Blancco Technology Group plc

Interim results for the 6 months ended 31 December 2018

Business continued to strengthen

New Executive and senior management team in place; strategy developed to drive sustainable growth

Blancco Technology Group plc (AIM: BLTG, "Blancco", the "Company" or the "Group"), a leading global provider of mobile device diagnostics and secure data erasure solutions, is pleased to announce its half yearly results for the six months to 31 December 2018.

FINANCIAL HIGHLIGHTS

- Revenue increased by 19% to £14.6 million (H1 2018 restated*: £12.3 million), with no significant constant currency impact.
- Adjusted Operating Profit** increased significantly year on year to £1.6 million (H1 2018 restated*: £0.6 million). Operating profit of £0.6 million (H1 2018 restated*: operating loss of £1.5 million).
- Adjusted EBITDA** increased by 71% to £3.0 million (H1 2018 restated*: £1.8 million)
- Adjusted Operating Cash Flow*** of £2.5 million (H1 2018: £0.9 million). IFRS Operating cash inflow from continuing operations of £2.1 million (H1 2018: £2.2 million outflow)
- Reduction in net debt at the period end to £2.3 million (2018: net debt of £2.7 million) with operating cash inflow offsetting continued investment in R&D, capital expenditure and earn-out payments for legacy acquisitions.
- Adjusted continuing earnings per share**** of 1.60p (H1 2018 restated*: 0.28p). Basic continuing loss per share is 0.02p (H1 2018 restated* loss per share: 2.25p).

OPERATIONAL HIGHLIGHTS

- Data Centre / Enterprise revenue increased by 30% to £4.7 million (H1 2018 restated*: £3.6 million)
- Channel sales increased by 48% to £2.4 million (H1 2018 restated*: £1.6 million), now representing 46% (H1 2018 restated*: 42%) of total Data Centre / Enterprise revenue.
- Mobile revenue increased by 10% to £5.0 million (H1 2018 restated*: £4.6 million)
- IT Asset Disposition ("ITAD") revenue increased by 20% to £4.9 million (H1 2018: restated* £4.1 million)
- ISO 27001 & 9001 accreditation achieved for development centres in India and Finland
- Employee headcount increased by 11% to 265 at the end of January, largely driven by an increased investment in Research & Development
- Strong trading performance in H1 allowed additional investments in marketing to drive revenue growth in future periods

CURRENT TRADING

- Continued strategic focus going into second half on large scale opportunities in mobile, data centre and enterprise
- The Board reiterates its confidence in full year market expectations, and is pleased with the progress made across the business in the first half of the year

*Prior year results have been restated following the implementation of new accounting standards, IFRS15 and IFRS9. See note 1.1 for details.

**Adjusted profit measures are stated after excluding expenses relating to share option schemes, exceptional costs and incomes and the amortisation of acquired intangible assets

*** Adjusted operating cash flow is operating cash flow excluding taxation, interest payments and receipts and exceptional payments

****Adjusted earnings are stated before amortisation of acquired intangible assets, amortisation of bank fees, exceptional costs / incomes, share based payments, unwinding of the discount factor on contingent consideration and adjustments to the estimates of contingent consideration

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014 ("MAR"). Upon the publication of this announcement, this inside information is now considered to be in the public domain. For the purposes of MAR and Article 2 of Commission Implementing Regulation (EU) 2016/1055, this announcement is being made on behalf of Blancco by Adam Moloney, Chief Financial Officer.

There will be a presentation for analysts held at 9:30hrs today at the offices of Tulchan Communications, 85 Fleet Street, EC4 1AE. Please contact blancco@tulchangroup.com if you would like to attend.

Matt Jones, Chief Executive said:

“I am pleased to be able to report on the financial results of the Company for the six months ended 31 December 2018.

In September, we announced a strategy to invest significantly in Marketing and R&D over the coming periods to support revenue growth in our three key markets of Mobile, Data Centre / Enterprise and ITAD. It has been pleasing to see the impact of this investment begin to take effect. Revenue has grown in all three markets as well as in each of the EMEA, APAC and American geographies in which we operate. We have also seen significant improvements in the profitability and cash generation of the business.

Growth is being driven by an increasing requirement for entities to safeguard their data assets and growing awareness that Blancco’s solutions are the optimal way to satisfy these demands. This supports the Board’s confidence in the long-term opportunity for Blancco”

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Chairman's Statement

Summary

I am delighted to be able to report on a strong trading performance for Blancco for the six months ended 31 December 2018. The early part of the 2018 calendar year was spent recruiting a new Executive leadership team with Matt Jones joining the company as CEO in March 2018 and Adam Moloney joining as CFO in July 2018. The Executive team has been well supported by a strong management team and our first-class employees to implement a strategy to harness the strengths of the business. The results of this strategy have very quickly been seen with growth across the three key markets of Mobile, Data Centre / Enterprise and ITAD.

We have grown our employee base since the end of the last financial year by 11% and made substantial marketing investments to generate leads and heighten Blancco's brand awareness. The regulatory environment continues to be supportive with new regulations such as EU General Data Protection Regulation (GDPR) requiring organisations to take care of their data assets throughout the data lifecycle.

The Board recognises the quality, professionalism and commitment of the staff and would like to thank them for their hard work during the period.

Outlook

The Board is pleased with the performance of the Company over the past six months, following on from a strong second half of the previous financial year. Excellent progress has been made against the new strategy launched in September 2018, and the platform is in place for long term sustainable growth. The Board reiterates its confidence in the full year market expectations, and in the longer term prospects of Blancco.

Rob Woodward

Chair

CHIEF EXECUTIVE'S REPORT

I am pleased to report Blancco Technology Group's results for the six months ended 31 December 2018.

