

Interim results for the six months to 30 June 2019

Maintel Holdings Plc, a leading provider of communications cloud and managed services, announces its interim results for the six months to 30 June 2019.

Key highlights are:

- Revenue down 3% to £64.5m (H1 2018: £66.5m) with recurring revenue at 69% (H1 2018: 70%)
- Gross margin at 29% (H1 2018: 27%)
- Adjusted EBITDA ^[5] up 28% to £6.5m (H1 2018: £5.0m), including IFRS 16 adjustment of £0.5m
- Adjusted earnings per share ^[1] at 30.0p (H1 2018: 25.9p), an increase of 16%
- Strong cash performance with underlying cash conversion of 94% of adjusted EBITDA ^[2] (H1 2018: 80%)
- Net debt at £24.2m ^[3] reduced from £25.5m at 31 December 2018
- Interim dividend per share proposed at 15.1p (H1 2018: 15.0p)

Operational highlights

- Maintel's successful transition to a cloud and managed services business continues, with revenues from cloud and software customers now at £13m, 20% of revenue (H1 2018: 15% of revenue)
- Cloud UCaaS seats increased 32% to c.66,000 (H1 2018: c.50,000)
- Investment into strategic and higher growth areas

Board change

The Board announces that its Chief Executive Officer Eddie Buxton will be leaving the Company on 31st December 2019 by mutual agreement. The Board is keen to record its thanks to Eddie for his strong leadership of the business for over ten years and to wish him well for the future.

Key Financial Information

Unaudited results for 6 months ended 30 June:	2019	2018	Increase/ (decrease)
Group revenue	£64.5m	£66.5m	(3)%
Profit/(loss) before tax	£1.5m	(£0.3m)	-
Adjusted profit before tax ^[4]	£4.9m	£4.2m	17%
Basic earnings/(loss) per share	10.6p	(2.6p)	-
Adjusted earnings per share ^[1]	30.0p	25.9p	16%
Interim dividend per share proposed	15.1p	15.0p	1%

Commenting on the Group's results, John Booth, Chairman said:

"Performance in the first six months of the year marks continued progress towards our goal of transforming Maintel into a cloud and managed services business and demonstrates the benefits we are receiving from investment in our cloud and software capability, notably improved margins and higher cash conversion. Our ICON platform continues to attract new

£66.5m), driven by a number of factors, principally the market move to newer technologies and some price erosion in the support component of our managed service base.

There was strong cash generation in the period with underlying cash conversion of 94% ^[2] of adjusted EBITDA and net debt reducing to £24.2m ^[3] reduced from £25.5m at 31 December 2018.

High margin professional services revenues grew as a result of an increase in software and consultancy engagements, while lower margin technology revenue fell as anticipated as the project mix continues its shift from one-off on-premise projects to a recurring revenue model as customers move to cloud-based platforms.

Our managed services base declined by 3% in the period driven by the transition of customers from on-premise into cloud-based platforms with associated revenue now reflected in our data numbers. As anticipated, we have seen some erosion in the support base due to customers down-sizing their estates as working patterns change, and the upgrading of some of our larger support customers from older legacy platforms to more modern software-based solutions where support revenues are lower with a correspondingly lower cost base.

Although network services revenues have shown a small decline at £19.5m (H1 2018: £20.6m), the underlying story is of a 6% growth in data revenues, the decline being due to the run off of previously announced legacy contracts which gave notice to cease in 2017. The Group has won several new voice and data contracts, typically in support of cloud-based unified communications projects.

We continue to invest in our people with a full programme of learning and development, ensuring that our talented and committed staff are equipped with the skills required as the market migrates to digital and cloud.

Reflecting our confidence in the underlying cash flow of the Group and its longer term prospects, we propose to pay an interim dividend of 15.1p, a 1% increase on the 2018 figure, in line with our previously stated intention to pay out at least 40% of adjusted earnings to shareholders.

On behalf of the Board, I would like to take this opportunity to thank all our employees for their continued hard work and commitment.

Finally, I announce the resignation of our Chief Executive Officer, Eddie Buxton. Since joining us in 2009 Eddie has overseen a period of significant growth for the Company and has led the transformation of Maintel into a cloud and managed services business. The Board would like to thank Eddie for his strong leadership during this time and wish him well for the future. The search for a replacement is well under way and we expect to be able to announce a successor shortly. During the interim period, the Executive Directors, with the support of the rest of the Board, will lead the business and Eddie will remain with the Company to ensure an orderly handover to his successor.

