

# MID-MARKET COMPANIES

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The Sustainability award entries show the green agenda has not been ditched in the downturn, writes **Fiona Harvey**  
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## Sitting tight despite brighter outlook

The stage is set for recovery this year but companies and their investors remain nervous, writes **Oliver Ralph**

As 2008 turned into 2009, life was looking bleak for Pendragon, the car retailer. Demand for new cars – especially the luxury brands that are a core part of its business – was dismal, and it was struggling with £357m of net debt. The shares, which had traded above 100p in 2006, had fallen to below 2p.

Twelve months on, the picture was far brighter. The company had refinanced its debts, trading had improved and brokers were forecasting a sharp increase in profits. The company was cautiously confident. That improvement was reflected in Pendragon's share price, which had recovered to 23p, providing a handsome return for anyone who invested at the bottom.

Pendragon's experience was an extreme version of what many mid-market companies went through in 2009. The year started bleakly, with companies struggling to cut costs and refinance amid tough trading conditions. Share prices had fallen heavily, and bankruptcies were on the rise.

But as the year progressed, companies raised cash, share prices improved and a mood of cautious optimism started to take hold. Companies are no longer asking whether they can survive, but are instead looking for the right moment to invest.

The mid-market companies that coped best with these conditions are recognised in the 2009 PLC Awards. The awards have been tracking the achievements of small and mid cap companies for the past 23 years and this year, for the first time, FTSE 250 companies are included.

Mid-market companies are, in general, more sensitive to the economic environment than their FTSE 100

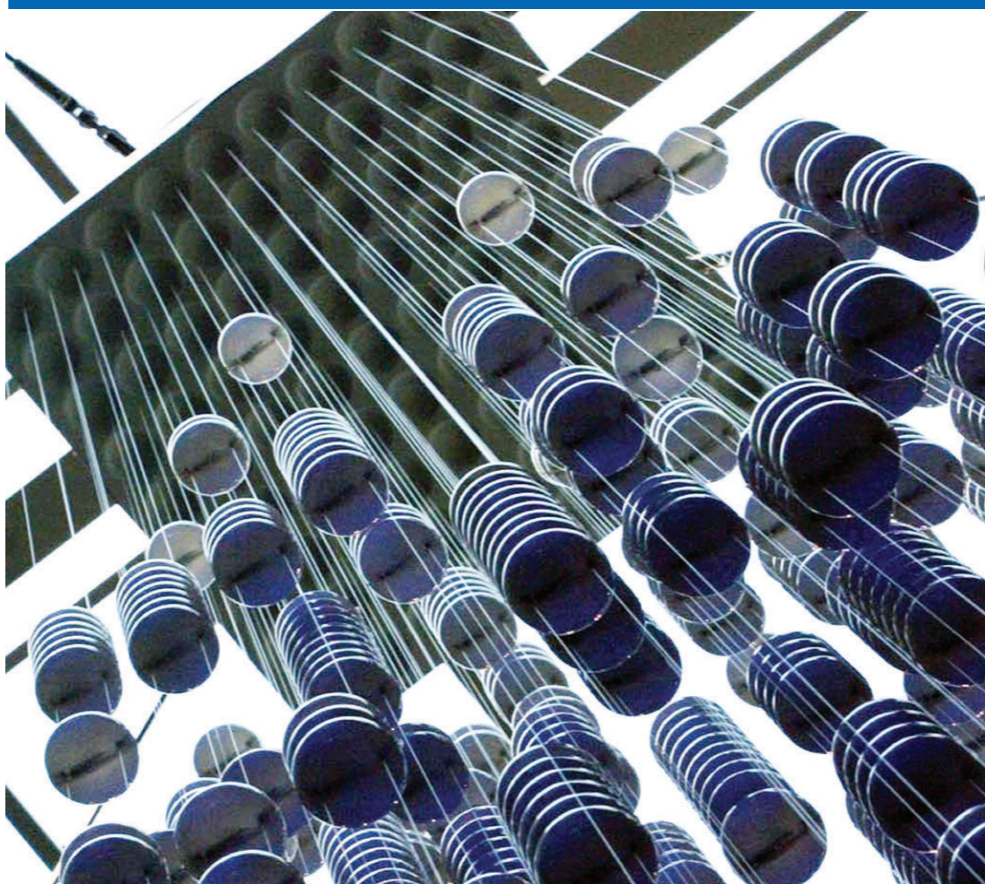
### Winners of the 2009 PLC Awards

**Company of the Year** (sponsor: College Hill Associates)  
**Winner: Mothercare**; shortlist: Chemring Group; Domino's Pizza UK & IRL; Dunelm Group  
**Entrepreneur of the Year** (sponsor: Evolution Securities) **Winner: Tim Martin** of JD Wetherspoon; shortlist: Joep van Beurden of CSR; Richard Harpin of Homeserve; Mark Dixon of Regus  
**Best Investor Communication** (sponsor: Redleaf Communications) **Winner: Britvic**; shortlist: McBride; Mitie Group; Stobart Group  
**Achievement in Sustainability** (sponsor: PwC) **Winner: Marshalls**; shortlist: AEA Technology; Carillion; RM  
**Best Technology** (sponsor: Singer Capital Markets) **Winner: Imagination Technologies Group**; shortlist: Arm Holdings; Pace; Vectura Group  
**Turnaround of the Year** (sponsor: Shore Capital) **Winner: Galiform**; shortlist: Renishaw; Volax Group  
**Best Performing Share** (sponsor: Winterflood Securities) **Winner: Pendragon**  
**Best Performing Smaller Company Fund** (sponsor: KBC Peel Hunt) **Winner: Close Special Situations Fund**

counterparts, suffering more in recessions but recovering more quickly as they ease.

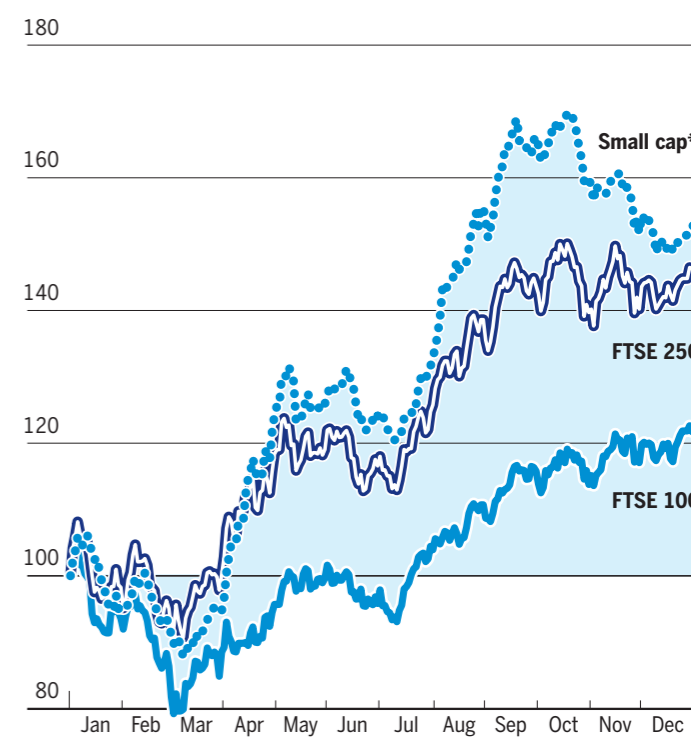
The same is true for their share prices. Mid-market companies had a poor start to 2009, falling heavily until the market reached its turning point in March. After that, though, they recovered far more quickly than those of larger companies. The FTSE small cap index ended the year up 50 per cent, slightly ahead of the FTSE 250 which rose by 46 per cent and well ahead of the FTSE 100, which managed a comparatively pedestrian 22 per cent increase. The star performer however, was the FTSE Fledgling index, consisting of companies that

### UK equities



### FTSE indices, 2009

Rebased



Sculpture in the London Stock Exchange  
Photo: Charlie Bibby

\* Excluding investment trusts  
Source: Thomson Reuters Datastream

are too small to be included in the All-share, which ended the year up 74 per cent.