My initial task when joining the Company was to establish a strategy to facilitate the sustainable growth of Blancco. I quickly found that the Company had a strong set of software solutions and a leading position in an area where the regulatory environment was forcing organisations to protect the data that they hold. In September we announced that the strategy would be to focus on these key strengths and it has been gratifying to see revenue, profit and cash generation growth across the entire business, in all markets and geographies. I have now completed the hiring of all senior management within the Company and am very pleased with the quality and strength of the team in place.

Market opportunity

We continue to see the impact of the regulatory environment with regulations such as the EU General Data Protection Regulation (GDPR) and Payment Card Industry Data Security Standards (PCI DSS) all requiring that data is looked after carefully and is not held for a longer period than is required. We have now seen new regulation in California (California Consumer Privacy Act of 2018) which is comparable with GDPR and recently won a contract with a high profile Californian customer as a direct result of those regulations. We anticipate further regulation to be introduced in the US and globally that will drive further growth for the Company.

We continue to build on the strong reputation that Blancco has earned within the market following over twenty years of providing solutions to companies that have realised that deleting data is not sufficient and a full, auditable erasure solution is required. Blancco have a market leading position in terms of the experience, range of erasure services and accreditation that can be offered.

Strategic focus

In September 2018 Blancco announced a strategy to focus on three key markets in which the Company already had a strong competitive position:

Mobile – Establish market leadership in a large and fast-growing space through targeted investment in R&D. This spend is focused on completing our software proposition that reaches across the three major market segments of Carriers, Retail and Third-Party Logistics.

Data Centre / Enterprise – Develop relationships with OEM and Channel partners to access a large, high-growth market with little competition. Complemented by investment in R&D to develop leading solutions for a demanding client base.

ITAD – Ensure that the ITAD offering remains the best in the market and that our market leading position is maintained.

Business overview

Mobile

Blancco's offering to customers within the mobile market includes the ability for organisations to run diagnostic tests on mobile phones to identify defects or confirm the handset is fault free. Retailing customers who run the tests in store benefit significantly by avoiding the need to send the handset for testing externally, saving unnecessary cost and time.

The solutions can also be provided to Mobile Processors who test used handsets to ensure they are not faulty before reselling them. Blancco's erasure services are complementary to the diagnostic solutions offered to these processors who are obliged to ensure that all data relating to the previous owner of a handset is erased before it is resold.

The commercial, regulatory and reputational sensitivities surrounding the safeguarding of personal data force customers to demand that their erasure and diagnostic solutions are fully auditable. Blancco's products have more than fifteen global certifications, approvals and recommendations and can provide a digitally signed certificate of erasure that will satisfy any audit of our customers. In September 2018, the quality of Blancco's solutions were further enhanced with ISO 27001 and 9001 certifications that were awarded for our core business locations in India and Finland.

A key part of Blancco's mobile strategy is to make focused investments in the R&D initiatives that ensure our solutions are kept up to date and solve the business challenges faced by our customers.

For Mobile Processors in particular, the ability to diagnose, and erase the data on, large volumes of handsets at speed and scale while ensuring the integrity of the process is crucial. As part of our commitment to customer-led innovation, much of the R&D investment in recent months has come from advancements in these areas. We are providing our customers with workflows that allow them to process handsets in an intelligent way, accelerating processing time without compromising quality. This investment will continue in the coming months as new team members begin to contribute more fully to our R&D efforts.

We have seen good revenue growth in Mobile over the six-month period with a 10% increase to £5.0 million (H1 2018 restated: £4.6 million). Our priority in the first half has been on investing in building up the team and internal resources to take advantage of the opportunities we see in the Mobile arena. We would expect to see increased growth in this area in coming periods as the benefit of the innovations arising from the enlarged R&D team begins to take effect.

Data Centre / Enterprise

We are particularly pleased with the progress we have made in the Data Centre / Enterprise market. Revenue has grown by 30% to £4.7 million (H1 2018 restated: £3.6 million). The burden from regulations such as GDPR and PCI DSS falls heavily on large organisations who retain huge volumes of data. These organisations are increasingly turning to Blancco for assistance as they look to manage their data retention policies. We have implemented a clear focus in developing our channel sales to facilitate access to the very large companies we are looking to provide our services to. It has been pleasing to see channel sales, which are predominantly focussed on this market, grow by 48% to £2.4 million (H1 2018 restated: £1.6 million). We are seeing increasing demand for these services, particularly in North America, supporting our view that this will continue to be an area of high growth for Blancco. In the second half of the year we will continue to make R&D investments to improve the quality of our services and look to develop new channel relationships.

ITAD

ITAD services are provided on items of IT hardware where equipment is either being reused, resold or disposed of. Blancco has been a market leader in ITAD for a long period of time and has a longer list of accreditations and certifications than any of its competitors. This is a critical point of differentiation. Revenue in the period grew by 20% to £4.9 million (H1 2018 restated: £4.1 million). While we expect further growth in this area it is a relatively mature market with revenue growth linked to the underlying performance of the IT recycling market and is anticipated to generate more modest growth in the second half of the financial year.

Financial Review

We have restated the prior year half year results and full year results for the retrospective application of IFRS15 and IFRS9. The full disclosure of the impact of these restatements is in note 1.1.

Revenue

Blancco's revenue for the period was £14.6 million (H1 2018 restated: £12.3 million), growth of 19% both in real and constant currency terms.

