ENVOY COMMUNICATIONS GROUP INC
Form 6-K
June 14, 2001

Envoy Communications
Group Inc.
2nd Quarter Report 2001

energy focus strength

www.envoy.to

Dear Shareholder,

I am pleased to report that Envoy continues to outpace our peer group, and has now posted 21 consecutive quarters of year-over-year revenue and EBITDA growth.

It is our continued focus on our superior business model that has once again resulted in record revenues and earnings for the six months ending March 31, 2001. Net revenue is up 65%, EBITDA is up 79%, earnings before goodwill are up 75%, and earnings per share before goodwill (cash EPS) are up 50% to $0.15 per share.

Financial Highlights

For the six months ending March 31	2001	2000	% Change
Net revenue	$42,206,388	$25,642,863	65%
EBITDA	$7,508,480	$4,204,130	79%
Earnings before goodwill	$3,097,236	$1,766,785	75%
Net earnings	$1,616,220	$1,231,462	31%
EBITDA/share	$0.35	$0.23	52%
Earnings before goodwill/share (cash EPS)	$0.15	$0.10	50%

Fully diluted shares outstanding for the second quarter 2001 were 21,190,401, and 18,436,601 for the second quarter 2000.

While I am pleased with this performance, it is even more encouraging to report the consistency with which we are achieving our growth. In fact, Envoy's business model emphasizes delivering 'best of breed' services in the core areas of design, marketing and technology and doing so on an international scale. We believe, and our track record supports, that our diversified approach, both in terms of service offerings and by geographic presence, helps to deliver balanced and consistently strong results.

As highlighted, one of the important outcomes of our model is diversification; in essence, a manner in which we can effectively accelerate upside potential and manage risk. For the six months ending March 31, 2001, while Envoy experienced strong revenue growth in both the United States and Canada, we also added revenue from the United Kingdom/Continental Europe, which now accounts for 22% of revenues.

Region	% of Revenue
Canada	29%

United States	49%
U.K. and Continental Europe	22%

With respect to the diversification of our service offering, again, Envoy is well positioned.

Core Service Area	% of Total Revenue
Marketing	34%
Design	45%
Technology	21%

As I have pointed out, our results for the first six months ending March 31, 2001 are very much in line with our expectations. While we recognize that there are evolving market conditions in the North American market, Envoy management, along with the management of our operating companies, are working hard to maintain and enhance our performance track record. We believe our business model offers the right balance, and as such, we remain cautiously optimistic about our performance for the remainder of the year.

We also continue to consider strategic acquisitions that will help to expand our business model and view the current time period as an opportunity to selectively build further value through acquisition. As always, we will ensure that increasing shareholder value is central in our decision-making process.

Thank you for your support.

Geoffrey B. Genovese, President and Chief Executive Officer
Envoy Communications Group Inc.

Management Discussion and Analysis
Results of Operations

Six months ended March 31, 2001 compared with six months ended March 31, 2000.

Net Revenue

Net revenue increased by 65% to $42.2 million for the six months ended March 31, 2001 from $25.6 million in the six months ended March 31, 2000. The increase is as a result of both growth through acquisition and organic growth. Effective January 1, 2001, we acquired all of the shares of The International Design Group (Canada) Inc. ("IDG"), a retail planning and design firm. This acquisition was accounted for using purchase accounting and as a result of this acquisition there are three months of net revenues included in the six months ended March 31, 2001. In fiscal 2000, Envoy completed two acquisitions: the acquisition of Sage, effective June 1, 2000, and the acquisition of Gilchrist, effective July 1, 2000. As a result of the acquisitions of Sage and Gilchrist, there are six months of net revenues for these companies included in the March 31, 2001 results of operations that were not included in our results of operations for the six months ended March 31, 2000. Organic growth was approximately $6.1 million or 17% for the period.

In the six months ended March 31, 2001, net revenue from our marketing services represented approximately 34% of our net revenue, while design and technology represented 45% and 21% respectively. In the six months ended March 31, 2000, marketing services represented approximately 60% of net revenue, while design and technology services represented 35% and 5% respectively.

