Interim Management Statement

Pace plc - Interim Management Statement
10 May 2011

Pace plc is today providing its interim management statement for the period covering 1 January 2011 to 9 May 2011.

Key Points

- Volume shipments and revenues have continued to meet Pace's expectations (Q1 2011 revenues up 24% on Q1 2010), but profitability has been impacted due to the following factors:

  * Pace has built inventory and purchased components ahead of schedule to ensure that it can deliver on customer orders within a tight supply chain environment. This has increased costs;

  * The Japanese Tsunami has further exacerbated the supply chain environment in the period and increased risk for the year;

  * Profitability in the Pace Europe business unit during the period has been below expectations, despite this unit having achieved its revenue and volume targets;

  * Insufficient demand for Pace Networks products, which resulted in the closure of this division as a standalone business unit.

- The Board has reviewed the potential impact of the above factors on the rest of the 2011 financial year. In the first half the Board now expects operating margins to be at around 5.5%. In the second half the Board is confident that Pace will return to close to its medium term 8% operating margin target. For the full year the Board expects operating profit to be below management expectations and in the range of $150m - $170m (£97m - £110m[1]).

During this period the build-up of inventory ahead of schedule has caused a higher than planned cash outflow. The Board expects cash to return to prior-year-end levels by the half year.

The Pace Americas business unit has performed ahead of management plan in the period. The 2Wire acquisition integration programme has proceeded as expected with the Americas 2Wire business fully integrated into a new Americas Telco customer account team (CAT), which has performed well.

Pace Europe has continued to win business, for example new contracts with Tata Sky in India and Net Servicos in Brazil. Pace also marked its one millionth shipment of standard definition set-top boxes to the Net Servicos business. It was announced by the European Commission on 14 April that Pace had won its long-running case with the European Court to prevent a change of classification by the European Commission to impose duty charges on set-top boxes with a recording function.

Pace Enterprise has continued to build its businesses in telecom gateways and software and services outside of the Americas. Following the closure of Pace Networks, its existing customers and related opportunities will be managed through Pace Europe.

As previously stated Pace will provide details of its dollar conversion by the end of May.

Commenting on today's announcement, Neil Gaydon, CEO, said:

"It is clear from today's statement that despite revenues and product shipments being on track, we have made a disappointing start to the financial year with our profitability. We have taken action and are making changes to improve our second half performance and beyond and to ensure we return to our 8% operating margin target.

"Although we will now not be able to make up this first half under-performance in the second half we continue to drive long-term growth and profitability. The demand for our products and technologies continues to grow, ensuring our ongoing market leadership."

[1] The £:$ exchange rate used is $1.55

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