Revenue on software sales is recognised according to the terms of individual contracts, which fall into two types; either a volume or subscription basis:

- **Volume contracts.** Where Blancco products are sold on a volume basis a finite number of "uses" are delivered. Revenue is recognised on delivery, as this is the point at which risk and reward is transferred to the customer, and there are no continuing obligations to the Group. There is no change in policy under IFRS15

- **Subscription contracts.** Under IAS18, revenue was deferred and recognised over the length of the user agreement. Under IFRS15, revenue is recognised at finite points throughout the contract term at which point delivery is expected to take place. In the majority of cases, delivery takes place at the onset of a contract, or to the extent a customer has been invoiced for a portion of the overall contact term, and accordingly licence revenue closer aligns to the point the invoice is raised with no revenue deferral. In cases where deliveries are expected to be made periodically throughout the contract term, sufficient revenue will be deferred to reflect management's best estimate of licences still to be delivered. In cases where a customer has been delivered licences in advance of an invoice being issued, accrued income is recognised, and discounted to the net present value where the associated cash receipt is expected to be in excess of 12 months for the point the revenue is recognised.

The transition to IFRS15 has reduced revenue recognised in the comparative period by £0.3 million which is comparable to the transition adjustment in the results to 31 December 2018. The net deferral of revenues in the period is £0.5 million in the current and comparative period.

From a balance sheet perspective, the transition has resulted in a significant reduction in deferred revenue, with the June 2018 balance being restated from £4.8 million to £0.7 million. This is a result of the impact on subscription contracts, described above, where the point of recognition of revenue is typically at the inception of the contract rather than over the contract term. Revenue deferrals are mostly now represented by timing delays between invoicing and delivery.

An accrued income balance has arisen from a small number of subscription contracts which were previously invoiced over the term but IFRS15 requires that the revenue be recognised on delivery at the start of the contract.

As can be seen from the table below, we have experienced good revenue growth in all parts of the business within all three markets and all three geographies showing good growth. We are particularly pleased with the progress in North America, where revenue increased by 23% to £5.3 million (H1 2018 restated: £4.4 million).

Operating KPIs: Invoiced Sales and customer retention rates

Key Performance Indicators KPIs

Key financials	6 months ended 31 December 2018 (unaudited)	6 months ended 31 December 2017 (unaudited, restated)	Year ended 30 June 2018 (restated)
Revenue (£'millions)	14.6	12.3	26.9
Revenue by Geography			
North America	5.3	4.4	9.4
Europe	5.6	4.6	10.0
Asia and ROW	3.7	3.3	7.5
Revenue by Market			
Data Centre / Enterprise	4.7	3.6	8.6
ITAD	4.9	4.1	8.6
Mobile	5.0	4.6	9.7

Profitability Measures

Adjusted operating profit was £1.6 million (H1 2018 restated: £0.6 million). Operating profit was £0.6 million (H1 2018 restated: £1.5 million operating loss). The profitability growth was largely driven by a strong sales performance. Further investment is planned to accelerate the long term revenue growth of the business, which will result in the cost base increasing in the short term, but leading to increased revenue and profitability growth in the medium term. We expect to see the cost base increase in the second half of the year as these investments are fully costed. Adjusted operating expenses grew in the period by 7% from £11.2 million to £12.1 million. Most of this increase related to headcount with our pay related costs increasing by 18% from £6.3 million to £7.4 million as we began to see the impact of the increased headcount investment. We also saw a cost increase in marketing activity where non staff related costs increased from £0.4 million to £0.6 million.

The Group released provisions recognised on acquisition on contingent liabilities which has generated an exceptional income in the period of £0.7 million (H1 2018: £1.2 million exceptional cost). The cost in the prior year were associated with the restructure of the business during the first half of the year and legal costs associated with matters arising from the review of contracts for the years ended 30 June 2016 and 2017.

The impact of the IFRS9 transition has impacted debtor provisioning only, with a less than £0.1 million impact through profit in the current and comparative periods.

Cash and working capital

The Group closed the period with net debt of £2.3 million (30 June 2018: £2.7 million). There has been a reduction of £0.4 million in net debt since June 2018 due to generation of £2.1 million from our core operating activities.

Capital expenditure and R&D qualifying for capitalisation was £1.4 million (H1 2018: £1.4 million). Of this capital expenditure, £1.1 million (H1 2018: £1.2 million) was incurred in the ongoing development of the product range. The remaining expenditure relates to purchase of property, plant and equipment and investment in the continued development of the Group's operating systems.

Dividend paid of £0.2 million (H1 2018: £0.2 million) represents the dividend paid to minority shareholders of the Group's Japanese subsidiary.

Net debt of £2.3 million (2018: £2.7 million, H1 2018: £3.4 million) comprised long term borrowings of £8.0 million (2018: £8.9 million, H1 2018: £8.9 million) and cash and cash equivalents, inclusive of overdraft balances, of £5.7 million (2018: £6.2 million, H1 2018: £5.6 million).

Summary & Outlook

The focus for the year ending 30 June 2019 has been based around the recruitment of a new senior management team, which is now complete, followed by investments in our research and development team and marketing efforts to take advantage of Blancco's strengths and market opportunity and driving revenue growth. Whilst the positive impact of these investments is anticipated to have full effect in future financial years it is extremely encouraging to see a swift uplift in revenue, profit and cash generation. The Board reiterates its confidence for the full year market expectations and, looking forward to the longer term, the opportunity to drive sustainable profitable growth.