Such attractive returns are, as equity strategists say, simply a reward for taking on added risks. And the risks of investing in small and mid-cap companies were evident in 2009. At one end of the spectrum, shareholders in some companies lost everything.

One of the most prominent examples was Cattles, the sub-prime lender, which suffered from a combination of accounting irregularities and trading difficulties. Its shares are now considered to be valueless. Entertainment Rights, owner of the Basil

the Brush and Rupert Bear characters, went into administration after hitting debt problems. Again, the shareholders were left with nothing.

However outright bankruptcies were rare. Far more common were financial restructurings that left shareholders, debtholders or both out of pocket. For debtholders, the new bête noire is the Company Voluntary Arrangement, or CVA. This process enables companies to avoid administration by cutting debt and making new arrangements with creditors. These were most common in the retail sector with JJB Sports and Blacks

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## Mid-Market Companies

# Success comes in many shapes and sizes

### Company of the Year

**Ross Tieman** on the traits shared by four very different groups

The contenders for this year's Company of the Year Award were at first sight a diverse bunch: a national retail chain, a defence manufacturer, a pizza delivery franchise and an international retailer turned branded goods purveyor.

Yet upon closer examination, the common traits that underlie the success of these companies have lessons for business leaders everywhere.

Of course, each has delivered remarkable and consistent growth over many years, and seen that reflected in out-performance by its shares. But each also has a clear long-term growth strategy measured in decades, or even generations. And each has very strong operational management focused on delivering exactly what its customers want, at the highest-possible quality, at the very moment when it is wanted.

Now that might sound exactly like the task of **Domino's Pizza UK & IRL**, but a little less appropriate to the business of **Chemring Group**, a defence manufacturer that supplies sophisticated explosive products and decoy devices to military forces around the world.

Yet according to David Price, Chemring's chief executive, production planning – to ensure customers get what they want, when they need it – is one of the group's greatest skills and a vital competitive advantage.

Chemring supplies a wide range of niche consumable products needed by military forces both to fight wars and for successful peace-keeping. These range from the decoys released by warplanes, helicopters and ships to distract incoming missiles, to clever explosives that power fire-suppression systems or ejector seats, or "black light" pyrotechnics that illuminate a night-time battlefield only to the side equipped with matching night-vision equipment.

Demand can be short-term, as armies engage in operations; driven by replacement cycles, as charges need renewal; or tied to introduction of new aircraft,

**Buggy good performance:** customers at a Mothercare store in Croydon

David Parry

such as the Typhoon, F-22 or Joint Strike Fighter – platforms with a 25-year life-span.

The development and spread of new weapons creates market growth and means countermeasures must be ever more sophisticated, so Chemring has to be at the forefront of its technologies.

But it also buys three or four bolt-on acquisitions a year, adding products and technologies it can then offer to its customers in 85 countries. Typically, the sales of acquisitions quickly double. And by investing 8 per cent of turnover in its factories, it can concentrate production in automated centres of excellence.

The combination of strong organic growth, successful bolt-on acquisition and integration, and technology development has produced impressive results. In the year to October 31 2009, Chemring revenues rose 42 per cent to £503m, while pre-tax profit surged 66 per cent to £95.8m.

Markets are used to this kind of growth at Chemring, but will tighten US and UK military budgets constrain it? A little, but not much, Mr Price believes. New threats will continue to require new responses, and as Chemring grows, its ability to make bigger acquisitions, reap synergies, and reach customers worldwide grows too, he says.

As people get older, they take their eating habits with them, and the potential market for Domino's grows

For Chris Moore, the chief executive of Domino's Pizza UK & IRL, it is demographic and prosperity trends that need to be watched closely. "There is a large proportion of the population – the over 55s – that seldom eat pizza," he says. But as they get older, people take their eating habits with them, and his potential market grows.

The company, which owns rights to the Domino's brand in the UK and Ireland, operates through 136 franchisees with an average of 4.5 stores each.

In the year ended December 27, 2009, it delivered to 3.4m



homes, 500,000 more than in 2008, despite – or perhaps because of – the sour economic climate.

System sales (turnover of the franchised pizza outlets) rose 16 per cent to £407m, and pre-tax profit accelerated 28 per cent to £29.9m, continuing a growth trend that made Domino's a second-time contender for the PLC Awards.

A readiness to innovate, and relentless attention to quality – of ingredients, the ordering process, and delivery times – are the key to success in a highly competitive home-delivery market, Mr Moore says. Smart systems deliver online orders, worth 20 per cent more on average, to the nearest outlet. This pares delivery times and encourages repeat orders. Already, 15 per cent of homes are customers, but in the US, the proportion is three times higher. "There is still huge potential," says Mr Moore.

Will Adderley, chief executive of **Dunelm Group**, has the same philosophy. "We are a young business, and we have a formula that is not yet nationwide," he says. Dunelm Mill, an out-of-town homewares retailer founded by his parents Jean and Bill Adderley in 1979, has a remarkable growth record.

Battling incumbents in a

£12bn market with a straightforward retail proposition "Simply value for money", it has built a portfolio of 98 stores, adding 12 more this year.

In the year to July 4, 2009, Mr Adderley and his team delivered pre-tax profits of £53.9m, up 9.7 per cent, on sales ahead 6.7 per cent to £424m. A trading update in November showed like-for-like sales growth of 15 per cent, even as other retailers felt the squeeze on consumer pockets, and £31.5m of cash at the bank.

Yet the company scarcely advertises. Its customers come by word-of-mouth. Mr Adderley identifies three key strategies: appeal to all customers, from the high-end to budget; offer a broad product range, and provide knowledgeable staff and good service.

A range of 150 types of bed linen enables consumers to brighten their homes for a modest price – the average spend in a Dunelm store is only £30.

What are the biggest challenges of rapid growth? "Keeping our culture strong, sticking to our values, while keeping on responding to what customers want, and making long-term decisions," says Mr Adderley. His peers at Chemring, Dominos and this year's winner, **Mothercare** (see article, right) would almost certainly agree.

### Winner Progress is child's play at Mothercare

Mothercare, a retail brand that has been around for half a century but that lost its way in the 1990s, wins the Company of the Year award. The award is recognition of the progress made since the arrival in 2002 of a new management team under Ben Gordon, chief executive.

In the past eight years it has become a global business, with 1,111 stores in 52 countries. "Babies and mothers have the same needs everywhere," says Mr Gordon (pictured, below). "The same solution works in Moscow, Mumbai or Manchester. The product sells all around the world – we don't have to change it by country."