We have continued to geographically diversify our revenue base. The geographical breakdown of our net revenue for the six months ended March 31, 2001 was 49% from the United States, 22% from the United Kingdom and Continental Europe, and 29% from Canada. Net revenue for the six months ended March 31, 2000 was 67% from the United States and 33% from Canada.

EBITDA

For the six months ended March 31, 2001, we earned $7.5 million in EBITDA compared with $4.2 million for the six months ended March 31, 2000. This represents a growth of 79%. The EBITDA profit margin for the six months ended March 31, 2001 was 18%, compared to the EBITDA profit margin of 16% achieved for the six months ended March 31, 2000.

Operating Expenses

Operating expenses increased by 62% to $34.7 million for the six months ended March 31, 2001 from $21.4 million for the six months ended March 31, 2000. The increase in salaries and benefits reflects staff of acquired operations plus the additional management and client support employed to handle the continued growth and expanded operations throughout the Company. As a percentage of net revenue, salaries and benefits remained constant at 60% for the six months ended March 31, 2001. The additional general and administrative expenses were largely due to expanded business development activities by our existing business divisions as well as new and expanded business development activity by the acquired businesses. General and administrative expenses decreased slightly at 17% of net revenue for the six months ended March 31, 2001 compared with 19% of net revenue for the six months ended March 31, 2000. Occupancy costs increased due to the additional space required to support our growth from acquisitions. The additional depreciation charges were due to the depreciation of the costs of our additional leasehold improvements and of newly purchased capital equipment as a result of acquisitions.

The increase in interest charges was due to the additional debt relating to acquisitions.

Earnings before income taxes and goodwill amortization increased from $3.2 million to $5.6 million, an increase of 75%.

See Note 1 to the consolidated financial statements. Effective October 1, 2000, the Company was required to adopt on a retroactive basis the new accounting standards of the Canadian Institute of Chartered Accountants ("CICA") for income taxes. As a result of the December 2000 announcement by the government to introduce legislation to reduce income tax rates over the next four years, the Company was required to revalue its future tax assets as at December 31, 2000 to reflect the reduction in future expected tax rates. The impact of this was to increase the Company's tax provision for the three months ended December 31, 2000 by $100,000. Under the CICA's new accounting standard the Company is required to record this item as an adjustment to income tax expense, notwithstanding the fact that such amounts were not previously reflected in income tax expense when recorded.

Goodwill amortization increased from $535,000 to $1.5 million, due largely to the increased amount of goodwill derived from the acquisitions discussed above.

Net Earnings

Primarily as a result of the foregoing factors, net earnings increased by 31% to $1.6 million for the six months ended March 31, 2001 from $1.2 million for the six months ended March 31, 2000.

Per Share Amounts

For the six months ended March 31, 2001, the EBITDA per share was $0.35, the earnings before goodwill per share was $0.15 and the net earnings per share was $0.08. For the six months ended March 31, 2000, the EBITDA per share was $0.23, the earnings before goodwill per share was $0.10 and the net earnings per share was $0.07.

Cash Flows

Six months ended March 31, 2001 compared with six months ended March 31, 2000.

Net cash provided by operating activities before any increase and decrease in non-cash operating working capital was $4.9 million for the six months ended March 31, 2001 and $2.6 million for the six months ended March 31, 2000. Increase in net cash provided by operating activities is primarily due to increased earnings of acquisitions, as discussed previously.

Net cash provided by financing activities were ($5.4) million for the six months ended March 31, 2001 and ($1.1) million for the six months ended March 31, 2000. The decrease is primarily due to the repayment of debt. In June 2000, we established a new US$8 million revolving credit facility, and borrowed US$3.1 million under the facility. In January 2001 we borrowed an additional US$1 million, which has been used in part to fund the acquisition of IDG. In February 2001, we repaid US$3.1 million of the facility using cash from operations.

Results of Operations

Three months ended March 31, 2001 compared with three months ended March 31, 2000.