Matt Jones

Chief Executive Officer

Consolidated Statement of Comprehensive Income
for the six months ended 31 December 2018

	Note	6 months ended 31 December 2018 (unaudited) £'000	6 months ended 31 December 2017 (unaudited, restated*) £'000	Year ended 30 June 2018 (restated*) £'000
Revenue		**14,591**	**12,261**	**26,923**
Cost of sales		(878)	(472)	(1,084)
Gross profit		**13,713**	**11,789**	**25,839**
Administrative expenses and depreciation		(13,106)	(13,307)	(26,633)
Operating profit/(loss)		**607**	**(1,518)**	**(794)**
Exceptional and acquisition (income)/costs	**4**	(652)	1,180	1,368
Amortisation of acquired intangible assets		1,314	1,309	2,597
Share-based payments charge/(credit)		375	(419)	(255)
Adjusted administrative expenses		(12,069)	(11,237)	(22,923)
Adjusted operating profit		**1,644**	**552**	**2,916**
Finance income		-	438	781
Finance costs		(364)	(379)	(730)
Profit/(loss) before tax		**243**	**(1,459)**	**(743)**
Taxation		(104)	111	162
Profit/(loss) for the period		**139**	**(1,348)**	**(581)**
Discontinued operations				
Post tax results from discontinued operations	**5**	431	14	696
Profit/(loss) for the period		**570**	**(1,334)**	**115**
Attributable to:				
Equity holders of the company		417	(1,381)	27
Non-controlling interests		153	47	88
Profit/(loss) for the period		**570**	**(1,334)**	**115**

Consolidated Statement of Comprehensive Income

for the six months ended 31 December 2018

	6 months ended 31 December 2018 (unaudited) £'000	6 months ended 31 December 2017 (unaudited, restated*) £'000	Year ended 30 June 2018 (restated*) £'000
Profit/(loss) for the period	**570**	**(1,334)**	**115**
Other comprehensive income – amounts that may be reclassified to profit or loss in the future:			
Recycling of translation reserve on disposal of discontinued operation	-	-	(198)
Exchange differences arising on translation of foreign entities	1,380	(339)	73
Total comprehensive income/(loss) for the period	**1,950**	**(1,673)**	**(10)**
Attributable to:			
Equity holders of the Company	1,744	(1,682)	(123)
Non-controlling interests	206	9	113
Total comprehensive income/(loss) for the period	**1,950**	**(1,673)**	**(10)**

*see note 1.1

Earnings per share				
Continuing Operations:				
Basic	2	(0.02 p)	(2.25 p)	(1.05 p)
Diluted	2	(0.02 p)	(2.25 p)	(1.05 p)
Discontinued Operations:				
Basic	2	0.70 p	0.01 p	1.09 p
Diluted	2	0.69 p	0.01 p	1.09 p
Total Group:				
Basic	2	0.68 p	(2.24 p)	0.04 p
Diluted	2	0.67 p	(2.24 p)	0.04 p

Condensed Consolidated Balance Sheet

as at 31 December 2018

	Note	31 December 2018 (unaudited) £'000	31 December 2017 (unaudited, restated*) £'000	30 June 2018 (restated*) £'000
Assets				
Non-current assets				
Goodwill		47,295	46,349	46,348
Other intangible assets		21,373	23,698	22,313
Property, plant and equipment		352	394	371
Deferred tax assets		438	508	670
		69,458	**70,949**	**69,702**
Current assets				
Inventory		88	136	99
Trade and other receivables		7,691	6,514	6,967
Current tax asset		94	-	101
Cash		5,708	5,559	6,220
Assets held for sale		-	950	-
		13,581	**13,159**	**13,387**
Total assets		**83,039**	**84,108**	**83,089**
Current liabilities				
Trade and other payables		(7,097)	(8,345)	(7,406)
Contingent consideration	6	(684)	(2,299)	(2,044)
Current tax liability		-	(534)	-
Provisions		-	(323)	(63)
Liabilities held for sale		-	(810)	-
		(7,781)	**(12,311)**	**(9,513)**
Non-current liabilities				
Borrowings		(7,987)	(8,923)	(8,930)
Other payables		(281)	(281)	(281)
Contingent consideration	6	-	(651)	(156)
Deferred tax		(3,837)	(3,585)	(4,040)
Provisions		(1,550)	(1,994)	(1,981)
		(13,655)	**(15,434)**	**(15,388)**
Total liabilities		**(21,436)**	**(27,745)**	**(24,901)**
Net assets		**61,603**	**56,363**	**58,188**

Equity			
Called up share capital	1,280	1,280	1,280
Share premium account	9,152	9,152	9,152
Merger reserve	4,034	4,034	4,034
Capital redemption reserve	417	417	417
Translation reserve	4,779	3,287	3,450
Retained earnings	40,910	37,317	38,840
Total equity attributable to equity holders of the Company	**60,572**	**55,487**	**57,173**
Non-Controlling interest reserve	1,031	876	1,015
Total equity	**61,603**	**56,363**	**58,188**

Condensed Consolidated Statement of Changes in Equity

for the six months ended 31 December 2018

	6 months ended 31 December 2018 (unaudited) £'000	6 months ended 31 December 2017 (unaudited, restated*) £'000	Year ended 30 June 2018 (restated*) £'000
Balance at the start of the period as previously reported	**55,040**	**54,829**	**54,829**
Adjustment on initial application of IFRS9	124	75	75
Adjustment on initial application of IFRS15	3,024	3,372	3,372
Restated balance at the start of the period	**58,188**	**58,276**	**58,276**
Total comprehensive income/(loss) for the period	1,950	(1,673)	(10)
Dividends paid to non-controlling interests	(190)	(240)	(240)
Reclassification of deferred consideration to equity instrument	1,317	-	-
Disposal of non-controlling interest	-	-	47
Share based payment charge	338	-	115
Balance at the end of the period	**61,603**	**56,363**	**58,188**