J D S Booth
Chairman

30 August 2019

New IFRS implementation

Maintel has adopted IFRS 16 – Leases for the financial year ending 31 December 2019, and it has chosen to use the modified retrospective approach to adoption which means there are no restatements to the prior year figures.

IFRS 16 introduces a single lessee accounting model, where-by the Group will recognise a lease liability and a right of use asset at 1 January 2019 for leases previously classified as operating leases. Within the income statement rent expense is replaced by depreciation and interest expense.

The adoption of IFRS 16 has resulted in a right of use asset of £4.3m, with a corresponding liability of £4.1m, being recognised as at 30 June 2019.

In order to allow users of the accounts to see how the impact of IFRS 16 has affected adjusted EBITDA ⁽⁵⁾, we present a reconciliation below.

	Adjusted EBITDA		
	6 months to 30 June 2019	6 months to 30 June 2018	
	£000	£000	Growth
Consistent with 2018 presentation and accounting policy	6,008	5,042	19%
Changes due to accounting policy – IFRS 16	464	-	
Consistent with 2019 presentation and accounting policy	<u>6,472</u>	<u>5,042</u>	<u>28%</u>

The changes to accounting policy and presentation have improved the percentage growth of EBITDA driven by the effect of IFRS 16 which has adjusted the current period (favourably) and not the comparator as this is not restated; if the effect of IFRS 16 were to be removed the percentage growth would be 19%.

Business review

Results for the 6 month period to 30 June 2019

The Group has seen a small decrease in revenue in the period of 3% to £64.5m (H1 2018: £66.5m), driven by customers transitioning from on-premise up-front sales replaced by a recurring multi-year cloud service model. In addition, we have seen some price reduction as customers upgrade from older platforms with significant hardware support elements to modern, software-based platforms.

Recurring revenue (being all revenue excluding one-off projects) remained high at 69% (H1 2018: 70%).

An adjusted profit before tax (adjustments explained below) of £4.9m was generated (H1 2018: £4.2m).

On an unadjusted basis, the Group generated a profit before tax of £1.5m (H1 2018: loss of £0.3m) and an earnings per share of 10.6p (H1 2018: loss per share of 2.6p). This includes £12,000 of exceptional income (H1 2018: exceptional costs of £1.3m) (refer note 6) and intangibles amortisation of £3.3m (H1 2018: £3.0m).

Adjusted earnings per share (EPS) increased by 16% to 30.0p (H1 2018: 25.9p) based on a weighted average number of shares in the period of 14.3m (H1 2018: 14.2m).

	6 months to 30 June 2019	6 months to 30 June 2018	Increase / (decrease)
	£000	£000	
Revenue	<u>64,504</u>	<u>66,537</u>	<u>(3)%</u>
Profit /(loss) before tax	1,549	(256)	
Add back intangibles amortisation	3,326	3,039	
Exceptional items (note 6)	(12)	1,251	
Share based remuneration	<u>69</u>	<u>188</u>	
Adjusted profit before tax	<u>4,932</u>	<u>4,222</u>	<u>17%</u>
Adjusted EBITDA ^(a)	<u>6,472</u>	<u>5,042</u>	<u>28%</u>
Basic earnings / (loss) per share	10.6p	(2.6p)	-
Diluted	<u>10.4p</u>	<u>(2.6p)</u>	<u>-</u>
Adjusted earnings per share ^(b)	30.0p	25.9p	16%
Diluted	<u>29.5p</u>	<u>25.4p</u>	<u>16%</u>

(a) Adjusted EBITDA is EBITDA of £6.4m (H1 2018: £3.6m) less exceptional items and share based remuneration (note 4).

(b) Adjusted profit after tax divided by weighted average number of shares (note 3).

Review of operations

ICON is Maintel's suite of cloud services, the main services being ICON Communicate (enterprise grade managed unified communications), ICON Now (Unified Communications as a Service), ICON Secure (network security) and ICON Connect (managed WAN). Elements of cloud services revenues are currently accounted for in both the managed services and technology division (under both managed services related and technology revenue lines), and the network services division (under the data connectivity services revenue line).