Net Revenue

Net revenue increased by 58% to $20.4 million for the three months ended March 31, 2001 from $12.9 million for the three months ended March 31, 2000. This increase occurred as a result of both growth through acquisition and organic growth. As a result of the acquisitions of Sage, Gilchrist and IDG, there are three months of net revenues for these companies, included in the March 31, 2001 results of operations that were not included in our results of operations for the three months ended March 31, 2000. Organic growth was approximately $1.7 million or 9% for the period.

EBITDA

For the three months ended March 31, 2001, we earned $3.1 million in EBITDA compared with $2.1 million for the three months ended March 31, 2000. This represents a growth of 44%. The EBITDA profit margin for the three months ended March 31, 2001 was 15%, compared with the EBITDA profit margin of 16.5% achieved in the three months ended March 31, 2000.

Operating Expenses

Operating expenses increased by 61% to $17.4 million for the three months ended March 31, 2001 from $10.8 million for the three months ended March 31, 2000. The primary reasons for the increase are increases in salaries and benefits of $5.4 million, or 70%; an increase in general and administrative expenses of $540,000, or 21%; and an increase in occupancy costs of $627,000, or 115%. There were also increases in depreciation of $343,000, or 76%, and in goodwill amortization net of taxes of $477,000, or 175%. The explanation for the increases are the same as previously discussed in the six-month comparison.

The increase in interest charges was due to the additional debt relating to acquisitions.

Earnings before income taxes and goodwill amortization increased from $1.6 million to $2.1 million, an increase of 34%.

Goodwill amortization increased from $273,000 to $750,000 due largely to the increased amount of goodwill derived from the acquisitions discussed above.

Net Earnings

Primarily as a result of the foregoing factors, net earnings remained relatively constant at $532,000 for the three months ended March 31, 2001 and $585,000 for the three months ended March 31, 2000.

Per Share Amounts

For the three months ended March 31, 2001, the EBITDA per share was $0.15, the earnings before goodwill per share was $0.06 and the net earnings per share was $0.03. For the three months ended March 31, 2000, the EBITDA per share was $0.12, the earnings before goodwill per share was $0.05 and the net earnings per share was $0.03.

Cash Flows

Three months ended March 31, 2001 compared with three months ended March 31, 2000.

Net cash provided by operating activities before any increase and decrease in non cash operating working capital was $2.2 million for the three months ended March 31, 2001 and $1.3 million for the three months ended March 31, 2000. Increase in net cash provided by operating activities is primarily due to increased earnings of acquisitions, as discussed previously.

Net cash provided by financing activities were ($4) million for the three months ended March 31, 2001 and ($1.1) million for the three months ended March 31, 2000. In June 2000, we established a new US$8 million revolving credit facility, and borrowed US$3.1 million under the facility. In January 2001 we borrowed an additional US$1 million, which has been used in part to fund the acquisition of IDG. In February 2001 we repaid US$3.1 million of the facility using cash from operations.

Cash flow from investing activities has decreased from ($1.0) million for the three months ended March 31, 2000 to ($2.8) million in March 31, 2001. The decrease is due to the purchase of IDG. In January 2001, the company acquired 100% of the outstanding shares of IDG, in exchange for cash consideration of $1,090,000 and the issuance of 61,728 common shares of the Company.

Financial Condition

As at March 31, 2001 compared with September 30, 2000

The working capital balance was $9.5 million and the cash balance was $16.5 million at March 31, 2001. At September 30, 2000 working capital was $11.4 million and the cash balance was $7.1 million. Additional cash balance is primarily due to an increase in outstanding accounts payable and accrued liabilities, as a result of timing of payments.

Cash flow from operations as well as the availability of the remaining existing credit facilities and the net proceeds of any future share offerings are expected to provide the liquidity to meet current foreseeable cash needs for at least the next year.