Mothercare has now delivered organic sales growth every quarter for the past four and a half years, and its half-year ended October 10 2009 showed sales ahead 7.9 per cent at £387m, including sound like-for-like growth in the UK. Underlying pre-tax profits rose 11 per cent to £10m, though a switch to international accounting standards obliged the group to report a £7.1m pre-tax loss.

Mr Gordon says Mothercare, which specialises in products for mothers and infants up to age six, is increasingly becoming a specialised consumer goods company centred on products bearing its Mothercare and Early Learning Centre brands.

Innovation lies at the heart of the company's success. An example was the launch last year of the

unique Mothercare Spin pushchair, which allows babies either to face their parents or to look out to the world.

The company has four routes to market. Around 600 UK retail stores, direct sales via the internet and catalogues topping £120m a year, franchised and joint-venture stores overseas and "warehousing" for third-party retailers such as Boots. The aim is to expand all four channels.

In the UK overhauling the store portfolio, adding out-of-town stores, and installing Early Learning Centre toy corners offer opportunities for further growth.

On the direct sales side, the internet offers nearly 500 pushchair options, compared with 75 in-store, and also solves the mobility challenges for expectant mothers and parents with young children.

International online stores will be launched this year. The group is adding 100 overseas stores a year, most rapidly in India which has 24m births a year, and China, with 19m, compared with 700,000 in the UK. "We are thinking much longer-term than 10 years," says Mr Gordon. Demographics and rising prosperity have a big influence on strategy. "We are very anchored to global prosperity," he says. "That is the future of the company. One day the UK will be a very small part of what we do."

**Ross Tieman**

## Smart ways to keep in touch with investors

### Communications

Medium-sized companies often struggle for the attention of analysts and shareholders, says **Charles Batchelor**

Catching the eye of the investor is never easy for the mid-market company. The more stable trading conditions of recent months may have given investor relations teams a more upbeat message to sell. But they still have to battle for the attention of investors and analysts.

**Britvic**, the soft drinks group that includes Pepsi and Tango in its range, has the advantage of a readily-recognisable consumer product but the company itself has to work at obtaining recognition outside the UK. **McBride**, a supplier of own-label household and personal care products to supermarkets, is probably in most homes but remains unknown to the majority of its customers.

**Mitie**, a support services group, cleans the Tower of London and provides security at Eurostar's London St Pancras

terminal but attracts little attention to itself for these vital but humdrum activities. The green-and-white lorries of **Stobart Group**, the transport and logistics provider, are familiar to drivers on Britain's motorways but the company was less well known in the City until its 2007 listing.

Websites play an increasingly important role in investor communications. The best provide almost as a matter of routine masses of data on company performance, share price movements and brokers' forecasts that would have required hours of patient searching only a few years ago.

They are becoming more interactive, allowing investors to manipulate data, and providing webcasts that allow distant investors to participate in AGMs and results presentations. McBride, with 19 factories in seven countries, offers six languages on its website alongside English. But websites are only part of the picture and meetings with analysts, site visits and AGMs also play a big role.

"We don't have a brand presence with customers," says Bob Beveridge, company secretary and head of strategy at McBride. "The challenge for us is to communicate with people who have

never heard of us. We try to boil everything down to a clear simple message."

Part of that message is to convince investors that own-label products are not just a cheaper version of the branded competition but that they provide value for the customer and a higher margin for the supermarket. "We don't keep the same product on the shelves for years; we develop a new one," says Mr Beveridge. "We help our customers compete. The Sainsbury's dishwasher tablets are different from Tesco's."

The effectiveness of McBride's communications is reflected in the arrival of new investors from the UK, continental Europe and the US in the past three years. The biggest shareholder is Invesco Perpetual with a 17 per cent holding. "We have broadened the pool of investors by communicating more clearly," Mr Beveridge explains.

For Mitie, the challenge is to ensure that investors and analysts have easy access to senior management without distracting managers from running the business. "Our website allows people to get the basic information but analysts want to get a feel for the management," says Erica Lockhart, investor relations manager.

### Winner A sparkling performance as Britvic adds juice to its links with investors

Britvic, the winner in this category, has a colourful and informative website but staying in touch with shareholders still requires old-fashioned footwork and an extensive round of face-to-face meetings with existing and potential investors.

Craig Marks, head of investor relations, says he held 314 client meetings last year.



Let's get fizzical

"We did an overview of the strategy for our annual report and the website," Ms Lockhart explains. "We looked at best practice and made sure we were at the top of our game."

The company puts on a road show twice a year but also arranges for investors to meet the investor relations team or senior managers on a monthly basis. In January it took analysts and investors to visit some of the 15 sites it manages in London.

One aspect of the company's business that it was keen to

This month he spent a week travelling round North America, meeting investors as far apart as Dallas, Denver, New York and Montreal.

A long-term contract with PepsiCo helps raise the British company's profile in the US but brands such as Robinsons and J20 are unfamiliar there. Nor is sharing a common language always a help, as Americans consider a squash to be a vegetable and not a concentrated fruit drink.

Britvic has a long history – the name was first applied to its fruit juices in 1949 – but it was not until 2005 that it obtained a listing on the London Stock Exchange. Initially investor relations were contracted out but they were brought in-house when Mr Marks became head of treasury three years ago.

The company website has recently been improved and the investor relations section receives 6,000 hits a month. "We put a lot of effort and resources into upgrading the website," says Mr Marks. "It represents a first port of call for investors."

"We have a reputation for putting ourselves forward in terms of investor communications. If an investor has a

question we make sure we get back to them in 24 hours. We have a good story to tell."

The result has been an increase in "material shareholders" from 80 to 200 over the past two to three years while the total number of investors has doubled to 4,000 over the past year. A rise in the number of shareholders makes for a more liquid market in the shares.

The number of analysts following Britvic has risen from seven to 22 over the past two years. "That is a good number given the size of our business," says Mr Marks. The company is a member of the FTSE 250 but it hopes to be approaching the FTSE 100 in a few years.

Britvic launched an American Depository Receipt programme last month, making it easier for US investors to buy its shares. It has also diversified its sources of debt funding by means of a \$250m private note placement in December. There are no immediate plans to spend the funds but "this puts our balance sheet in a good place", says Mr Marks.

**Charles Batchelor**

the first year engaging with the investors we inherited," says Ben Whawell, finance director.

"We got the support of the original investors but over the past year we have tried to diversify our investor base." Among new investors in the company are Fidelity, BlackRock and Rathbones.

As a private company Stobart had had no need to liaise with City investors so it started with a clean sheet after the listing, says Mr Whawell. It has continued the quirky, down-to-earth approach that marked its earlier

years. Accessing the company's website prompts a video of its operations accompanied by a thumping musical score. Forty people attended its last investors' day, attracted in part by the chance to drive one of the company's articulated lorries.

Westbury had fewer than 1,000 investors before the reverse takeover but Stobart now has more than 3,000, including small investors from its 25,000-strong fan club. "Some of them are outside our depot now," says Mr Whawell. "They are taking pictures of our trucks."

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## Mid-cap companies sitting tight despite brighter outlook

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Leisure taking the CVA route out of trouble.

For shareholders, 2009 will be remembered as the year of the equity fundraising, especially the rights issue. With debt markets either off-limits or extremely restricted, mid-cap companies turned to their investors for money.

