Interim Management Statement and Strategy Update

Pace plc - Interim Management Statement and Strategy Update
17 November 2011

Pace plc is today providing its interim management statement for the period covering 1 July 2011 to 16 November 2011, and an update following its strategic review initiated in May 2011.

Trading update and 2011 outlook

- Including the impact of Hard Disk Drive (HDD) supply issues, full year group operating profit[1] is expected to be c.$141m on revenues of c.$2.3bn
  - With the exception of the HDD supply issue, volume and revenues are in-line with expectations
  - Impact of HDD supply issues on 2011 operating profit is expected to be c.$9.5m
  - There will be a consequent impact to cash through lost profit and increased working capital, with net debt at year end now expected to be c.$320m-$330m

- A consultation is underway on a proposed reorganisation of the Pace Europe business, the details of which are subject to finalisation. A corresponding exceptional charge of c.$12m will be taken in 2011 and the consultation is expected to conclude before the end of H1 2012. The proposal is targeting annualised savings of c.$7m, with c.50% expected in 2012.

2012 outlook: underlying business and impact of HDD supply issues

- The Board now expects 2012 group operating margin to be c.7% on broadly flat revenues before the impact of HDD supply issues, reflecting:
  - Increased pricing pressure, particularly in North American Cable, impacting group operating margins by c.1%
  - Near term cost containment measures to improve operational efficiency, benefiting group operating margins by c.1%

- Impact of HDD supply issues on 2012
  - Pace's HDD suppliers remain uncertain on capacity and pricing - impact on 2012 revenue, profit and cash flow remains uncertain
  - All efforts are being taken to mitigate this, including seeking alternative supplies, working with customers and aggressively managing working capital
  - Based on dialogue with our suppliers and customers, and our detailed analysis, our current working assumption of operating profit impact in 2012 is $35m-$50m of which the majority is expected to fall in H1

- Taking account of the 2011 and 2012 outlook given above, including our working assumption for the HDD supply issue, we will remain within our banking covenants

Results of our Strategic Review

In May 2011, Pace embarked on a comprehensive and detailed review of its strategy and business operations. The goal was to determine what actions Pace should take to further develop a distinctive, scalable and profitable business that was well positioned within attractive markets.

The review determined that:

- Pace operates in markets that are growing and profitable
- Sharpened focus was required, specifically:
  - Achieving operational excellence to match Pace's scale
  - Building on our position as a world leading set-top box and residential gateway company
  - Accelerating the deployment of Pace's acquired and developed software & services assets across its markets

- Up to 9% operating margin, combined with significantly enhanced quality of earnings, is a realistic medium term objective

Commenting on today's announcement, Neil Gaydon, CEO, said: "In common with the broader consumer electronics industry, the immediate impact to our business of the Thailand flooding is significant, requiring diligent management. Looking beyond this short term supply chain issue, the strategic review gives us a clear roadmap to increased operating profit and enhanced quality of earnings."

A presentation for analysts and institutional investors will take place today at 09.30am UK time. A listen only live webcast and dial-in will be available; details can be found at www.pace.com/ir.

[1] - Operating profit is EBITA (after adding back amortisation of other intangibles and exceptional items)

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