Consolidated Balance Sheets
(In Canadian dollars)
(Unaudited - Prepared by Management)

As at	March 31 2001	September 30 2000
ASSETS		
Current assets:		
Cash	$ 16,455,951	$ 7,105,418
Accounts receivable	34,494,450	34,234,974
Prepaid expenses	3,467,970	1,732,212
	54,418,371	43,072,604
Restricted cash	1,104,936	832,337
Capital assets	10,543,644	10,448,625
Goodwill and other assets	47,584,771	46,987,707
Deferred income taxes	722,630	966,715
	$ 114,374,352	$ 102,307,988
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 37,251,912	$ 24,247,075
Income taxes payable	1,152,926	1,190,313
Deferred revenue	683,333	1,044,873
Amounts collected in excess of pass-through costs incurred	2,715,183	2,307,047
Current portion of long-term debt	3,148,254	2,848,430
	44,951,608	31,637,738
Long-term debt	3,782,577	7,983,449
Shareholders' equity:		
Share capital	55,495,653	54,597,762
Retained earnings	10,019,587	8,403,367
Cumulative translation adjustment	124,927	(314,328)
	65,640,167	62,686,801
	$ 114,374,352	$ 102,307,988

Consolidated Statements of Operations and Retained Earnings

(In Canadian dollars)
(Unaudited - Prepared by Management)

For the six months ended	March 31 2001	March 31 2000
Net revenue	$ 42,206,388	$ 25,642,863
Operating expenses:		
Salaries and benefits	25,271,455	15,480,176
General and administrative	7,168,230	4,915,939
Occupancy costs	2,258,223	1,042,618
	34,697,908	21,438,733
Earnings before interest expense, income taxes,depreciation and goodwill amortization	7,508,480	4,204,130
Depreciation	1,504,762	830,217
Interest expense	370,281	163,010
Earnings before income taxes and goodwill amortization	5,633,437	3,210,903
Income tax expense, excluding the undernoted	2,436,201	1,444,118
Impact of tax rate changes (Note 1)	100,000	-
Earnings before goodwill amortization	3,097,236	1,766,785
Goodwill amortization, net of income taxes of $12,000 (2000 - $12,000)	1,481,016	535,323
Net earnings	$ 1,616,220	$ 1,231,462
Retained earnings, beginning of period	8,403,367	5,492,940
Retained earnings, end of period	$ 10,019,587	$ 6,724,402
Net earnings per share - basic	$ 0.08	$ 0.07
Net earnings per share - fully diluted	0.08	0.07
Earnings per share before goodwill amortization - basic	0.15	0.10
Earnings per share before goodwill amortization - fully diluted	0.15	0.10

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flow
(In Canadian dollars)
(Unaudited - Prepared by Management)

For the six months ended	March 31 2001	March 31 2000
Cash flows from operating activities:		
Net earnings	$ 1,616,220	$ 1,231,462
Items not involving cash:		
Deferred income taxes	287,514	(25,157)
Depreciation	1,504,762	830,217
Goodwill amortization	1,493,016	547,323

Net changes in non-cash working capital balances:		
Accounts receivable	1,347,116	(6,475,595)
Prepaid expenses	(1,704,099)	(181,695)
Accounts payable and accrued liabilities	12,915,584	3,335,056
Income taxes payable	283,708	(2,365,252)
Deferred revenue	(374,719)	-
Amounts collected in excess of pass-through costs incurred	364,174	3,877,759
Other	144,904	-
Net cash provided by operating activities	17,878,180	774,118
Cash flows from financing activities:		
Long term debt	-	550,000
Long term debt repayments	(4,953,578)	(1,626,866)
Issuance of common shares for cash	397,893	563,650
Reduction (Increase) in restricted cash	(254,399)	(594,823)
Other	(613,165)	-
Net cash used in financing activities	(5,423,249)	(1,108,039)
Cash flows from investing activities:		
Acquisition of subsidiaries (net of cash acquired(bank indebtedness assumed) of $214,179; 2000-nil)	(2,015,346)	(2,186,205)
Purchase of capital assets	(1,441,423)	(1,546,202)
Net cash used in investing activities	(3,456,769)	(3,732,407)
Change in cash balance due to foreign exchange	352,371	(76,723)
(Decrease)/Increase in cash	9,350,533	(4,143,051)
Cash, beginning of period	7,105,418	15,300,454
Cash, end of period	$ 16,455,951	$ 11,157,403
Cash flow from operations per share:		
Basic	$ 0.23	$ 0.14
Fully diluted	$ 0.23	$ 0.14
Supplemental cash flow information:		
Interest paid	$ 217,101	$ 162,388
Income taxes paid	1,289,821	2,469,983
Shares issued for non-cash consideration	4,123,821	2,430,200