The following table shows the performance of the three operating segments of the Group.

	6 months to 30 June 2019	6 months to 30 June 2018	Decrease
<u>Revenue analysis</u>	£000	£000	
Managed services related	22,474	23,166	(3)%
Technology ^(c)	<u>19,859</u>	<u>19,999</u>	<u>(1)%</u>
Managed services and technology division	42,333	43,165	(2)%
Network services division	19,539	20,608	(5)%
Mobile division	<u>2,632</u>	<u>2,764</u>	<u>(5)%</u>
Total Group	<u>64,504</u>	<u>66,537</u>	<u>(3)%</u>

(c) Technology includes revenues from hardware, software, professional services and other sales.

Managed services and technology division

The managed services and technology division provides the management, maintenance, service and support of unified communications, contact centres and local area networking technology, on a contracted basis, on customer premises and in the cloud. This is across the UK and internationally. It also supplies and installs project-based technology, professional and consultancy services to our direct clients and through our partner relationships.

	6 months to 30 June 2019 £000	6 months to 30 June 2018 £000	Decrease
Divisional revenue	42,333	43,165	(2)%
Divisional gross profit	11,396	11,882	(4)%
Gross margin (%)	27%	28%	

Revenue in this division decreased by 2% to £42.3m, and gross profit by 4% to £11.4m. Reductions in technology and managed services, as highlighted earlier in the report, are largely driven by the transition of customers from on-premise into cloud-based platforms.

This led to the anticipated reduction in technology revenue; however, it was offset to an extent, by an increase in professional services revenue as we gained contract wins in our software and consultancy practice, including the development and rollout of a multilingual IVR across multiple countries for a global enterprise organisation.

Our managed services base declined by 3% in the period partly as a result of customers moving to the cloud model, where traditional "support" is replaced by a managed services element, which is reported in network services. In addition, revenues have been impacted by the upgrading of some of our larger support customers from older legacy platforms to more modern software-based solutions where the support revenues are lower, offset by a naturally lower cost base to support this new technology.

In the period, one of our channel partners lost a major contract that Maintel serviced on their behalf, which will impact the H2 2019 support revenues.

Gross margin within the division reduced slightly to 27% (H1 2018: 28%).

Network services division

The network services division sells a portfolio of connectivity and communications services, including managed MPLS networks, SD-WAN services, security as a service, internet access services, dedicated access to public cloud services, SIP telephony services, inbound and outbound telephone calls and hosted IP telephony solutions. These services complement the on-premises and cloud solutions offered by the managed service and technology division and the mobile division's services.

	6 months to 30 June 2019 £000	6 months to 30 June 2018 £000	(Decrease) / increase
Call traffic	2,551	2,837	(10)%
Line rental	4,566	4,953	(8)%
Data connectivity services	12,245	12,648	(3)%
Other	177	170	4%
	19,539	20,608	(5)%

Total division			
Division gross profit	6,206	4,945	25%
Gross margin (%)	32%	24%	

Network services revenue decreased by 5% in the period, with gross margins in the division growing by 8% to 32% (H1 2018: 24%), reflecting the significantly richer contributions from cloud service revenues.

Traditional fixed line revenues (shown above under call traffic and line rental) decreased by 9% to £7.1m (H1 2018: £7.8m), which is a reflection of the overall market decline and a shift in focus of the Group to meet the higher demand for margin rich cloud and SIP services.

Data connectivity revenues declined by 3% over the prior period, as a result of the diminishing tail of previously announced legacy contract terminations, but the progress in cloud services is driving an underlying growth of 6% in data. This growth is set to continue as we rollout 2 significant data network contracts in H2 2019. The launch of our SD-WAN proposition has positioned Maintel as a credible data network provider and it has been well received by our customers.

ICON cloud services

In H1 2019 there was an acceleration in the take-up of our cloud managed unified communications services over H1 2018 resulting in growth of 32% to more than 66,000 contracted seats. Revenue from cloud and software customers now stands at £12.9m in H1 2019 – 20% of revenue (H1 2018: 15% of revenue).

We are continuing to see larger and more mission critical communications installations move to the cloud, with new ICON Communicate deals across all our vendors. H2 2019 will see the rollout of our largest cloud UCaaS customer with c.8000 seats for a public sector organisation.