*see note 1.1

Consolidated Cash Flow Statement

for the six months ended 31 December 2018

	Note	6 months ended 31 December 2018 (unaudited) £'000	6 months ended 31 December 2017 (unaudited, restated*) £'000	Year ended 30 June 2018 (restated*) £'000
Profit/(loss) for the period		**570**	**(1,334)**	**115**
Adjustments for:				
Results of discontinued operations		(431)	(14)	(696)
Net finance charges/(income)		364	(59)	(51)
Tax expense/(credit)		104	(111)	(162)
Depreciation on property, plant and equipment		101	104	202
Amortisation of intangible assets		1,272	1,110	2,332
Amortisation of acquired intangible assets		1,314	1,309	2,597
Share-based payments expense/(income)		375	(419)	(255)
Operating cash flow before movement in working capital		**3,669**	**586**	**4,082**
Exceptional and acquisition (income)/costs		(652)	1,180	1,368
Adjusted EBITDA		**3,017**	**1,766**	**5,450**
Decrease in inventories		13	9	43
(Increase)/decrease in receivables		(648)	351	(237)
Decrease in payables and accruals		(506)	(1,433)	(2,022)
Decrease in provisions		(63)	(103)	(163)
Cash generated from/(used in) continuing operations		**2,465**	**(590)**	**1,703**
Acquisition costs payments		-	445	322
Exceptional restructuring payments		46	1,049	2,044
Adjusted operating cash flow		**2,511**	**904**	**4,069**
Interest received		-	6	14
Interest paid		(131)	(159)	(291)
Tax paid		(193)	(1,493)	(1,854)
Net cash inflow/(outflow) from operating activities – continuing operations		**2,141**	**(2,236)**	**(428)**
Net cash (outflow) from operating activities – discontinued operations	5	-	(31)	(23)
Net cash inflow/(outflow) from operating activities – continuing and discontinued operations		**2,141**	**(2,267)**	**(451)**
Cash flows from investing activities				
Purchase of property, plant and equipment		(84)	(53)	(162)
Purchase and development of intangible assets		(1,310)	(1,349)	(2,517)
Acquisition of subsidiaries, net of cash acquired		(446)	(652)	(1,095)
Net cash used in investing activities – continuing operations		**(1,840)**	**(2,054)**	**(3,774)**
Net cash generated from/(used in) investing activities – discontinued operations	5	102	(322)	(132)
Net cash used in investing activities – continuing and discontinued operations		**(1,738)**	**(2,376)**	**(3,906)**

Cash flows from financing activities

Dividends paid to non-controlling interests	(190)	(240)	(240)
Repayment of borrowings	(950)	(1,000)	(1,000)
Payments made to acquire non-controlling interest	-	-	(110)
Net cash used in from financing activities	**(1,140)**	**(1,240)**	**(1,350)**
Net cash used in financing activities – continuing and discontinued operations	**(1,140)**	**(1,240)**	**(1,350)**
Net decreased in cash and cash equivalents	**(737)**	**(5,883)**	**(5,707)**
Other non-cash movements – exchange rate changes	225	(129)	279
Reclassification of cash to assets held for sale	-	(77)	-
Cash and cash equivalents at the beginning of period	6,220	11,648	11,648
Cash and cash equivalents at end of period	**5,708**	**5,559**	**6,220**
Bank borrowings	(7,987)	(8,923)	(8,930)
Net debt	**(2,279)**	**(3,364)**	**(2,710)**

*see note 1.1

Notes to the Half Year Report

For the six months ended 31 December 2018

1. Basis of Preparation

These half yearly results have been prepared on the basis of the accounting policies to be adopted for the year ended 30 June 2019. These are in accordance with the Group's accounting policies as set out in the latest audited annual financial statements for the year ended 30 June 2018 with the exception of the implementation of IFRS15 and IFRS9 as set out below.

All International Financial Reporting Standards ('IFRS'), International Accounting Standards ('IAS') and interpretations currently endorsed by the International Accounting Standards Board ('IASB') and its committees, as adopted by the EU and as required to be adopted by AIM listed companies, have been applied. This includes application for the first time of IFRS15 Revenue from Contracts with Customers and IFRS9 Financial Instruments, the impact of which is provided in note 1.1. AIM listed companies are not required to comply with IAS 34 'Interim Financial Reporting' and accordingly the Company has taken advantage of this exemption.

The financial information in these half yearly results does not constitute statutory accounts for the six months ended 31 December 2018 and should be read in conjunction with the Group's annual financial statements for the year ended 30 June 2018.

The condensed consolidated half yearly financial statements for the six months to 31 December 2018 have not been audited or reviewed by auditors pursuant to the Auditing Practices Board guidance on Review of Half yearly Financial Information.

These unaudited half yearly results were approved by the Board of Directors on 18 February 2019.

1.1 Prior Period Adjustment

This is the first set of the Group's financial statements in which IFRS15 Revenue from Contracts with customers and IFRS9 Financial Instruments has been applied. IFRS15, replacing IAS18 Revenue, establishes a framework for recognising revenue on customer contracts including timing and value of recognition. IFRS9, replacing IAS 39 Financial Instruments: Recognition and Measurement, sets out the requirements for measuring financial assets and financial liabilities.

The Group has retrospectively applied both standards and the accounts for the financial year ended 30 June 2018, including opening balances, have been restated.

IFRS9 has not had a material impact on the Group's interim financial results, impacting only debtor provisioning. IFRS15 has had the impact of earlier recognition of revenue on subscription contracts; previously recognised over the term of the agreement under IAS18, but now recognised at the point at which the customer obtains control of the product (generally at the point of licence delivery). There has been no material change in the recognition of volume contracts, which, under both IAS18 and IFRS15, are recognised at the point of delivery.

The financial impact of these restatements is shown below, including both the impact on the comparative half year results and full year results to June 2018.