Such fundraisings were partly driven by fear – that the recession could last much longer than expected, but also that large rights issues from FTSE 100 companies would empty the pot

of money available, making fundraising efforts from mid-market companies far more difficult. Boards decided to raise money while they had the chance, even if they had no immediate use for it.

Fundraisings were particularly common in the property and property-related sectors and shareholders, for the most part, signed up to them. "If we like a company, we'll always support the management team," says Catherine Stanley, head of UK small companies at F&C Investments. She is expecting to see more

rights issues as companies look to take advantage of economic recovery, but warns: "We're very nervous of management teams who want to go back to the same level of debt-to-ebitda as they had two or three years ago."

Even for those companies that avoided cash calls, returns to shareholders were denied by dividend cuts. Some companies cancelled their dividends entirely, and others reduced them. While there were some dividend increases, including chemicals specialist Croda and support serv-

ices group Mitie, data from Capita Registrars shows that, of those companies that paid dividends in both 2008 and 2009, the average change was a drop of almost 6 per cent.

Those fundraisings and dividend cuts were accompanied by operational changes. "Companies have spent time addressing their balance sheets and cost base efficiencies," says David Snell, partner at PwC. "They are in a much better place than they were 18 months ago."

With fundraisings, lower dividends and cost cuts now

in the past and the UK officially leaving recession in the fourth quarter of 2009, the stage is set for a recovery in 2010. Certainly mid-market share prices, which rose so strongly in the second half of 2009, are pricing in an improvement in corporate fortunes.

And yet, almost a quarter of the way into the year, companies and their shareholders remain nervous. Companies are still cautious in their official outlook statements, pointing to improvements in some of their markets but unwilling to call the start of a broader

recovery. And the more tangible evidence of a recovery – the deals and internal investment that would signal companies' willingness to back their optimism with hard cash – is hard to find.

"We have a bit of paralysis at the moment. Companies are keeping their cost bases down and sitting tight," says Mr Snell at PwC.

"There are good opportunities out there and once confidence returns and the uncertainty of the [forthcoming UK general] election is gone, companies will turn to investment."

# Investing in new products and markets pays dividends

## Turnaround of Year

### Pan Kwan Yuk looks at three successful recovery strategies

Doing business during a recession can be tough even for the strongest of companies, but it is doubly hard for businesses that are turning themselves round.

This has certainly been the case for **Volex**, the maker of electric and telecom cables and one of the contenders for the inaugural Turnaround of the Year award.

The Warrington-based company underwent a period of rapid expansion and internationalisation in the 1990s, largely on the back of acquisitions in North America. But the bursting of the dotcom bubble in 2001 saw orders from telecom operators and technology companies dry up overnight.

As a result, the company spent much of the noughties downsizing its operations and rationalising its cost base,

although tight financial covenants limited its ability to make more forward-looking investments.

"The business was very much in survival mode during the last decade," says Ray Walsh, who was bought in as chief executive in 2009 after the group issued three consecutive profit warnings in 2008. "Much of the period was spent on the back foot. There was no focus on top-line growth."

Led by Mike McTighe, who joined as chairman in March 2008, one of the new management's first priorities was to sell its loss-making wiring harness business, which makes electrical systems used in commercial vehicles and the aerospace industry.

The sale put the company on a better footing to renegotiate its banking facilities. This in turn gave the group more headroom to invest in new, higher margin products and allowed it to put more resources towards expanding its presence in Asia.

The strategy appears to be paying off. Although trading remains tough, with first-half

## Winner Galiform

When Matthew Ingle became chief executive of MFI in October 2005, few in the City thought he could rescue a company that stood on the brink of collapse as its eponymous furniture retail business haemorrhaged cash.

But over the past four and a half years, he has proved the doubters wrong. While it would have been easier to try to squeeze costs further in the hope that eventually the retailing environment would improve, Mr Ingle tackled the problem head on. Less than a year into the job, he took the radical decision to hive off the retail business and focus the company – renamed Galiform – on Howden Joinery, its profitable and growing kitchen supply business.

For the year to December 26, 2009, the group reported pre-tax profits of nearly £69m. While this was a 13 per cent drop compared with the £79m reported in 2008, it still represented a vast improvement over the £11m pre-tax loss in 2005. Progress was also made on cutting net debt and improving margins, but it has not been all smooth sailing for Mr Ingle and his team.

Shares in the group lost nearly 92 per cent of their value between April 2007 and October 2008, hitting a low of 12.75p, partly on fears that it would not be able to cope with the legacy of its separation from MFI.

First it was embroiled in a long-running legal dispute with the private equity group that it paid

to take MFI off its hands, over numerous issues pertaining to the net asset value of MFI when it was sold. Then, when MFI collapsed into administration in November 2008, it became responsible for the leases to 46 of MFI's stores. The concerns were compounded by signs that the onset of a recession was starting to weaken kitchen sales.

"For us, it has not just been about dealing with the recession, it's been much more," says Gary Rawlinson, head of investor relations. "While other companies were having to face up to the recession we had to face this additional burden of paying rent on MFI's stores. As such, it has been a four-year journey, rather than one that just took place over the last year."

Galiform ended taking a charge of nearly £100m on rents and other associated costs related to these properties. But the market seems to think the company has finally seen the last of the MFI-related legacy. Shares in the group have nearly quintupled since the start of 2009 to 80p a share.

And with many of Galiform's customers more exposed to the more stable market in tenanted housing, and homeowners choosing to improve rather than move, the company might just be over the worst of its troubles.

Pan Kwan Yuk

revenue down compared with the year before, Volex is forecast by house broker RBS to make £8.3m profit after tax for the year to April 2010 after having incurred losses of £22m in the two years to June 5 2009.

Like Volex, **Renishaw**, the engineering company that specialises in precision measurement systems, attributed its turnaround to its decision to continue investing in new products and markets in spite of the downturn.

A global leader in the niche area of measurement probes for metal cutting – an activity vital to sectors from car production to white goods – Renishaw was hard hit by the sudden drop in sales and orders in the second half of 2008, when manufacturers abruptly switched off their capital investment.

Business conditions had deteriorated to such an extent that, by the beginning of 2009, the group had to lay off about a quarter of its 2,000-strong workforce and implement a 20 per cent salary cut across the board.

Yet management did not panic. It kept its spending on

research and development, and engineering, steady at 17 per cent of group turnover.

The move gave Renishaw some much-needed breathing space to adjust and adapt its business. In particular, it has been able to invest in new products in fields such as medical robots for performing jobs such as brain surgery, and to spend money on developing its exposure to faster recovering markets such as China.

The tactic of maintaining R&D spend is proving astute, with the company set to bounce back as the wider economy regains its composure.

With its order book growing again, Renishaw has returned staff to full pay in January after an 11-month pay cut. It has also reinstated its dividend six months earlier than expected and Ben Taylor, assistant chief executive, says the company is looking to hire more than 100 people in the UK in the months to come.

**Games Workshop Group**, which was on the original shortlist, declined the nomination for the award.

# Making the most of growth prospects

## Entrepreneurs

### Jonathan Guthrie profiles the business figures in this year's shortlist

The shortlisting of **Joep van Beurden** in the Entrepreneur of the Year category recognises his achievement in reviving the fortunes of CSR, the Cambridge-based technology company of which he is chief executive.