We continue to invest in our growth areas of cloud and software and have brought those teams together in our Technology Centre in Fareham, Hampshire. Key developments on the ICON platform include adding new capabilities to our customer-facing portal, enhancements to our ICON Connect platform in terms of additional capacity and more SD-WAN capability, and enhancements to our ICON Secure platform.

Interest in our recently launched mid-market focussed UCaaS offer, ICON Now, is encouraging. We have already closed a significant contract which will roll out in H2 and the prospect pipeline continues to grow. Our software capability is gaining traction with recent contract awards of 2 major software integration projects delivered by our in-house software integration team. We have increased our investment in Callmedia, our omni-channel contact centre – focussing on user experience and AI capabilities.

Mobile division

Maintel's mobile division derives its revenue primarily from commissions received under its dealer agreements with O2 and from value added services such as mobile fleet management and mobile device management.

	6 months to 30 June 2019 £000	6 months to 30 June 2018 £000	Decrease
Revenue	2,632	2,764	(5)%
Gross profit	1,285	1,359	(5)%
Gross margin (%)	49%	49%	
Number of connections	31,528	35,996	(12)%

We have continued to focus on the mid-market and low end enterprise segments where our full managed service wrap is particularly well suited. Consequently, while we have seen a reduction in the number of connections there has been a significant increase in average revenue per connection of 9%.

As previously highlighted, we introduced a wholesale proposition to better serve a segment of the mid-market and have won two significant new customers as a result.

Revenue fell 5% to £2.6m (H1 2018: £2.8m) with gross margin being maintained at 49%. The reduction in revenue was caused by one large contract implementation and subsequent revenue recognition being delayed into H2. The mobile market is highly competitive, but our prospect pipeline remains healthy.

Dividends and adjusted earnings per share

An interim dividend for 2018 of 15.0p (£2.1m) was paid on 4 October 2018 and a final dividend for 2018 of 19.5p per share (£2.8m) was paid on 16 May 2019, taking the total dividend paid in respect of 2018 to 34.5p per share.

As previously highlighted, the board's intention is to have a dividend pay-out ratio of at least 40% of adjusted net income and, on this basis, we expect that the total dividend paid annually will remain progressive in absolute terms.

As a result, the board will pay an interim dividend of 15.1p in respect of 2019 on 4 October to shareholders on the register at the close of business on 13 September, a 1% increase on H1 2018 reflecting our confidence in delivering growth in profitability on a year on year basis. The corresponding ex-dividend date will be 12 September.

Cash flow

The Group had net debt (excluding IFRS 16 liabilities and issue costs of debt) of £24.2m at 30 June 2019, compared with £25.5m at 31 December 2018, a reduction of £1.3m in the period.

	6 months to 30 June 2019 £000	6 months to 30 June 2018 £000
Cash generated by operating activities	6,052	4,061
Taxation	-	(12)
Capital expenditure less proceeds of sale	(1,070)	714
Finance cost (net)	(617)	(490)
Free cashflow	4,365	4,273
Dividends	(2,790)	(2,712)
Proceeds from borrowings	2,000	-
Lease liability repayments	(414)	-
Payments in respect of business combination	(142)	-
Issue of ordinary shares	235	-
Increase in cash and cash equivalents	3,254	1,561
Cash and cash equivalents at start of period	(3,988)	3,311
Cash and cash equivalents at end of period	(734)	4,872

Bank borrowings	<u>(23,500)</u>	<u>(31,000)</u>
Net debt excluding issue costs of debt	<u>(24,234)</u>	<u>(26,128)</u>
Adjusted EBITDA (note 4)	<u><u>6,472</u></u>	<u><u>5,042</u></u>

The Group generated £6.1m of cash from operating activities (H1 2018: £4.1m), with a £0.2m working capital consumption in the period (H1 2018: working capital benefit £0.3m). The H1 2019 cash generation was underpinned by a strong cash conversion rate of 94% of adjusted EBITDA to operating cash flow.

Ongoing investment in our cloud and software platforms and upgrading of our internal IT systems drove the capital expenditure outlay of £1.1m in the period. This is compared to the prior period where a capital receipt of £0.8m was incurred as a result of the sale of a freehold property generating proceeds of £1.5m.

