Company are set out in the directors report in the 2010 annual report and they will continue to represent risk during the remaining six months of the financial year.

There are a number of potential risks and uncertainties which could have a material impact on the Company's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. The key risks include a more challenging economic climate with weaker consumer spending which could impact revenues, together with increased raw material and other operating costs which could increase pressure on margins.

The key areas of accounting estimates and judgements used in the preparation of the financial statements are set out in note 3 in the 2010 annual report. The estimates and assumptions considered to have a significant risk of causing a material adjustment to the carrying values of assets and liabilities in the accounts remain unchanged.

12 Related party transactions

During the period the Company did not enter into any new contracts with related parties (2010 H1 – none). Other than annual commitments under ongoing lease arrangements which were disclosed in note 24 of the 2010 annual report and accounts, there were no other related party transactions in the period.

The aggregate amount of remuneration paid to key management personnel during the period was £190,000 (2010 H1 – £180,000) and the aggregate gain on share options exercised in the period was £176,000 (2010 – nil).

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