CSR came to prominence as a designer of chips for Bluetooth wireless headpieces used with mobile phones. However, the company's popularity with investors began to flag after this market matured and the company lost a key contract with Nokia.

Mr Van Beurden brought a useful mix of corporate and entrepreneurial experience to reviving the business, having worked at Royal Dutch Shell, McKinsey and at Silicon Valley start-ups. He joined CSR two and a half years ago.

"The challenge was to make the right choices. The difficult thing was in letting go of some activities, as well as choosing what to concentrate on," he says.

The reference is to a programme of developing base-band chips to connect handsets with mobile networks. Mr Van Beurden took CSR out of this crowded market, with the aim of concentrating on Bluetooth, wi-fi and GPS.

Just as bravely, CSR bought SiRF, a US-based satellite navigation company, for £91m during what Mr Van Beurden describes as "the deepest, darkest part of the nuclear winter of the economy".

At the same time, CSR was able to announce that it had regained Nokia as a client. The company's shares have accordingly

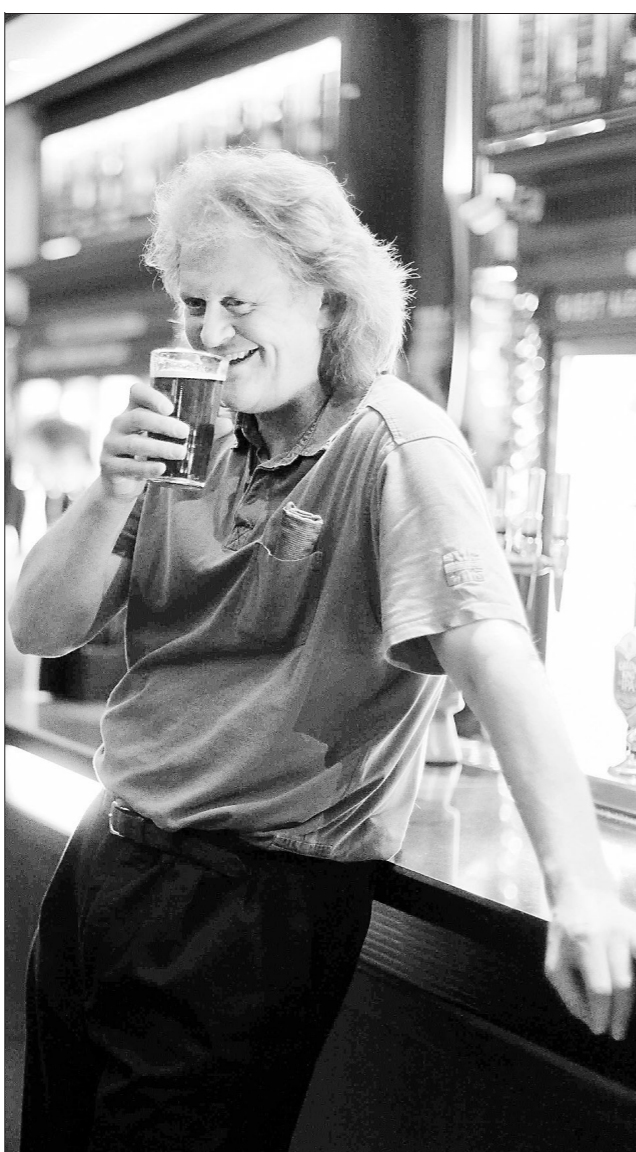
enjoyed a rerating that values its share capital at almost £900m. Mr Van Beurden says the group's risks are now much better balanced: "Our top five customers now represent 35 per cent of revenues, whereas a single customer used to represent 30 per cent." However he fights shy of using the word "turnaround" to describe CSR, saying: "We have not done yet. There are massive growth opportunities."

**Richard Harpin**, founder and chief executive of Homeserve, is no stranger to enterprise awards, having won the UK section of Ernst & Young's Entrepreneur of the Year contest in 2008. Mr Harpin had an early interest in enterprise, setting up a mail order fishing tackle business at the age of 15. He went on to earn his spurs as a corporate executive at consumer goods giant Procter & Gamble, where he worked in marketing.

After a spell in management consultancy, his next move was an apparently unlikely one. Mr Harpin moved to South Staffordshire Water, a small utility based in the West Midlands, where his job was to

Homeserve's products have proved popular, giving peace of mind to consumers

develop a business selling plumbing services. What catalysed the creation of a business now capitalised at more than £1bn was the idea of offering insurance against domestic emergencies, such as burst pipes. Sold via utilities across the country, the product has proved popular, giving peace of mind to consumers for whom home repairs represent a financial badlands with more than its fair



Mine's a pint: Tim Martin enjoys his work

Charlie Bilby

share of cowboy traders.

Homeserve, in which Mr Harpin holds a stake of around 17 per cent, demerged from South Staffs Water in 2004. In November it announced that profits had increased £4.3m to £18.1m on turnover almost £5m higher at £173.8m for the six months to the end of September.

Homeserve hopes to develop a new market for its insurance in the US, which could underpin further rapid growth.

Mr Harpin, 45, is an evangelist for enterprise. He speaks regularly on the subject at schools and has written a book about his philosophy entitled *A Mind for Business*. He is also an accomplished helicopter pilot, sometimes commuting between his home in Yorkshire and Homeserve's headquarters in Walsall.

**Mark Dixon** is meanwhile a familiar figure to aspiring entrepreneurs for two reasons. First, because he is the founder of Regus, the serviced offices company valued at £820m by the stock market. Second, many entrepreneurs have used Regus offices, or at least looked round them during a hunt for premises.

Indeed, an influx of start-ups helped raise Regus's

revenues by 9.8 per cent to £557m in the six months to last June, although profits slid to £69m. The ranks of first-time entrepreneurs have been swelled by redundant executives starting their own businesses. Part of Regus's appeal is its flexibility, offering everything from suites of offices to economical business lounges geared to the peripatetic business people known as "road warriors".

Mr Dixon set up his first business, Dial-a-Snack, after leaving school at 16. He subsequently worked as a barman, miner and encyclopaedia salesman.

The idea for Regus struck him when he saw business people huddling round small tables in a hotel in Belgium trying to hold meetings there because they lacked appropriate serviced premises. Regus floated on the stock market in 2000, but was then hit by the collapse of dotcom companies, some of whom were tenants.

Regus, in which Mr Dixon holds a stake of around 40 per cent, now operates in 74 countries. His "weekend job" is to run the Chateau de Berne, one of the biggest producers of rosé wine in Provence.

## Winner Ale and hearty success for Wetherspoon's chairman

According to Tim Martin, winner of the Entrepreneur of the Year award. "When I kicked off I couldn't even run one pub, let alone a pub chain." That was 30 years ago. Now Mr Martin is the chairman of JD Wetherspoon, which has more than 700 pubs and annual turnover of £955m.

The entrepreneur is one of the most recognisable figures in British business, known both for his pithy opinions and shock of grey hair. The former law student started out with a single pub in North London and has expanded the company – named after one of his teachers who had problems keeping discipline – mostly through opening new premises. "I had an early vision, along with 25 per cent of the population, of what a good pub should be," Mr Martin says.

The formula that has driven the expansion of JD Wetherspoon has been to create pubs with low prices where there is no music and the atmosphere is relaxed. Mr Martin, crucially, is a regular at his own pubs. He is more often found testing their facilities than shuffling paper at Wetherspoon's head office in Watford. The entrepreneur says: "You can't be too authoritarian with customers or staff. You have to try to find out what other people want and incorporate that into the actions that you take."