Finance cost of £0.6m includes £139k of interest costs as a result of adopting IFRS 16 and the recognition of notional finance costs associated with the deferred consideration resulting from the acquisition of certain UK customer contracts from Atos in July 2018. Excluding these items, on a comparable restated basis, finance cost is down 2% against H1 2018.

Outlook

The 28% growth in adjusted EBITDA, which includes a positive IFRS 16 adjustment of £0.5m in the period is pleasing, as we continue the transformation of our business, carefully managing our revenue mix and gross margin. We have seen cloud customers grow to represent 20% of our total revenue, up from 15% in 2018, and this is expected to continue to grow in H2 supported by our recently launched ICON Now and Insight Secure propositions.

Underlying demand for our services remains high and our new business pipeline remains strong with some significant project opportunities, however, we are seeing more customers expressing their concerns about the economy and the uncertainty around the prospect of a disorderly exit from the EU. This economic uncertainty is causing some contract close dates to move out, as organisations give more scrutiny to their larger investment decisions, resulting in longer sales cycles.

As such, whilst 2019 adjusted EBITDA is expected to show year on year growth versus 2018's level on a like for like basis, the Board now expects to deliver full year FY 2019 adjusted EBITDA (excluding IFRS 16 adjustments) in the range of £13-14 million.

On behalf of the board

M V Townsend
Chief Financial Officer

30 August 2019

Maintel Holdings Plc

Consolidated statement of comprehensive income (unaudited)

for the 6 months ended 30 June 2019

	Note	6 months to 30 June 2019 £000 (Unaudited)	6 months to 30 June 2018 £000 (unaudited)
Revenue	2	64,504	66,537
Cost of sales		(45,623)	(48,351)
Gross profit		18,881	18,186
Other operating income		77	76
Administrative expenses			
Intangibles amortisation		(3,326)	(3,039)
Exceptional items	6	12	(1,251)
Share based payments		(69)	(188)
Other administrative expenses		(13,362)	(13,520)
		(16,745)	(17,998)
Operating profit		2,213	264
Net financial costs		(664)	(520)
Profit / (loss) before taxation		1,549	(256)
Income tax expense		(39)	(116)
Profit / (loss) for the period and attributable to owners of the parent		1,510	(372)
Other comprehensive expense for the period			
Exchange differences on translation of foreign operations		3	-
Total comprehensive income for the period attributable to the owners of the parent		1,513	(372)
Earnings / (loss) per share from continuing operations attributable to the ordinary equity holders of the parent			
Basic	3	10.6p	(2.6p)
Diluted	3	10.4p	(2.6p)

Maintel Holdings Plc**Consolidated statement of financial position (unaudited)**

at 30 June 2019

	Note	30 June 2019 £000 (Unaudited)	31 December 2018 £000 (Audited)
Non-current assets			
Intangible assets		66,272	69,389
Right-of-use assets		4,300	-
Property, plant and equipment		2,062	2,046
		72,634	71,435
Current assets			
Inventories		4,524	8,267
Trade and other receivables		30,729	34,352
		35,253	42,619
Total assets		107,887	114,054
Current liabilities			
Trade and other payables		51,310	57,725
Short-term borrowings	7	734	3,988
Current tax liabilities		1,268	814
		53,312	62,527
Total current liabilities		53,312	62,527
Non-current liabilities			
Other payables		6,774	4,943
Deferred tax liability		2,892	3,307
Borrowings	7	23,339	21,295
		33,005	29,545
Total non-current liabilities		33,005	29,545
Total liabilities		86,317	92,072
Total net assets		21,570	21,982
Equity			
Issued share capital		143	142
Share premium		24,588	24,354
Other reserves		73	70
Retained earnings		(3,234)	(2,584)
		21,570	21,982
Total equity		21,570	21,982