Consolidated Statements of Operations and Retained Earnings
(In Canadian dollars)
(Unaudited - Prepared by Management)

For the three months ended	March 31 2001	March 31 2000
Net revenue	$ 20,430,030	$ 12,938,527

Operating expenses:		
Salaries and benefits	13,061,386	7,675,230
General and administrative	3,123,478	2,583,182
Occupancy costs	1,170,912	544,196
	17,355,776	10,802,608
Earnings before interest expense, income taxes, depreciation and goodwill amortization	3,074,254	2,135,919
Depreciation	794,272	451,132
Interest expense	137,038	86,564
Earnings before income taxes and goodwill amortization	2,142,944	1,598,223
Income taxes	860,823	740,937
Earnings before goodwill amortization	1,282,121	857,286
Goodwill amortization, net of income taxes of $6,000 (2000-$6,000)	750,149	272,755
Net earnings	$ 531,972	$ 584,531
Net income per share - basic	$ 0.03	$ 0.03
Net income per share - fully diluted	0.03	0.03
Income per share before goodwill amortization - basic	0.06	0.05
Income per share before goodwill amortization - fully diluted	0.06	0.05

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flow
(In Canadian dollars)
(Unaudited - Prepared by Management)

For the three months ended	March 31 2001	March 31 2000
Cash flows from operating activities:		
Net earnings	$ 531,972	$ 584,531
Items not involving cash:		
Deferred income taxes	92,471	19,147
Depreciation	794,272	451,132
Goodwill amortization	756,149	278,755
Net changes in non cash-working capital balances:		
Accounts receivable	8,720,073	(4,041,650)
Prepaid expenses	(1,128,140)	(285,551)
Accounts payable and accrued liabilities	1,452,310	4,198,791
Income taxes payable	(23,733)	(147,428)
Deferred revenue	(369,419)	-
Amounts collected in excess of pass-through costs incurred	21,580	3,004,830
Other	217,923	-

Net cash provided by operating activities	11,065,458	4,062,557
Cash flows from financing activities:		
Long-term debt	-	150,000
Long-term debt repayments	(3,493,582)	(1,185,100)
Issuance of common shares for cash	130,320	294,150
Reduction (Increase) in restricted cash	(8,641)	(369,809)
Other	(632,362)	-
Net cash used in financing activities	(4,004,265)	(1,110,759)
Cash flows from investing activities:		
Acquisition of subsidiaries (net of cash acquired (bank indebtedness assumed) of $214,179; 2000-nil)	(2,015,346)	(115,552)
Purchase of capital assets	(829,225)	(933,551)
Net cash used in investing activities	(2,844,571)	(1,049,103)
Change in cash balance due to foreign exchange	395,530	20,045
Increase in cash	4,612,152	1,922,740
Cash, beginning of period	11,843,799	9,234,663
Cash, end of period	$ 16,455,951	$ 11,157,403
Cash flow from operations per share:		
Basic	$ 0.10	$ 0.07
Fully diluted	$ 0.10	$ 0.07
Supplemental information:		
Interest paid	$ 176,682	$ 91,261
Income taxes paid	263,615	841,916
Shares issued for non-cash consideration	499,997	-

Notes to Consolidated Financial Statements

1. Income Taxes

Effective October 1, 2000, the Company was required to adopt on a retroactive basis the new accounting standards of the Canadian Institute of Chartered Accountants ("CICA") for income taxes. Under this accounting standard, the Company is not required to restate its comparative figures for prior years.

Under these new standards, future tax assets and liabilities attributable to all temporary differences are measured using the future tax rates expected to be in effect when the items are recovered or settled. The effect of a change in tax rates must be recognized in income at the enactment date.