Jonathan Guthrie

Mr Martin believes that the contemporary view of the traditional British pub as a cheery home-from-home is tinged with nostalgia. "A lot of old-fashioned pubs were rubbish – they were not well run," he says. The growth of coffee shops in the UK "and the aspirations of staff" made Wetherspoon something of an agent of change in the licensed trade. The managed chain began offering food all day 20 years ago. The first non-smoking areas were introduced 15 years ago. Ten years ago Wetherspoons, which floated in 1992, began selling frothy coffees. Five years ago its pubs started opening for breakfast.

The pub industry is currently struggling with a serious decline in its fortunes. Licensed premises are closing at a rate of 50 a week. The main difficulty, exacerbated by the smoking ban, is that drinkers are staying at home with inexpensive supermarket-bought alcohol. Wetherspoons has proved relatively resilient, reporting a 1.2 per cent increase in like-for-like sales in its second quarter ended January 3, 2010. Mr Martin says: "Despite everything, it is possible to do well if you are good enough. People still want to go out and enjoy themselves."

# Gadgets, broadband and digital TV boost suppliers

## Technology

### Recession-proof home entertainment and mobile phone markets have benefited the sector, writes Philip Stafford

Companies developing emerging technologies can be made – and just as easily as destroyed – by a recession. As cost cutting becomes the mantra in households and corporate headquarters alike, one of the most scrutinised areas for savings is technology.

Fundamental questions are posed: How vital is this service for which I subscribe £30 per month? Could I get by without that? If 2009 is a guide, consumers and corporations alike have shown a distinct unwillingness to compromise on the gadgets and machines used every day for communications and entertainment.

Just a few years ago, pay TV, whether cable or satellite, had been regarded as something of a luxury in the home. Emerging only in the 1990s, business models such as BSkyB and Virgin Media had never been tested by a full-blown recession and while executives were quietly confident customers would continue to subscribe to TV services, an element of uncertainty remained.

But for Neil Gaydon, chief executive of **Pace**, the recession is proving one overriding point: that people still see TV as offering unrivalled value for money when it comes to entertainment. "When questioning discretionary spend, there are three things people give up last: their mobile phone, broadband and digital TV," he says.

Illustrating his point is the performance of Pace, which raised its earnings forecasts twice last April to cope with demand for high-definition TV set-top boxes. It expects to ship more than 16m boxes around the world this year to the big pay-TV companies such as News Corp and Canal Plus, making it the third-largest set-top box maker in the world.

A glance at the performance of Apple in the past year is likely to prompt doubts as to whether there has been a recession at all. The US technology group has repeatedly confounded analysts and critics alike with huge rises in sales. While the latest iPhone model, the 3GS, has been a key driver, many have been surprised by the resilience of sales of the group's desktop iMac computer.

Nevertheless, its decision to sell a top-of-the-range smartphone in the teeth of a recession has been a huge success that has benefited the companies that supply the components. For **Imagination Technologies**, 2009 has been something of a breakthrough year. Although it is the owner of Pure digital radios, the group has developed a position as a world leader in licences for graphics chips that are used in laptops, mobile phones and Apple's iPhone (see article, right).

For the six months ended December 31, group revenues rose 40 per cent to £38.2m and partner chip ship-

## Winner Imagination chips away at the market

Apple's choice of Imagination Technologies, a small British company from unfashionable Hertfordshire, as the provider of the designs for key graphics chips in the forthcoming iPad came as little surprise to the industry.

Imagination's graphics technology is regarded as being among the world's most advanced and reliable for gadgets that rely on a high-quality video interface, such as smartphones, TVs and iPods. Most graphics technologies treat a screen as one piece of data, and as it becomes denser with more pixels, it requires more processing power and memory. By contrast, Imagination's technology in effect breaks down the screen into smaller pieces, which requires lower power and less memory.

From its small and unassuming headquarters in Kings Langley, Imagination has supplied designs that have been incorporated into more than 100 mobile handsets, including devices from Nokia, Samsung, Sony Ericsson and Motorola, while Apple has taken the UK group's designs for its iPods and the 3G iPhone will have Imagination-designed processors.

Imagination expects to see a strong rise in royalty revenues this year after NEC, the Japanese group, deployed its licences in its global brand. The UK group is on track to see about 200m units of products containing chips designed from its licences shipped in the 2010-11 financial year, a total

which would put it on the cusp of becoming a notable force in the global market.

The growing importance of the UK group was illustrated last June when Saad, the Saudi Arabian investment group, was forced to offload part of its 29m share stake. Within days it had been snapped up by Apple and Intel, which amassed holdings of 9.6 per cent and 16 per cent respectively.

Intel is looking to break into mobile and TV markets but Hossein Yassaie, Imagination's chief executive, was relatively relaxed about the stakebuilding, viewing it as essentially a defensive move. In his view, complete ownership of Imagination by any one company might upset many of Imagination's other customers, which could then turn away from its designs. Because Imagination is of more value to its customers if it remains independent, Apple and Intel took stakes to ensure that they could prevent any one group from taking control.

Imagination is also known for its Pure DAB digital radios. The two seemingly disparate parts of Imagination – DAB radios and graphic chip designs – have led to calls for the group to divest the Pure subsidiary but Mr Yassaie has strongly resisted, forecasting consumers will see new products that integrate the two.

Philip Stafford

ments rose 33 per cent to 54m units.

The popularity of the iPhone was part of a broader acceptance around the world of smartphones, which are just as much a handheld mobile computer as a mobile phone. Smartphone sales rose 30 per cent year-on-year in the fourth quarter to 53m phones, according to Strategy Analytics, a research company.

This fast-growing market also helped **Arm Holdings** outperform rivals in the global semiconductor market downturn as its chips are in

Technology companies large and small cannot afford completely to turn off their research and development budgets

more than 90 per cent of the mobile phones sold globally. Smartphones are particularly lucrative, containing up to six royalty-generating chips per handset.

Arm was not immune from the slowdown. Full-year sales were up 2 per cent at £305m, but on a dollar basis, annual revenue fell 10 per cent. Even so, this was far better than some rivals, which saw turnover decline by a quarter. Full-year pre-tax profits were down 25 per cent to £47.3m, due mainly to higher spending on research and development.

Yet Arm's profits decline is a recog-

inition that technology companies large and small cannot afford completely to turn off their research and development budgets. Designs worked on today are intended for devices likely to be sold many years in advance; making efficiencies without strangling prospects for growth in the future is one of the toughest balancing acts technology companies face.

However **Vectura** has come up with a novel twist on the norm. Unlike many other biotechnology and small pharmaceuticals groups, Vectura's business model does not rely on patenting a chemical formula for a medicine. It focuses on taking existing medicines – many of whose patents have expired – and reformulating them so they can be delivered via an inhaler device.

Last year was something of breakthrough. For the six months ended September, Vectura's pre-tax loss declined by 68 per cent to £3.7m on revenues that jumped 71 per cent to £22.8m. Royalty revenues jumped 15 per cent to £6.8m, with most of this increase coming from Advate, a treatment for haemophiliacs that helps to clot blood.

Advate is marketed by Baxter and had annual sales of \$1.5bn in 2008; Vectura receives 1 per cent of the sales total annually.

