# Maintel Holdings Plc

## Interim results for the six months to 30 June 2015

# About Us

Maintel is a leading systems integrator and managed services provider, delivering communications solutions to a broad spectrum of businesses in the UK and internationally.

Maintel's core expertise encompasses unified communications, contact centre solutions, workforce optimisation, networking and security, mobile and connectivity services. By combining skills and technologies from vendor and carrier partners with the highly accredited capabilities of its in-house experts, Maintel provides complete end-to-end solutions delivered on-premises or via the cloud.

The skills and expertise of the Maintel team delivers project leadership and technology excellence that empowers our customers for the long-term. Together we build responsive and flexible services that evolve to our customers' emerging challenges and capitalise on opportunities for change.

Our people are what make us different; we have developed a reputation as experts in our fields of operation and have a proven track record in consistently delivering solutions that surpass requirements and exceed expectations.

# Contents


01 Highlights
02 Chairman's statement
04 Business review
16 Consolidated statement of comprehensive income
17 Consolidated statement of financial position
18 Consolidated statement of changes in equity
19 Consolidated statement of cash flows
20 Notes to the interim financial information
27 Independent review report to Maintel Holdings Plc

"After another successful period, we have never been better placed; with a broader range of services and skills we have the ability to manage highly technical transformation projects for customers."

Eddie Buxton, CEO

# Highlights

↑ 20%

Revenues up 20% to £24.8m (H1 2014: £20.7m)

↑ 38.3%

Increase in Group gross margin to 38.3% (H1 2014: 35.7%)

↑ 30%

Adjusted earnings per share[1] up 30% to 27.4p (H1 2014: 21.0p)

↑ 38%

Interim dividend per share increased 38% to 12.8p (H1 2014: 9.3p)

- Integration of Proximity progressing well
- Strong Group order backlog for second half

## Key Financial Information

| Unaudited results for 6 months ended 30 June: | 2015 | 2014 | Increase |
|---|---|---|---|
| Group revenue | £24.8m | £20.7m | 20% |
| Adjusted profit before tax[2] | £3.3m | £2.9m | 16% |
| Adjusted earnings per share[1] | 27.4p | 21.0p | 30% |
| Interim dividend per share | 12.8p | 9.3p | 38% |

Notes

[1] Adjusted earnings per share is basic earnings per share of 16.8p (H1 2014: 15.6p), adjusted for intangibles amortisation, exceptional costs relating to the acquisition of Proximity (H1 2014: Datapoint) and deferred tax charges on Datapoint profits (note 3).

[2] Adjusted profit before tax is basic profit before tax of £2.1m (H1 2014: £2.1m), adjusted for intangibles amortisation and the Proximity (H1 2014: Datapoint) exceptional costs.

# Chairman's statement

I am happy to report another successful set of results for the Maintel Group with revenues increasing by 20% compared with H1 2014, to £24.8m, reflecting a full six months' contribution from the Proximity business acquired in October 2014. The revenue performance in the first half reflected a pattern of moderately softer sales prior to the UK general election, balanced by stronger sales post-election.

Adjusted profit before tax increased by 16% to £3.3m compared with the first half last year, with adjusted earnings per share (EPS) increasing by 30% from 21.0p to 27.4p. Adjusted EPS benefited from various tax adjustments including the ability to offset profits from the previously acquired Datapoint business against historic tax losses.

Unadjusted profit before tax was maintained at £2.1m as increased profitability was countered by a higher intangible amortisation charge, arising from the Proximity acquisition.

We are already seeing a positive impact on the Group's product and service offering as a result of the acquisition of Proximity. The new people and skill sets which have been brought on board have provided further opportunity to future proof what we do and to extend our customer base. Whilst we continue to retain our relationships across a range of suppliers, the Proximity acquisition has also reinforced our relationship with Avaya, enabling us to provide a fully comprehensive service to our Avaya customers.

Our managed service and technology division delivered a 20% increase in revenues compared with H1 2014, with managed services increasing by 18% and technology by 24%. This reflects the greater weighting of technology within Proximity compared with the historical Maintel customer base and also the long-awaited international roll out of technology by a key longstanding Datapoint customer.

The network services division showed an encouraging 24% growth in revenue versus H1 2014 with a significant increase in data revenues helping drive growth. This growth in data revenues followed a 29% increase in 2014 year on year. A number of major new data customer signings more than compensated for the continued and expected gradual decline in call traffic revenues. Whilst the division now includes Proximity's own network services business, it is satisfying to note that the division also delivered organic growth during the period. The mobile division delivered a 5% increase in revenue to £1.4m.

Whilst the bulk of the integration of Proximity has been achieved, there remain further benefits to be had, particularly in extending the reach of the products and services we offer across the wider Group, aligning processes, and achieving even better supplier relationships. These and other initiatives continue to be implemented.