Maintel Holdings Plc

Consolidated statement of changes in equity (unaudited)

for the 6 months ended 30 June 2019

	Note	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total £000
At 31 December 2017		142	24,354	70	(178)	24,388
Total comprehensive income for the period		-	-	-	(372)	(372)
Dividend		-	-	-	(2,712)	(2,712)
Share based payments		-	-	-	188	188
At 30 June 2018		142	24,354	70	(3,074)	21,492
Total comprehensive income for the period		-	-	-	2,415	2,415
Dividend paid		-	-	-	(2,129)	(2,129)
Share based payments		-	-	-	204	204
At 31 December 2018 (as previously reported)		142	24,354	70	(2,584)	21,982
Change in accounting policy	1	-	-	-	561	561
Balance at 1 January 2019 (as restated)		142	24,354	70	(2,023)	22,543
Profit for the period		-	-	-	1,510	1,510
Other comprehensive income:						
Foreign currency Translation differences		-	-	3	-	3
Total comprehensive income for the period		-	-	3	1,510	1,513
Dividend paid		-	-	-	(2,790)	(2,790)
Issue of new ordinary shares		1	234	-	-	235
Share based payments		-	-	-	69	69
At 30 June 2019		143	24,588	73	(3,234)	21,570

Maintel Holdings Plc

Consolidated statement of cash flows (unaudited)

for the 6 months ended 30 June 2019

	6 months to 30 June 2019 £000	6 months to 30 June 2018 £000
Operating activities		
Profit/(loss) before taxation	1,549	(256)
Adjustments for:		
Intangibles amortisation	3,326	3,039
Exceptional non-cash items	(329)	-
Share based payment charge	69	188
Depreciation of plant and equipment	455	300
Depreciation of right of use asset	421	-
Loss on disposal of property, plant and equipment	52	19
Interest expense (net)	664	520
	<hr/>	<hr/>
Operating cash flows before changes in working capital	6,207	3,810
Decrease /(increase) in inventories	3,743	(143)
Decrease /(increase) in trade and other receivables	3,395	(1,663)
(Decrease) / increase in trade and other payables	(7,293)	2,057
	<hr/>	<hr/>
Cash generated from operating activities	6,052	4,061
Tax paid	-	(12)
	<hr/>	<hr/>
Net cash flows generated from operating activities	6,052	4,049
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Investing activities		
Purchase of plant and equipment	(523)	(533)
Purchase of software	(547)	(253)
Payments in respect of business combination	(142)	-
Proceeds from the disposal of asset held for sale	-	1,500
	<hr/>	<hr/>
Net cash flows (used by) / generated from investing activities	(1,212)	714
	<hr/>	<hr/>
Financing activities		
Proceeds from borrowings	2,000	-
Lease liability repayments	(414)	-
Issue of ordinary shares	235	-
Interest paid	(617)	(490)
Equity dividends paid	(2,790)	(2,712)
	<hr/>	<hr/>
Net cash flows generated from / (used by) financing activities	1,586	(3,202)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	3,254	1,561
Cash and cash equivalents at start of period	(3,988)	3,311
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Cash and cash equivalents at end of period	(734)	4,872
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Maintel Holdings Plc

Notes to the interim financial information

1. Basis of preparation

The financial information in these unaudited interim results is that of the holding company and all of its subsidiaries (the Group). It has been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards as adopted for use in the EU (IFRSs) but does not include all the disclosures that would be required under IFRSs. The accounting policies applied by the Group in this financial information reflect the adoption of IFRS 16 Leases which is effective as of 1 January 2019. The adoption of this standard has not resulted in a restatement of the prior year figures with any resulting IFRS 16 transition adjustments being recognised in equity at 1 January 2019.

Other than the adoption of IFRS 16 – Leases, the accounting policies adopted in the interim financial statements are consistent with those adopted in the last annual report for financial year 2018.

IFRS 16 – Leases

The Group has adopted IFRS 16 on a modified retrospective basis. As disclosed in the Chairman's statement, upon transition, a lease liability has been recognised based on future lease payments discounted at an appropriate borrowing rate. Additionally, a right of use asset has been recognised along with a related lease liability. Within the income statement rent expense will be replaced by depreciation and interest expense. This will result in a decrease in operating expenses and an increase in finance costs.

The comparative financial information presented herein for the year ended 31 December 2018 does not constitute full statutory accounts for that period. The Group's annual report and accounts for the year ended 31 December 2018 have been delivered to the Registrar of Companies. The Group's independent auditor's report on those statutory accounts was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

The financial information for the half-years ended 30 June 2019 and 30 June 2018 does not comprise statutory financial information within the meaning of s434 of the Companies Act 2006 and is unaudited.