It has also received milestone payments from Novartis and Sandoz, the Swiss company's generics arm, for another drug targeted at both chronic obstructive pulmonary disorder and asthma.



On the ball: Imagination's chip designs are used in a wide range of handheld devices

Charlie Bilby

## Mid-Market Companies



Paving the way: London's Somerset House, where Marshalls worked on a refurbishment project

Charlie Bibby

### Profile Marshalls

To win the PLC award for sustainability twice in successive years, a company must be doing something that makes it stand out from the crowd.

For Marshalls, that has meant taking the lead on one of the most promising new methods of helping consumers to make environmentally sound choices: carbon labelling.

Marshalls is a garden supply specialist, with a product range including paving, exterior lighting and other indoor and outdoor features.

Now, environmentally aware customers can judge the credentials of the entire range of products on sale, because Marshalls puts labels on all of them, showing how much carbon dioxide was produced in their manufacture.

Chris Harrop, group marketing director, calls the move "a bold step". Only a handful of companies put carbon labels on their products, and many of them have stopped short of applying them to their entire range.

Marshalls' reasoning was that putting the labels on the whole range would allow customers to make comparisons, and choose the lower carbon good in favour of the higher carbon alternative. The more people who choose lower carbon alternatives, the stronger the signal to the retailer.

Carbon labelling has some high-profile supporters. Sir Terry Leahy, chief executive of Tesco, the supermarket chain, told the Financial Times that the labels were "one of the most important ways" in which retailers could help their customers to make informed choices about the goods they buy.

But carbon labels are only part of the story. Marshalls has also made providing other ethical information to consumers a top priority.

For instance, the company has worked to educate buyers on the pitfalls of Indian sandstone, an increasingly popular material for garden paving but one which is often made using child labour, and quarried in ways that can damage water supplies.

Marshalls ensures its products come from quarries with high environmental and ethical standards, with protection for workers.

Its own workers are also encouraged to play their part: last year, more than 4,500 of the company's employees, from 530 workplaces, took part in a "walk to work" scheme that saved 12,791kg of carbon.

As well as cutting its carbon dioxide emissions, Marshalls has targets to cut its use of water substantially, and to reduce the amount of waste it sends to landfill. Marshalls was the first company in its sector in the UK to be accepted into the UN Global Compact, which binds companies to meet certain ethical and environmental standards.

Fiona Harvey

# Green agenda holds firm in crisis

## Sustainability

Environmental concerns are still important for many companies, writes **Fiona Harvey**

With the onset of the financial crisis and recession, some business analysts predicted that the environmental concerns that had risen so fast up the corporate agenda in the past few years would be jettisoned, in favour of a more traditional focus on pure profit.

The entries for this year's award for sustainability show that many companies are continuing to improve their environmental performance, and even saving money by doing so.

To impress the judges, the shortlisted companies had to show that they were making their own operations more economically, environmentally and socially sustainable. They should also have looked outside their own companies, to helping customers and supplier companies to address the same issues.

All the three shortlisted companies and the winner were able to demonstrate that their efforts to be greener and more socially aware were not dented by the downturn. In fact, they took on even more ambitious plans.

RM has been shortlisted in these

awards before, and has made progress in pursuing its environmental agenda. The computer specialist, which has made its name in the education sector, has a "green RM" project by which it advises schools, colleges and universities on how to cut their environmental impact. This service that will be made even more important when many universities and schools are required to monitor their energy use and emissions under new UK government regulations taking effect from April 1.

RM has also taken steps to ensure the computers it supplies are as energy efficient as possible. Airlines frequently come under fire from protesters, because of their contribution to global greenhouse gas emissions. But few people realise that the carbon dioxide emissions generated by the IT industry are about equal to those of aviation. Reducing emissions from IT should be seen as a high priority, RM argues.

Online, the company fosters a "best practice" website for schools, where they can share ideas on how to reduce their carbon footprint. Last year, RM also set up a green technology prize to reward those schools that have performed best. Shaun Snowden, director of IT at Kingswood School in Bath, the first winner of the award, says: "Using green IT is really important to a school like Kingswood – not only because of the energy-saving benefits, but also because it can motivate students to consider their own impact on

the environment."

AEA Technology, also shortlisted, might be said to have a homegrown advantage in reducing its carbon footprint. The company advises the private and public sector on implementing environmentally sustainable policies, and has more than 200 energy efficiency consultants and more than 130 experts on waste management.

The company's own efforts to improve its environmental performance are informed by its advisory role to other businesses, and neither have been curbed by the downturn. Robert Bell, operations director, says: "The creation of a low-carbon economy remains at the heart of the international business agenda, in spite of the worldwide recession."

AEA argues, in fact, that it is even more important to cut greenhouse gas emissions in a downturn, because the best way to do so is by eliminating wasteful practices. Companies can save considerable amounts by becoming more efficient in their use of resources, including energy, water and raw materials. The company boasts it has saved its clients more than £1bn.

Last year, AEA published, along with the Carbon Disclosure Project, a study on how the UK government could encourage suppliers to public sector bodies to improve their environmental performance, by putting in place "green" standards for all procurement.

Carillion, the third shortlisted com-

pany for sustainability, can also boast an in-house advisory service on environmental issues. One of the construction and support services company's many units is Enviro Services Consulting, which for more than 30 years has advised businesses on improving their environmental and social credentials. Another unit also helps: TPS Consult is Carillion's design company, one of whose specialisms is examining life-cycle costs for materials used in the construction industry, including ways of re-using and recycling products and of using building materials that improve energy efficiency.

The company has developed a "sustainability excellence model", which includes efforts to minimise energy use, cut waste and to help customers use their resources more efficiently. Although the company's carbon footprint has increased in size, this was owing to an acquisition and like-for-like emissions were down. In common with an increasing number of companies, Carillion buys only green energy for its head office.

The sustainability programme also includes working with local communities, for instance with homeless charity campaigns and through working with Age Concern.

Carillion also has targets on maintaining biodiversity in the sites it works in, and has set up the Carillion Natural Habitats Fund, through which the company has given more than £150,000 to the Wildlife Trusts charity, funding 25 projects.

'The creation of a low-carbon economy remains at the heart of the international business agenda, in spite of the worldwide recession'

## Winning ways of a 'pragmatic contrarian'

### Smaller Company Fund

Kate Burgess talks to the manager of Close Special Situations

It is moot whether it was a degree in biological anthropology from Cambridge or six years as an accountant that gave Deryck Noble-Nesbitt the requisite skills to turn his fund – Close Special Situations – into the best-performing UK smaller companies fund last year and win the fund he manages the PLC award.

Biological anthropology was all about genetics, ecology, epidemiology and the mathematical study of change with some social anthropology and the study of behaviour thrown in, says Mr Noble-Nesbitt. His years at Deloitte, the accountancy firm, from 1994 were spent studying balance sheets and cash-flows.

"I think accounting is overlooked," he says. "It gives you an important set of tools." Then again, anthropology was important too, he adds. "You can have as many qualifications as you want but you have to do other things such as look at behaviour. It is all very well to have the tools but you need to watch how to apply them."

Mr Noble-Nesbitt, from County Durham, says his methodology can be characterised in three ways: first, he tries to tune out the noise in markets. Second, he assesses downside risks carefully. Third, he uses discounted cashflows to analyse his target companies.