In line with our previously stated move towards paying 50% of adjusted earnings per share as dividend by the time of the 2015 final dividend, which remains our intention, we propose to pay an interim dividend of 12.8p, representing 47% of adjusted earnings per share.

I am pleased to report that Maintel has been appointed as an approved supplier by the Crown Commercial Service for its new network services framework agreement. Being thus recognised will position us as one of the key partners for public sector contracts in the future.

I would like to thank all our staff for their hard work and commitment during the first half of 2015 and to congratulate them on the strong finish to the period.

**J D S Booth**
Chairman

7 September 2015

# Business review

## Results for the year

The first half of 2015 has seen an increase in revenue of 20% to £24.8m (H1 2014: £20.7m) and adjusted profit before tax (as described below) of 16% to £3.3m (H1 2014: £2.9m).

The period benefits from a full six month contribution from Proximity, which was acquired in October 2014 and therefore made no contribution to the comparator period last year.

Adjusted earnings per share (EPS) increased by 30% to 27.4p (H1 2014: 21.0p).

On an unadjusted basis, profit before tax was maintained at £2.1m (H1 2014: £2.1m) and EPS increased by 8% to 16.8p (H1 2014: 15.6p). This includes £98,000 exceptional redundancy costs associated with the Proximity acquisition (H1 2014: £78,000 in respect of the Datapoint acquisition) and intangibles amortisation of £1.118m (H1 2014: £667,000), the increase in the latter due to the Proximity intangible.

| | 6 months to 30 June 2015 £000 | 6 months to 30 June 2014 £000 | Year to 31 December 2014 £000 | Increase/ (decrease) |
|---|---|---|---|---|
| Revenue | 24,750 | 20,662 | 41,890 | 20% |
| Profit before tax | 2,094 | 2,114 | 3,809 | (1)% |
| Add back customer relationship intangibles amortisation | 1,118 | 667 | 1,472 | |
| Exceptional items relating to the acquisition of Proximity (2014: Datapoint) | 98 | 78 | 809 | |
| Adjusted profit before tax | 3,310 | 2,859 | 6,090 | 16% |
| Stated after interest payable of | 139 | 46 | 133 | |
| Adjusted EBITDA[a] | 3,552 | 2,996 | 6,407 | 19% |
| Basic earnings per share | 16.8p | 15.6p | 27.6p | 8% |
| Diluted | 16.6p | 15.4p | 27.2p | 8% |
| Adjusted earnings per share[b] | 27.4p | 21.0p | 46.7p | 30% |
| Diluted | 27.0p | 20.7p | 46.0p | 30% |

(a) Excluding the exceptional costs in the table above (note 4)

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

## Proximity

Proximity Communications Limited was acquired in October 2014, bringing with it approximately 250 customers in the mid-market and enterprise space, as well as enhanced technical skills through its employees. Integration is underway and progressing well. Reorganisation of the sales function occurred early in the period, which has involved a reallocation of customer accounts and sales responsibilities internally. As a result it is not meaningful to report on Proximity and the underlying business separately. Proximity will be formally merged into the Group as of the end of the financial year.

Proximity earns a greater proportion of its revenues from technology sales than the core Maintel operations and from a smaller number of higher spending customers. The company saw minimal customer churn during the period, albeit its sales profile was affected by slower decision making from customers prior to the UK general election, which has reversed since then.

Proximity has enabled the Group to provide a broader range of services and skills providing the ability to manage highly technical major transformation projects for customers in our chosen market. This can be evidenced by Maintel being awarded its largest ever contract in June to transform an existing customer's contact centre infrastructure and bespoke applications.

As a consequence of the acquisition and integration exercise a number of employees across the Group have been made redundant and the H1 cost of these redundancies, £98,000, has been disclosed as an exceptional item in the income statement. Residual costs relating to these employees will be incurred in H2 but with cost savings thereafter.

## Review of operations

The following table shows the performance of the three operational segments of Maintel. Proximity revenues are primarily derived from managed services and technology sales, with £264,000 of revenue attributable to network services. The 2014 full year numbers include 9 weeks' contribution from Proximity.

| **Revenue analysis** | **6 months to 30 June 2015 £000** | **6 months to 30 June 2014 £000** | **Year to 31 December 2014 £000** | **Increase** |
|---|---|---|---|---|
| Managed services related | 12,005 | 10,145 | 20,604 | 18% |
| Technology[c] | 7,175 | 5,797 | 11,389 | 24% |
| **Total managed services and technology division** | 19,180 | 15,942 | 31,993 | 20% |
| **Network services division** | 4,267 | 3,448 | 7,156 | 24% |
| **Mobile division** | 1,430 | 1,358 | 2,907 | 5% |
| Intercompany | (127) | (86) | (166) | 48% |
| **Total Maintel Group** | 24,750 | 20,662 | 41,890 | 20% |

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

The Group encountered lower sales closure levels than anticipated in the run up to the UK general election followed by far stronger sales performance across May and June. This has continued into July and has produced a large backlog for the rest of the current financial year.