An additional adjustment to the accounts for the six months ended 31 December 2017 has been made in relation to the sterling reported value of goodwill, acquired intangibles and provisions arising from previous acquisition accounting. In addition, a reclassification of the deferred tax assets and liabilities has been made in order to present these on a gross rather than net basis. Full details of the reasoning for these restatements were disclosed in the notes to the accounts for the year ended 30 June 2018 and these will have no impact on the previously disclosed results for the year ended 30 June 2018.

A summary of the impact of the prior period adjustments on the consolidated income statement and the consolidated statement of cash flows for the 6 months ended 31 December 2017, as well as the consolidated balance sheet as at 31 December 2017 is as follows:

Consolidated Income Statement	Period ended 31 December 2017 As reported £'000	Revaluation of Goodwill, Acquired Intangibles and Provisions £'000	IFRS15 application £'000	IFRS9 application £'000	Period ended 31 December 2017 As restated £'000
Revenue	12,607	-	(346)	-	12,261
Adjusted operating profit	829	-	(346)	69	552
Operating loss	(1,141)	(100)	(346)	69	(1,518)
Loss before tax	(1,082)	(100)	(346)	69	(1,459)
Taxation	22	20	69	-	111
Loss for the period	(1,060)	(80)	(277)	69	(1,348)

Consolidated Cash Flow Statement for the six months ended 31 December 2018	As reported £'000	Revaluation of Goodwill, Acquired Intangibles and Provisions £'000	IFRS15 application £'000	IFRS9 application £'000	As restated £'000
(Loss)/profit for the period	**(1,046)**	**(80)**	**(277)**	**69**	**(1,334)**
Adjustments for:					
Results of discontinued operations	(14)	-	-	-	(14)
Net finance income	(59)	-	-	-	(59)
Tax credit	(22)	(20)	(69)	-	(111)
Depreciation on property, plant and equipment	104	-	-	-	104
Amortisation of intangible assets	1,110	-	-	-	1,110
Amortisation of acquired intangible assets	1,209	100	-	-	1,309
Share-based payments income	(419)	-	-	-	(419)
Operating cash flow before movement in working capital	**863**	**-**	**(346)**	**69**	**586**
Exceptional and acquisition (income)/costs	1,180	-	-	-	1,180
Adjusted EBITDA	**2,043**	**-**	**(346)**	**69**	**1,766**
Decrease in inventories	9	-	-	-	9
Decrease/(increase) in receivables	996	-	(576)	(69)	351
Decrease in payables and accruals	(2,350)	-	917	-	(1,433)
Decrease in provisions	(103)	-	-	-	(103)
Cash generated used in continuing operations	**(585)**	**-**	**(5)**	**-**	**(590)**
Acquisition costs payments	445	-	-	-	445
Exceptional restructuring payments	1,049	-	-	-	1,049
Adjusted operating cash flow	**909**	**-**	**(5)**	**-**	**904**
Interest received	6	-	-	-	6
Interest paid	(159)	-	-	-	(159)
Tax paid	(1,493)	-	-	-	(1,493)
Net cash outflow from operating activities – continuing operations	**(2,231)**	**-**	**(5)**	**-**	**(2,236)**
Net cash outflow from operating activities – discontinued operations	(31)	-	-	-	(31)

Net cash outflow from operating activities – continuing and discontinued operations	**(2,262)**	**-**	**(5)**	**-**	**(2,267)**
Cash flows from investing activities					
Net cash used in investing activities – continuing and discontinued operations	**(2,376)**	**-**	**-**	**-**	**(2,376)**
Cash flows from financing activities					
Net cash used in financing activities – continuing and discontinued operations	**(1,240)**	**-**	**-**	**-**	**(1,240)**
Net decrease in cash and cash equivalents	**(5,878)**	-	(5)	-	**(5,883)**
Other non-cash movements – exchange rate changes	(134)	-	5	-	(129)
Reclassification of cash to assets held for sale	(77)	-	-	-	(77)
Cash and cash equivalents at the beginning of period	11,648	-	-	-	11,648
Cash and cash equivalents at end of period	**5,559**	**-**	**-**	**-**	**5,559**
Bank borrowings	(8,923)	-	-	-	(8,923)
Net debt	**(3,364)**	**-**	**-**	**-**	**(3,364)**

Consolidated Balance Sheet as at 31 December 2017

	As reported £'000	Revaluation of Goodwill, Acquired Intangibles and Provisions £'000	IFRS15 application £'000	IFRS9 application £'000	Grossing up of Deferred Tax balances £'000	As restated £'000
Assets						
Non-current assets						
Goodwill	42,821	3,528	-	-	-	46,349
Other intangible assets	22,402	1,296	-	-	-	23,698
Property, plant and equipment	394	-	-	-	-	394
Deferred tax	-	-	-	-	508	508
	65,617	**4,824**	**-**	**-**	**508**	**70,949**
Current assets						
Trade and other receivables	6,935	-	(565)	144	-	6,514
Other current assets	6,645	-	-	-	-	6,645
	13,580	**-**	**(565)**	**144**	**-**	**13,159**
Total assets	**79,197**	**4,824**	**(565)**	**144**	**508**	**84,108**
Current liabilities						
Trade and other payables	(10,937)	(232)	2,824	-	-	(8,345)
Other current liabilities	(3,966)	-	-	-	-	(3,966)
	(14,903)	**(232)**	**2,824**	**-**	**-**	**(12,311)**
Non-current liabilities						
Other payables	(1,887)	-	1,606	-	-	(281)
Deferred tax	(1,855)	(330)	(892)	-	(508)	(3,585)
Other non-current liabilities	(11,568)	-	-	-	-	(11,568)
	(15,310)	**(330)**	**714**	-	**(508)**	**(15,434)**