In preparing the interim financial statements the directors have considered the Group's financial projections, borrowing facilities and other relevant financial matters, and the board is satisfied that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

2. Segmental information

For management reporting purposes and operationally, the Group consists of three business segments: (i) telecommunications managed service and technology sales, (ii) telecommunications network services, and (iii) mobile services. Each segment applies its respective resources across inter-related revenue streams which are reviewed by management collectively under these headings. The businesses of each segment and a further analysis of revenue are described under their respective headings in the business review.

The chief operating decision maker has been identified as the board, which assesses the performance of the operating segments based on revenue and gross profit.

Six months to 30 June 2019 (unaudited)

	Managed service and technology £000	Network services £000	Mobile £000	Total £000
Revenue	<u>42,333</u>	<u>19,539</u>	<u>2,632</u>	<u>64,504</u>
Gross profit	<u>11,390</u>	<u>6,206</u>	<u>1,285</u>	<u>18,881</u>
Other operating income				77
Other administrative expenses				(13,362)
Share based payments				(69)
Intangibles amortisation				(3,326)
Exceptional items				<u>12</u>
Operating profit				2,213
Interest (net)				<u>(664)</u>
Profit before taxation				1,549
Income tax expense				<u>(39)</u>
Profit after taxation				<u>1,510</u>

Further analysis of revenue streams is shown in the business review.

The board does not regularly review the aggregate assets and liabilities of its segments and accordingly, an analysis of these is not provided.

	Managed service and technology £000	Network services £000	Mobile £000	Central/ inter- company £000	Total £000
Intangibles amortisation	-	-	-	3,326	3,326
Exceptional items	(12)	-	-	-	(12)

Six months to 30 June 2018 (unaudited)

	Managed service and technology £000	Network services £000	Mobile £000	Total £000
Revenue	<u>43,165</u>	<u>20,608</u>	<u>2,764</u>	<u>66,537</u>
Gross profit	<u>11,882</u>	<u>4,945</u>	<u>1,359</u>	18,186
Other operating income				76
Other administrative expenses				(13,520)

Share based payments	(188)
Intangibles amortisation	(3,039)
Exceptional costs	<u>(1,251)</u>
Operating profit	264
Interest (net)	<u>(520)</u>
Loss before taxation	(256)
Income tax expense	<u>(116)</u>
Loss after taxation	<u><u>(372)</u></u>

Further analysis of revenue streams is shown in the business review.

The board does not regularly review the aggregate assets and liabilities of its segments and accordingly, an analysis of these is not provided.

	Managed service and technology £000	Network services £000	Mobile £000	Central/ inter- company £000	Total £000
Intangibles amortisation	-	-	-	3,039	3,039
Exceptional costs	<u>1,251</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,251</u>

3. Earnings per share

Earnings per share is calculated by dividing the profit / (loss) after tax for the period by the weighted average number of shares in issue for the period, these figures being as follows:

	6 months to 30 June 2019 £000 (unaudited)	6 months to 30 June 2018 £000 (unaudited)
Earnings used in basic and diluted EPS, being profit / (loss) after tax	1,510	(372)
Adjustments:		
Amortisation of intangibles acquired on business combinations	3,069	3,039
Exceptional items (note 6)	(12)	1,251
Tax relating to above adjustments	(657)	(804)
Deferred tax charge on Datapoint profits	-	200
Share based payments	69	188
Interest charge on deferred consideration	68	-
Increase in deferred tax liability of intangible assets	45	-
Deferred tax charge on Azzurri capital allowances	180	177

Adjusted earnings used in adjusted EPS

4,272 3,679

The adjustments above have been made in order to provide a clearer picture of the trading performance of the Group.

Datapoint have brought forward historic tax losses, which the Group will benefit from in respect of its 2019 taxable profits. On acquisition in 2013 and in subsequent periods, a deferred tax asset was recognised in respect of its tax losses, and a deferred tax charge has been recognised in the income statement in respect of the period's profits. As this does not reflect the reality and benefit to the Group of the non-taxable profits, the deferred tax charge is adjusted above.