# Business review continued

## Review of operations continued

Of total Group revenue for H1 2015, 71% is recurring (2014: 73%) with the reduction being a function of a full six months (2014: 9 weeks) contribution from Proximity which has a lower level of recurring revenue (64% recurring).

The network services division showed impressive growth in the period particularly through the increase in newer data and SIP products.

Mobile revenues increased year on year although margins fell as the company won more customers from outside the Group.

The Group gross margin increased significantly to 38.3% (H1 2014: 35.7%) underpinned by an increase in the sales mix of professional services. Margins fell in the network services division as two large long-term contracted data customers attracted lower margins, however synergies were achieved through the merging of the Proximity and existing businesses, including Maintel contracting for non-Avaya business that Proximity would historically have signed outside the Group, and improved supplier terms from joint purchasing.

Detailed divisional performance is described further below.

## Managed services and technology division

The managed services and technology division provides the management, maintenance, service and support of office-based voice and data equipment across the UK and increasingly internationally, on a contracted basis. It also supplies and installs voice and data equipment together with providing professional services, both to our direct clients and through our partner relationships.

Revenues in this division increased by 20% to £19.2m, with managed services related revenue up 18% compared with H1 2014 and equipment sales up 24%, both significantly boosted by the contribution from Proximity.

During May we saw a significant uplift in sales orders, including orders from several large new private and public customers, who have chosen Maintel to transform their communications infrastructure. June also saw the initial order for a £2.6m transformation project to extend and upgrade an existing customer's call centres as previously mentioned. This was followed by another strong sales performance in July, aided by two large public sector order wins being secured which were previously held back prior to the election.

Although sales levels from this division in the early part of the first half were soft, it is reassuring to note that the bulk of the new orders relate to contemporary or leading edge technology and will further support the modernisation of the base as break-fix revenues are gradually replaced by a wider array of managed service revenues.

| | 6 months to 30 June 2015 £000 | 6 months to 30 June 2014 £000 | Year to 31 December 2014 £000 | Increase |
|---|---|---|---|---|
| Division gross profit | 7,749 (40%) | 5,706 (36%) | 12,158 (38%) | 36% |

**Managed services**
The 2014 business review reported the loss of three larger managed services customers in the second half of the year. Business from these customers has been only partially replaced and as such there has been a small decline in organic managed service revenues in the period. While new sales overall grew strongly as the half progressed, the level of legacy churn has resulted in the managed service base reducing marginally since the year end by £0.5m, to £24.9m. As discussed earlier however, the pipeline for new managed service business is strong going into the second half.

**Technology sales**
The first half of 2014 was particularly strong for technology sales on the back of two sizeable projects delivered in the period. This, combined with the delay in orders received in the early part of 2015, held back headline revenue growth year on year in this area.

At the end of last year, we highlighted the start of a major international roll-out for a pharmaceuticals company, an original Datapoint customer, in Q4 2014. This project has now gained traction and regular sizeable orders were received from that customer in the first half, which are continuing into the second half.

Given the application of common resource across both managed service and technology sales, profit breakdown within the division is not provided, however this is monitored closely internally.

# Business review continued

## Network services division

The network services division sells a portfolio of services which includes telephone line rental, inbound and outbound telephone calls, data connectivity, internet access and hosted IP telephony solutions. These services complement those offered by the managed service and technology division and the mobile division.

| Revenue analysis | 6 months to 30 June 2015 £000 | 6 months to 30 June 2014 £000 | Year to 31 December 2014 £000 | Increase/ (decrease) |
|---|---|---|---|---|
| Call traffic | 1,199 | 1,223 | 2,447 | (2)% |
| Line rental | 1,655 | 1,588 | 3,247 | 4% |
| Data services | 1,148 | 439 | 1,040 | 162% |
| Other | 265 | 198 | 422 | 34% |
| Total division | 4,267 | 3,448 | 7,156 | 24% |
| Division gross profit | 1,121 (26%) | 1,018 (30%) | 2,074 (29%) | 10% |

Network services revenues increased 24% year on year with underlying revenues increasing 16% excluding £264,000 of revenue from Proximity (H1 2014: Nil). Growth was aided by a significant increase in data revenues and a solid performance from line rental.

Data services revenues are primarily made up of MPLS networks and hosted services and will continue to grow as we move our focus away from the legacy calls and lines services. We have a significant backlog of new data orders and this will have a further positive impact on data revenues in the second half. Data sales are proving particularly successful in the public (education, health and local government) and charity sectors. The recent award of the new public sector framework agreement, being recognised as an official supplier, will further position us as a key partner in the sector.