Previously, future tax assets and liabilities were recorded at the tax rate in effect in the period the temporary difference arose and were not adjusted for subsequent tax rate changes. The Company's temporary differences are principally in respect of deductible share issue costs which were recorded directly in capital stock rather than as a credit to income tax expense. There is no cumulative effect as of October 1, 2000 of this change in accounting policy.

As a result of the December 2000 announcement by the government to introduce legislation to reduce income tax rates over the next four years, the Company was required to revalue its future tax assets as at December 31, 2000 to reflect the reduction in future expected tax rates. The impact of this was to increase the Company's tax provision for the three months ended December 31, 2000 by $100,000. Under the CICA's new accounting standard the Company is required to record this item as an adjustment to income tax expense, notwithstanding the fact that such amounts were not previously reflected in income tax expense when recorded.

2. Segmented Information

The Company provides integrated marketing communication services to its clients. While the Company has subsidiaries in Canada, the United States, the United Kingdom and Continental Europe, it operates as a global business and has no distinct operating segments. The tables below set out the following information:

	By Customer Location	By Geographic Area	
March 31, 2001	Net Revenue	Capital Assets	Goodwill
Canada	$ 12,105,212	$ 7,948,932	$ 22,104,621
United States	20,843,118	691,310	16,844,740
United Kingdom and Continental Europe	9,258,058	1,903,402	7,856,344
	$ 42,206,388	$ 10,543,644	$ 46,805,705
March 31, 2000			
Canada	$ 8,429,508	$ 7,627,540	$ 10,089,021
United States	17,213,355	959,364	11,205,915
United Kingdom and Continental Europe	-	-	-
	$ 25,642,863	$ 8,586,904	$ 21,294,936

The Company's external net revenue by type of service is as follows:

March 31	2001	2000
Net revenue:		
Marketing	$ 14,260,778	$ 15,379,896
Design	19,154,239	8,981,154
Technology	8,791,371	1,281,813
	$ 42,206,388	$ 25,642,863

Shareholder Information
Envoy Communications Group Inc.

Head Office
26 Duncan Street
Toronto, Canada M5V 2B9
Telephone: (416) 593-1212
Facsimile: (416) 593-4434
www.envoy.to

Directors

Geoffrey Blaine Genovese
President & CEO
Envoy Communications Group Inc.

Compensation Committee

John H. Bailey
David I. Hull
Duncan Shirreff

Transfer Agent

Montreal Trust
100 University Avenue, 11th floor
Toronto, Canada M5J 2Y1

Bankers

Don Watt
Chairman
Watt International

John H. Bailey
Barrister & Solicitor
BCom, LLB, LLM

David I. Hull
President
Hull Life Insurance Agencies Inc.

Hugh Aird
Chairman
DRIA Capital Inc.

Duncan Shirreff
Vice President & Director
Yorkton Securities Inc.

Officers

Geoffrey Blaine Genovese
President & CEO

J. Joseph Leeder
Vice President & CFO

Stephen J. Miller
Vice President
Corporate Development

John H. Bailey
Corporate Secretary

Audit Committee

John H. Bailey
David I. Hull
Hugh Aird

Bank of Montreal
One First Canadian Place
100 King Street West
Toronto, Canada M5X 1A3

Fleet Bank
1185 Avenue of the Americas
New York, New York, U.S.A. 10036

Auditors

KPMG LLP
Yonge Corporate Centre
4120 Yonge Street, Suite 500
Toronto, Canada M2P 2B8

Legal Counsel

Blake, Cassels & Graydon LLP
Box 25, Commerce Court West
Toronto, Canada M5L 1A9

Investor Relations

Carabiner Inc.
(416) 599-2256
1 800 761-4944

Annual Shareholders Meeting

Tuesday, March 6, 2001
11:00 am
TSE Conference Centre
Exchange Tower
130 King Street West
Toronto, Canada M5X 1E3

Stock Trading Information

Toronto Stock Exchange ECG
NASDAQ Exchange ECGI