"That helps cut through the noise in the market," he says. But he adds: "I try to remain

pragmatic." A colleague calls him "a pragmatic contrarian".

The methodology worked well last year – Close, which has about £18m invested in about 30 stocks, was up 247 per cent in 2009 – having fallen more than 50 per cent in 2008.

Mr Noble-Nesbitt points out he has more or less built the fund from scratch since he took over managing it in August 2008 after the previous manager left and cornerstone investors took their money out.

But being a tiny fund had its advantages. It takes only one holding in one good company to propel a small fund to the top of the charts. That is what makes it impossible, says Mr Noble-Nesbitt, to compare his fund with previous winners such as Standard Life Investment's fund managed by Harry Nimmo, who has won the PLC award more

His best pick last year was Norseman Gold, Australia's longest continuously producing goldmine

than once. Mr Nimmo's fund is three times Close's size.

That said, no single holding accounts for the rise in the fund's value, says Mr Noble-Nesbitt, adding that many of the fund's holdings performed well.

He reckons the reasons for his outperformance are "straightforward". The second half of 2008 was one of the most aggressive bear markets in history.

He took a view on the macro-economic conditions, deciding that it would stabilise and markets would recover. He says: "The upside was huge, and the



Deryck Noble-Nesbitt: 'accounting is overlooked'

risk from a business perspective was low."

Timing was on his side. He took on the fund just as confidence tanked. Shares were cheap and investors were taking their money and running for cash.

Shares in Aurum, a gold mining company, for example, had fallen to 12p even though the company had 40p of cash per share, says Mr Noble-Nesbitt. Investors sold the shares because they could not sell less liquid holdings. "It didn't mean the company was going bust," says Mr Noble-Nesbitt.

Many other funds are now too large to benefit when such small cap companies start recovering, says Mr Noble-Nesbitt.

His best pick last year was Norseman Gold, Australia's longest continuously producing goldmine, which is listed on the UK's Alternative Investment Market. He put 1 per cent of the fund into the shares when they were trading at 1.6p. They are now around 50p a share. "It struck me at the time that it had had operational issues in 2008 that had improved. Meanwhile, the Australian dollar and price of oil was moving in its favour. But people were just dumping the stock."

But anyone who thinks that the Close fund's performance was driven by that one stock would be mistaken, says Mr Noble-Nesbitt. "I controlled the size of the holding and sold on the way up." It is 3.3 per cent of the fund now. He reckons not much more than 15 per cent of the fund's returns last year

came from that holding.

Mr Noble-Nesbitt invested in other commodity-based groups that he thought would rally as the markets' view of economic conditions improved and took profits as shares bounced. In December 2008, about 12 per cent of the fund was in gold mining and another 21 per cent in other miners. By September last year the holdings in gold mines had come down to 6 per cent and he had 13 per cent in other miners.

The money was switched to industrials such as British Polythene Industries. "It is one of the largest producers of polythene in the world. Since 2005 the shares have fallen because of cost pressures and lower demand." Then as margins recovered in 2009, the shares recovered, rising 85 per cent in April and May. Again Mr Noble-Nesbitt took profits and redeployed the money.

The market is less easy to read now, he says. "The obvious conundrums now are the signs of fiscal stimulus being withdrawn and tax rises to repay deficits. In the small company market there are more than 1,000 companies to choose from. Every one has its own story and will be affected by the macro economy in a different way."

The UK's outlook will ride on the general election, whether there will be a hung parliament and how a new government will tackle the deficit. It might be tough in these circumstances for Mr Noble-Nesbitt to replicate the performance he achieved in 2009.

## Cost reductions help car retailer shift to higher gear

### Best Performing Share

John Reed examines how Pendragon won investors back in 2009

When the credit crunch began in 2008, nervous consumers reined in their discretionary spending. One of the first things they stopped doing was replacing their cars.

While many consumer goods companies saw their profits and share prices hammered, automotive retailers – including Pendragon – fared worse than most because of their direct exposure to both contracting credit markets and collapsing consumer confidence.

The sector runs on thin operating margins even in good times. Car retailers have high fixed costs because of the bricks and mortar of their dealerships, so lower sales tend to reflect directly on the bottom line.

As the crisis deepened in late 2008, financial investors deserted listed car dealership groups in droves. The impact of the crisis on the share price of Pendragon and its listed competitors such as Inchcape was ugly as investors began to focus on their high gearing levels.

But then the market turned again in 2009, thanks in part to a government-backed scrappage bonus of £2,000 per car for drivers trading in 10-year-old vehicles, which revived car sales. The scheme brought buyers back into forecourts, including those owned by Pendragon, Britain's largest dealership group.

The company also took steps to put its house in order, refinancing its debt and cutting its payroll by nearly 20 per cent. Its share price raced ahead of the broader market in 2009, rising from 1.65p to 23p over the course of the year.

Reporting annual results in February, Pendragon said that

it had swung from an underlying loss of £33.6m for 2008 to a profit of £10.1m for 2009.

Trevor Finn, chief executive, attributes the shift in the company's fortunes to the £68m reduction in its cost base. He plays down the role of the scrappage scheme, which boosted total industry sales in the UK last year by about 285,000.

"The major shift in profitability has been around cost reduction, not the market picking up," Mr Finn says. The group cut its headcount by about 2,700 to just over 10,000.

Pendragon's shares began to surge after it negotiated a new



'Premium brands went into recession first then fell more aggressively, and are coming out faster'

Trevor Finn, Pendragon chief executive

£530m three-year financing package in April. Britain's scrappage scheme began the following month.

While "cash for bangers" boosted Pendragon's new-car sales, it derived the biggest chunk of its profit last year from service and parts – a highly profitable, countercyclical business that holds up even during a downturn.

The business earned Pendragon a whopping 55 per cent margin and accounted for 44 per cent of its gross profit last year. Pendragon's used-car business also performed well. In 2008 car retailers had sold down their

used-car stock because of a lack of demand. Prices fell to their lowest levels in decades, which brought back buyers to an undersupplied, severely out-of-whack market that then saw prices surge.

Pendragon earned a 12 per cent gross margin selling used cars last year, compared with the 7.5 per cent margin it earned selling new ones.

Meanwhile, the group's Stratstone premium-car division sprang back to life as Britons began buying large and expensive cars again. Pendragon has a large market share for Jaguar and Land Rover cars, two brands whose sales suffered especially badly in 2008 and 2009, but which are now reporting rebounding sales.

"The recovery financially for us has been around the premium brands – BMWs, Land Rovers, Jaguars – not volume brands," says Mr Finn. "Premium brands went into recession first then fell more aggressively, and are coming out faster."

Analysts' consensus forecast for Pendragon's earnings for this year is a £25m profit. The company is not contradicting the number.

Nonetheless, some predict another tough year for the sector, with scrappage winding down at the end of this month. "It's going to be a tough second half – that's the big concern everyone has now," says Michael Vassallo, an equities analyst with Brewin Dolphin. "We won't have scrappage and after the [forthcoming UK general] election everyone is expecting job cuts. That could affect demand for cars."

Mr Vassallo forecasts a 9 per cent drop in new-car volumes this year, though mostly because of scrappage, with underlying demand for new cars down by just 1 per cent. "Compared with 2008 and 2009 the market looks a lot more stable," he says.