Total liabilities	**(30,213)**	**(562)**	**3,538**	**-**	**(508)**	**(27,745)**
Net assets	**48,984**	**4,262**	**2,973**	**144**	**-**	**56,363**
Equity						
Ordinary share capital	1,280	-	-	-	-	1,280
Share premium	9,152	-	-	-	-	9,152
Merger reserve	4,034	-	-	-	-	4,034
Capital redemption reserve	417	-	-	-	-	417
Translation reserve	(1,332)	4,741	(122)	-	-	3,287
Retained earnings	34,622	(479)	3,030	144	-	37,317
Total equity attributable to equity holders of the company	**48,173**	**4,262**	**2,908**	**144**	**-**	**55,487**
Non-controlling interest	811	-	65	-	-	876
Total equity	**48,984**	**4,262**	**2,973**	**144**	**-**	**56,363**

An adjustment has also been made to the consolidated income statement, consolidated statement of cash flows and consolidated balance sheet as at 30 June 2018 in respect of the retrospective application of IFRS15 and IFRS9, as detailed below.

Consolidated Income Statement	Year ended 30 June 2018 As reported £'000	IFRS15 application £'000	IFRS9 application £'000	Year ended 30 June 2018 As restated £'000
Revenue	27,487	(564)	-	26,923
Adjusted operating profit	3,327	(460)	49	2,916
Operating loss	(383)	(460)	49	(794)
Loss before tax	(332)	(460)	49	(743)
Taxation	70	92	-	162
Loss for the period	(262)	(368)	49	(581)
Profit from discontinued operations	696	-	-	696
Profit for the year	434	(368)	49	115

Consolidated Cash Flow Statement for the year ended 30 June 2018	As Reported £'000	IFRS15 application £'000	IFRS 9 Application £'000	As Restated £'000
Profit/(loss) for the period	**434**	**(368)**	**49**	**115**
Adjustments for:				
Results of discontinued operations	(696)	-	-	(696)
Net finance income	(51)	-	-	(51)
Tax credit	(70)	(92)	-	(162)
Depreciation on property, plant and equipment	202	-	-	202
Amortisation of intangible assets	2,332	-	-	2,332
Amortisation of acquired intangible assets	2,597	-	-	2,597
Share-based payments income	(255)	-	-	(255)
Operating cash flow before movement in working capital	**4,493**	**(460)**	**49**	**4,082**
Exceptional and acquisition (income)/costs	1,368	-	-	1,368
Adjusted EBITDA	**5,861**	**(460)**	**49**	**5,450**
Decrease in inventories	43		-	43
Decrease/(increase) in receivables	696	(884)	(49)	(237)
(Decrease)/increase in payables and accruals	(3,346)	1,324	-	(2,022)
Decrease in provisions	(163)	-	-	(163)
Cash generated from/(used in) continuing operations	**1,723**	**(20)**	**-**	**1,703**
Acquisition costs payments	322	-	-	322
Exceptional restructuring payments	2,044	-	-	2,044
Adjusted operating cash flow	**4,089**	**(20)**	**-**	**4,069**
Interest received	14	-	-	14
Interest paid	(291)	-	-	(291)
Tax paid	(1,854)	-	-	(1,854)
Net cash outflow from operating activities – continuing operations	**(408)**	**(20)**	**-**	**(428)**
Net cash outflow from operating activities – discontinued operations	(23)	-	-	(23)
Net cash outflow from operating activities – continuing and discontinued operations	**(431)**	**(20)**	**-**	**(451)**
Cash flows from investing activities				
Net cash used in investing activities – continuing and discontinued operations	**(3,906)**	**-**	**-**	**(3,906)**
Cash flows from financing activities				
Net cash used in financing activities – continuing and discontinued operations	**(1,350)**	**-**	**-**	**(1,350)**
Net decrease in cash and cash equivalents	**(5,687)**	(20)	-	**(5,707)**
Other non-cash movements – exchange rate changes	259	20	-	279
Cash and cash equivalents at the beginning of period	11,648	-	-	11,648
Cash and cash equivalents at end of period	**6,220**	**-**	**-**	**6,220**
Bank borrowings	(8,930)	-	-	(8,930)
Net debt	**(2,710)**	**-**	**-**	**(2,710)**

Consolidated Balance Sheet as at 30 June 2018

	As reported	IFRS15 application	IFRS9 application	As restated
	£'000	£'000	£'000	£'000
Assets				
Non-current assets	**69,702**	**-**	**-**	**69,702**
Current assets				
Trade and other receivables	7,079	(236)	124	6,967
Other current assets	6,420	-	-	6,420
	13,499	**(236)**	**124**	**13,387**
Total assets	**83,201**	**(236)**	**124**	**83,089**
Current liabilities				
Trade and other payables	(10,064)	2,658	-	(7,406)
Other current liabilities	(2,107)	-	-	(2,107)
	(12,171)	**2,658**	**-**	**(9,513)**
Non-current liabilities				
Other payables	(1,752)	1,471	-	(281)
Deferred tax	(3,171)	(869)	-	(4,040)
Other non-current liabilities	(11,067)	-	-	(11,067)
	(15,990)	**602**	**-**	**(15,388)**
Total liabilities	**(28,161)**	**3,260**	**-**	**(24,901)**
Net assets	**55,040**	**3,024**	**124**	**58,188**
Equity				
Ordinary share capital	1,280	-	-	1,280
Share premium	9,152	-	-	9,152
Merger reserve	4,034	-	-	4,034
Capital redemption reserve	417	-	-	417
Translation reserve	3,463	(13)	-	3,450
Retained earnings	35,757	2,959	124	38,840
Total equity attributable to equity holders of the company	**54,103**	**2,946**	**124**	**57,173**
Non-controlling interest	937	78	-	1,015
Total equity	**55,040**	**3,024**	**124**	**58,188**