Azzurri has brought forward historic tax capital allowances, which the Group will benefit from in respect of its 2019 taxable profits. On the acquisition of Azzurri in 2016, a deferred tax asset was acquired in respect of its capital allowances, and a deferred tax charge has been recognised in the income statement in respect of the period's profits. As this does not reflect the reality and benefit to the Group of the non-taxable profits, the deferred tax charge is adjusted above.

	6 months to 30 June 2019 Number (000s)	6 months to 30 June 2018 Number (000s)
Weighted average number of ordinary shares of 1p each	14,258	14,197
Potentially dilutive shares	203	296
	14,461	14,493
<i>Profit / (loss) per share</i>		
Basic	10.6p	(2.6p)
Diluted	10.4p	(2.6p)
Adjusted – basic after the adjustments in the table above	30.0p	25.9p
Adjusted – diluted after the adjustments in the table above	29.5p	25.4p

In calculating diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares. The Group has one category of potentially dilutive ordinary share, being those share options granted to employees where the exercise price is less than the average price of the Company's ordinary shares during the period.

4. Earnings before interest, tax, depreciation and amortisation (EBITDA)

The following table shows the calculation of EBITDA and adjusted EBITDA:

	6 months to 30 June 2019 £000 (unaudited)	6 months to 30 June 2018 £000 (unaudited)
Profit / (loss) before tax	1,549	(256)
Net interest payable	664	520
Depreciation of property, plant and equipment	455	300
Depreciation of right of use asset	421	-

Amortisation of intangibles	3,326	3,039
EBITDA	6,415	3,603
Share based payments	69	188
Exceptional items (note 6)	(12)	1,251
Adjusted EBITDA	6,472	5,042

5. Dividends

	6 months to 30 June 2019 £000 (unaudited)	6 months to 30 June 2018 £000 (unaudited)	Year to 31 December 2018 £000 (audited)
<i>Dividends paid</i>			
Final 2017, paid 11 May 2018 – 19.1p per share	-	2,712	2,712
Interim 2018, paid 4 October 2018 – 15.0p per share	-	-	2,129
Final 2018, paid 16 May 2019 – 19.5p per share	2,790	-	-
	2,790	2,712	4,841

The directors propose the payment of an interim dividend for 2019 of 15.1p (2018: 15.0p) per ordinary share, payable on 4 October 2019 to shareholders on the register at 13 September 2019. The cost of the proposed dividend, based on the number of shares in issue as at 30 August 2019, is £2.2m (2018: £2.1m).

6. Exceptional items

	6 months to 30 June 2019 £000 (unaudited)	6 months to 30 June 2018 £000 (unaudited)
Staff restructuring related costs	96	835
Costs relating to an onerous property lease	-	245
Remeasurement of deferred consideration to fair value	(746)	-
Impairment of customer relationship asset	339	-
Other	299	171
	(12)	1,251

7. Borrowings

	30 June 2019 £000 (unaudited)	31 December 2018 £000 (audited)
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Current bank overdraft – secured	734	3,988
Non-current bank loan – secured	23,339	21,295
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On 8 April 2016, the Group entered into new facilities with the Royal Bank of Scotland plc to support the acquisition of Azzurri. These consisted of a revolving credit facility totalling £36.0m (the "RCF") in committed funds on a reducing basis for a five year term (with an option to borrow up to a further £20.0m in uncommitted accordion facilities).

On 1 August 2017, the acquisition of the entire share capital of Intrinsic Technology Limited (ITL) was completed for a consideration of £4.9m on a cash-free, debt-free basis. The acquisition was funded by an extension to, and drawdown under, the Company's existing RCF with the Royal Bank of Scotland plc. As a result, the RCF increased by £6.0m to £42.0m. However, following the sale of the Burnley freehold property for £1.5m on 23 February 2018, the RCF was reduced by a corresponding amount to £40.5m.

Under the terms of the master facility agreement, the RCF reduces to £31.0m on the three year anniversary, and to £26.0m on the four year anniversary from the date of signing.

As of 30 June 2019, the Group's available committed facilities amount to £36.8m, comprising the £31m RCF plus £5.7m allocated from the accordion facility which was used to acquire ITL in 2017.

The non-current bank loan above is stated net of unamortised issue costs of debt of £0.2m (31 December 2018: £0.2m).

8. Post balance sheet events.

There have been no events subsequent to the reporting date which would have a material impact on the interim financial results.