Regulatory Story

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Company	AEA Technology Group PLC
TIDM	AAT
Headline	Interim Management Statement
Released	07:00 15-Feb-2011
Number	2244B07

RNS Number: 2244B
AEA Technology Group PLC
15 February 2011

AEA Technology Group plc ('the Group')

Interim Management Statement

AEA Technology Group plc, a leading technical, energy and sustainability consultancy is today publishing its Interim Management Statement for the period from 1 October 2010 to 15 February 2011. Growth in the US business has accelerated in the second half with an improved profit and cash performance in both PPC and ERG and the Group has invested an additional £1 million to date in pursuing a number of sizeable opportunities. The performance in Europe continues to be disappointing and further action has been taken to reduce costs and strengthen management. As a result of these two factors the Group is likely to report figures around the lower end of market expectations for 2010/11 but the business is strongly positioned for 2011/12.

Strong Performance from US Operations

The combination of AEA, ERG and PPC is already proving to be an effective competitive force in the US Federal Government market, as the US Government continues to place a high priority on quality technical work. In the last three months of this year we will bid on over $300 million of opportunities. Year on year bid costs in the US to date have increased by £1 million as the Group develops its strategy of pursuing more and larger opportunities resulting from its increased scale following the acquisition of ERG in November 2010. The Group is seeing significant success in winning these bids and is able to announce it has just been awarded a proportion of the Environmental Protection Agency's (EPA) Information Technology Solutions Business Information Strategic Support contract with a ceiling value of $99.8 million, which management estimate will be worth approximately $30 million revenue over 5 years. This work supports EPA's Chief Information Officer and the Office of Environmental Information.

PPC is delivering very strong organic growth in profit and cash generation. The prospects for 2011/12 look very encouraging. ERG is also trading ahead of management's expectations, despite a particularly busy period of bidding and delivering a strong cash performance. Management believes that in 2010/11 the performance of the Group will be very good in the US. It is expected that in 2011/12 the performance will strengthen further as contract wins start to convert into revenue and profit.

European Trading remains Weak

The performance of the European arm of the business continues to be disappointing. The market conditions remain tough as the UK Government continues to reduce spending. As management anticipated, there has been no significant increase in UK Government procurement following the Comprehensive Spending Review announcement in October 2010. Furthermore it would now appear that the UK Government is proposing further changes to the way it procures across every sector of Government, which means that there is potential for even further delay. As a result management expects the European business to deliver a disappointing result in 2010/11. Management also remains cautious about the prospects for the UK Government sector over the next 18 months. As a result of the Strategic Review announced by management in November 2010, a further significant cost reduction exercise in the European business has been undertaken. This has required some 80 people to leave and will deliver annualised cost savings of over £3 million. The European business will now be able to withstand further pricing pressures in a tough market, whilst retaining core technical capabilities. This resource is also necessary to deliver the enhanced level of contracts being won in the US.

Debt

The operating cash performance across the group is strong, with management actions driving a very significant improvement in the United States. Management believes that Group debt levels will be in line with market expectations despite the fact that during the course of this financial year just over £4 million will have been spent on redundancy and restructuring.

Forward Order Book Continues to Grow

The Group continues to make good progress in winning new orders in the US. Management believes that the Group is on course to achieve its forward order book target announced in November 2010 of $1 billion by 2013/14. Forward order book includes signed contracts where the related revenue is likely to be spread over a number of years plus a conservative estimate of future revenue under framework agreements.

Pension

AEA's pension deficit is heavily impacted by bond yield rates and inflation. Management would expect a significant reduction in the pension deficit in the event that bond yield rates were to rise.

Outlook

The Board of AEA believes that the Group will enter the new financial year in a position of strength. It has a strong and growing US business and will have a restructured European business better placed to cope with the tough UK market conditions. Operating cash flow is on an improving trend and, having successfully dealt with both legacy and pension issues in the last two years, debt levels are anticipated to fall further. The opportunities for the enlarged Group remain exciting and the Board believes that the Group can look forward to future growth.

End

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The latest financial information on AEA is available on the internet at **www.aeat.com**

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