2. Earnings per share (EPS)

	6 months 31 December 2018 (unaudited) Pence	6 months 31 December 2017 (unaudited, restated) Pence	Year ended 30 June 2018 (restated) Pence
Continuing operations			
Basic earnings per share	(0.02 p)	(2.25 p)	(1.05 p)
Diluted earnings per share	(0.02 p)	(2.25 p)	(1.05 p)
Adjusted earnings per share	1.60 p	0.28 p	3.55 p
Diluted adjusted earnings per share	1.57 p	0.28 p	3.54 p
Discontinued operations			
Basic earnings per share	0.70 p	0.01 p	1.09 p
Diluted earnings per share	0.69 p	0.01 p	1.09 p
Adjusted earnings per share	0.70 p	0.06 p	0.09 p
Diluted adjusted earnings per share	0.69 p	0.06 p	0.09 p
Total Group			
Basic earnings per share	0.68 p	(2.24 p)	0.04 p
Diluted earnings per share	0.67 p	(2.24 p)	0.04 p
Adjusted earnings per share	2.30 p	0.34 p	3.64 p
Diluted adjusted earnings per share	2.26 p	0.34 p	3.63 p

Continuing operations	6 months 31 December 2018 (unaudited) £'000	6 months 31 December 2017 (unaudited, restated) £'000	Year ended 30 June 2018 (restated) £'000
Profit/(loss) for the period	139	(1,348)	(581)
Profit attributable to non-controlling interests	(153)	(39)	(67)
Loss attributable to equity holders of the Company	**(14)**	**(1,387)**	**(648)**
Reconciliation to adjusted profit:			
Unwinding of discount on contingent consideration	60	220	439
Revaluation of contingent consideration	116	(432)	(767)
Amortisation of intangible assets	1,314	1,309	2,597
Exceptional and acquisition (income)/costs	(652)	1,180	1,368
Exceptional bank charges	7	7	14
Share based payments	375	(419)	(255)
Tax impact of above adjustments	(220)	(306)	(556)
Adjusted profit for the period	**986**	**172**	**2,192**

Number of shares	'000s	'000s	'000s
Weighted average number of shares used to calculate earnings per share			
- Basic	61,714	61,714	61,714
- Impact of dilutive share options	917	-	216
- Diluted	62,631	61,714	61,930

3. Profit for the period

The figures for the Group's continuing operations are as follows:

	6 months ended 31 December 2018 (unaudited) £'000	6 months ended 31 December 2017 (unaudited) £'000	Year ended 30 June 2018 (audited) £'000
Depreciation of property, plant and equipment – owned	101	104	202
Loss on disposal of property, plant and equipment	-	-	3
Amortisation of intangible assets	2,586	2,419	4,929
Cost of inventories recognised as an expense	141	77	177
Research & Development expense	358	283	607
Staff costs	7,427	6,278	12,176
Net foreign exchange loss/(profit)	87	(195)	(649)

4. Exceptional and acquisition (income)/costs

	6 months ended 31 December 2018 (unaudited) £'000	6 months ended 31 December 2017 (unaudited) £'000	Year ended 30 June 2018 (audited) £'000
Provision releases	(652)	-	-
Restructuring	-	593	775
Legal costs	-	585	591
Acquisition costs	-	2	2
	(652)	**1,180**	**1,368**

Exceptional income arises from the release of provisions recognised on the acquisition of Tabernus for provisions that are no longer required. In the prior year, exceptional restructuring costs related to costs associated with the restructure of the business during the first half of the year and legal costs associated with matters arising from the review of contracts for the years ended 30 June 2016 and 2017.

5. Discontinued Operations

The post-tax results from discontinued operations in the period was a profit of £0.4 million (H1 2018: £nil). This arose from the unwind of provisions over time that were created upon disposal of the Repair Services business in the year ended 30 June 2016. In the prior period, the discontinued operations consisted of the Mexican operations.

A £0.1 million inflow (H1 2018: £0.3 million outflow) from investing activities from discontinued operations represents the final proceeds from the disposal of the Mexican entity in January 2018. The outflow from investing activities in the prior period relates to the acquisition of 19% of the share capital of the Mexican legal entity.

6. Contingent consideration

	Xcaliber £'000	Tabernus £'000	Total £'000
At 1 July 2018 (audited)	**1,043**	**1,157**	**2,200**
Unwinding of discount factor on contingent consideration	60	-	60
Reassessment of fair value of contingent consideration	-	116	116
Payment of contingent consideration	(446)	-	(446)
Revaluation of contingent consideration	27	44	71
Reclassification of contingent consideration to equity	-	(1,317)	(1,317)
At 31 December 2018 (unaudited)	**684**	**-**	**684**

The contingent consideration on the balance sheet at 31 December 2018 is held in relation to the Xcaliber acquisition.

During the period, it was agreed that the Tabernus contingent consideration would be settled in shares instead of cash. The fair value of the contingent consideration was measured at the date of the agreement and then reclassified to equity. This resulted in a £0.1m non-cash charge to the consolidated income statement.

The contingent consideration for Tabernus and Xcaliber have been revalued, resulting in a £0.1m charge to the Translation Reserve, since these liabilities are recorded in subsidiaries whose reporting currency is non-sterling.

7. Subsequent events

On 2 January 2019, the Company issued 1,208,373 new fully paid-up ordinary shares of 2p. The shares were issued to the former management of Tabernus in settlement of the deferred consideration for the acquisition previously announced on 22 September 2015.

The total number of Ordinary Shares in issue is 65,197,639.