

The Note - Friday business

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NEWS AND COMMENT

Schroders shrugs off UK funds fall-out

City investors pulled a total £8 billion of funds out of Schroders last year, leaving the UK fund management house reliant on the return of retail money to bolster annual profits. But the group finished the year with group pre-tax profits up 16 per cent.

Comment: Michael Dobson, Schroders' chief executive, admits more City institutions will pull their money from the UK fund manager over the coming weeks. He also refuses to call a trough for the outflows, which are £2.4 billion ahead in net terms on 2005 and just £400 million short of the 2004 level. Ironically, this smacks of confidence. Mr Dobson says UK clients that have dumped Schroders' balanced funds are returning with different mandates, with fees that are on average 31 per cent higher. Record interest from individual investors added £6.6 billion to the retail pot last year, with the once loss-making private bank now generating 10 per cent of group profits. His confidence extends to acquisitions, with Mr Dobson eyeing up more to come. Such confidence persuaded investors to add £50 million to Schroders' value.

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Miles Costello

Wetherspoon takes heat for energy call

JD Wetherspoon has seen its utility costs balloon by £7 million a year after it was forced to renegotiate an agreement with its suppliers at the peak of the energy market. The increase has added to its "cautious" outlook for the second half.

Comment: Not even a dividend hike could distract JD Wetherspoon investors from the pub group's disastrous energy price hedging policy. Its sixth sense for negotiating utility prices at the worst time in the cycle means its bill is now £7 million more than the previous two years - nearly a quarter of its interim pre-tax profit. This, along with a forecast second half revenue slowdown, has taken the shine off strong first half trading. Also, there is the impending smoking ban, which will hit during the group's second six months. Wetherspoon has demonstrated it can navigate the impact, reporting a 5 per cent sales increase at its Scottish pubs where the ban has been in place for nearly a year. There is a lag in profits at the sites, but the company expects those to return soon. It will, however, be some time before the rest of the chain returns to normality.

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Dearbail Jordan

Photo-Me suffers as customers go bust

Investors wiped £70 million off the value of Photo-Me International, after the photo booth maker said its profits would be "substantially" below expectations, blaming weakness at its minilab manufacturing business for its "much reduced profit".

Comment: The digital boom triggered a seismic shift in the market, leaving "traditional" photography reeling and causing sales of non-digital cameras to dive. Even though the boom has now peaked, as highlighted from Jessops' latest profits warning this week on a slump in sales of digital cameras and memory chips, it is still claiming scalps. The latest is Photo-Me International, which makes photo booths found in stations and shops. The company will miss its profits target due to a delay in delivering a contract, as well as weak demand in the mini-lab market. A lot of Photo Me's mini-lab clients, specialising in traditional film printing, are being pushed into bankruptcy. Their demise has left a glut of cut-price mini-labs for sale on the market, as owners scramble to recoup some of their losses.

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Neelam Verjee

Rank gambles future on licenses award

Rank Group, owner of Mecca Bingo Halls and Grosvenor Casinos, cautioned that the smoking ban in Scotland, soon to be nationwide, was continuing to take its toll on profits.

Comment: Rank chief executive Ian Burke's plan to turn the company into what effectively amounts to a pure gambling stock is nearly complete. But much still hangs on whether the leisure group will win a respectable number of new casino licenses. If rivals snap up licenses in towns where they will compete with Rank's Grosvenor casinos, its already volatile earnings could be hurt. Mr Burke is making the best of a bad job with the smoking ban, building outside areas at the bingo halls for smokers. But the UK ban will hurt Rank's casinos. Mr Burke warns that industry data seems to show casinos in Scotland "underperformed slightly" compared to those in England. It does not bode well.

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Robert Lindsay

LONDON MARKETS BRYCE ELDER

Bid talk sends Bodycote soaring

[Results optimism lifts ITV](#)
[Buffet takes a shine to Tesco](#)
[SSE takeover rumours revive](#)

Bodycote surged on news that the engineering group had rejected a £1 billion offer from **Sulzer**, its Swiss rival. Shares jumped more than 22 per cent to around 315p after the heat treatment and materials testing specialist snubbed a 325p approach from Sulzer, which said it was considering its options having made two previous approaches over the course of the past month. Speculation about takeover interest in Bodycote first appeared five weeks ago, with both industry and private equity companies rumoured to be examining a breakup bid for the group. Sources at the company had played down the speculation. The wider market managed to hold steady after three days of declines.

Tesco helped the trend after Warren Buffet revealed in a letter to shareholders of his **Berkshire Hathaway** group that he held a 2.9 per cent stake in the grocer, worth \$1.82 billion. The letter showed Mr Buffet, who had disclosed a holding of 58 million shares back in May, had lifted the stake to 229 million shares by the end of 2006. On current figures, that would make him Tesco's fifth-biggest shareholder.

ITV climbed ahead of its annual results next Wednesday, marking Michael Grade's City debut as the broadcaster's executive chairman.

Scottish & Southern Energy jumped on renewed talk that the utility could be a takeover target, with **E.ON** among the companies mooted to be in the frame. SSE was last week the subject of rumoured interest from peer **RWE**, a story the German group said was unfounded.

FTSE 100 latest
6,103.2 - 12.8

£/\$ 1.9445 - 1.9452

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\$62.56 - \$0.45

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