Call minutes revenue was 2% down on the prior year and has been more resilient than expected given the combination of the market reduction in call volumes, regulatory price reductions and bundled free minute packages.

Legacy line rental revenues increased by 1% excluding the contribution from Proximity, with new sales being partly offset by pro-actively transitioning customers towards newer SIP based voice technology which has seen year on year growth of 45%.

Divisional gross profit increased by 10% in the period, however overall margin of 26% (H1 2014: 30%) was impacted by a large lower margin data kit order won in H1 to support the implementation of a multi-site MPLS order, and the managed reduction in higher margin call traffic revenues.

## Mobile division

Maintel Mobile derives its revenues primarily from commissions received under its dealer agreements with Vodafone and $O_2$.

Neither the Datapoint nor Proximity businesses contribute directly to this division.

| | 6 months to 30 June 2015 £000 | 6 months to 30 June 2014 £000 | Year to 31 December 2014 £000 | Increase/ (decrease) |
|---|---|---|---|---|
| Revenue | 1,430 | 1,358 | 2,907 | 5% |
| Gross profit | 694 (49%) | 731 (54%) | 1,517 (52%) | (5)% |

| | At 30 June 2015 | At 30 June 2014 | At 31 December 2014 | Decrease |
|---|---|---|---|---|
| Number of customers | 770 | 890 | 815 | (13)% |
| Number of connections | 12,662 | 13,024 | 13,199 | (3)% |

Mobile revenue grew 5% in the period with improvements in both new and renewal sales. Higher customer renewal levels have led to the number of subscribers in contract rising to over 80%.

Gross profit decreased by 5% year on year as margins were impacted by the higher cost of sale associated with winning new customers from outside the Group. In addition changes to commission arrangements implemented by our network suppliers continued to affect margins on both new and renewal business. The number of connections managed by Maintel has decreased by 4% or 537 to 12,662 since the year end, attributable to the loss of the two larger customers and the continued managed churn of smaller uneconomic customers.

# Business review continued

## Administrative expenses, excluding intangibles amortisation and non-trading adjustments

| Administrative expenses | 6 months to 30 June 2015 £000 | 6 months to 30 June 2014 £000 | Year to 31 December 2014 £000 | Increase |
|---|---|---|---|---|
| Maintel sales expenses | 2,064 | 2,057 | 3,747 | –% |
| Maintel other administrative expenses (excluding intangibles amortisation and exceptional expenses) | 2,438 | 2,415 | 4,963 | 1% |
| Maintel excluding Proximity | 4,502 | 4,472 | 8,710 | 1% |
| Proximity administrative expenses | 1,531 | – | 665 | |
| Total administrative expenses excluding intangibles amortisation and non-trading adjustments | 6,033 | 4,472 | 9,375 | 35% |

As already noted, certain of Proximity's inherited costs are now shared across the Group, and so the above figures reflect the costs in respect of the entity to which they are contracted, rather than the entity which obtains the benefit, and so are indicative only, with a view to showing the control that continues to be exercised over administrative expenses. The Proximity comparative figures are for 9 weeks.

Total other administrative expenses excluding Proximity increased by £30,000 (1%) compared with the first half of 2014, with lower underlying sales costs partly compensating for inflation increases. Proximity administration costs are tightly controlled, with various elements, particularly premises, benefitting from regional costs compared with the London-based costs of most of the rest of the Group.

The exceptional costs of £98,000 (H1 2014: £78,000) shown in the income statement are redundancy costs resulting from integration following the acquisition of Proximity (H1 2014: Datapoint).

The intangibles amortisation charge increased in the year due to a full year charge in respect of Proximity. Impairment and amortisation charges are discussed further below.

### Foreign exchange

The Group's reporting currency is sterling, however it trades in other currencies, notably the euro, and has assets and liabilities in those currencies. The euro rate moved from €1.28 = £1 at 31 December 2014 to €1.41 = £1 at 30 June 2015. The effect of this and other movements in the period was a charge to the income statement of £100,000 (H1 2014: £110,000), which is included in other administrative expenses.

The exchange difference arising on the retranslation at the reporting date of the equity of the Group's Irish subsidiary, whose functional currency is the euro, is recorded in the translation reserve as a separate component of equity, being £54,000 in the period (H1 2014: £32,000).

### Interest

The Group became a net borrower in 2013 following the acquisition of the Datapoint companies with a loan of £2.8m outstanding at the beginning of 2014, and in H1 2014 incurred a net interest charge of £46,000. Additional borrowings were secured to acquire Proximity in October 2014, with net borrowings at the beginning of 2015 increasing to £6.7m (30 June 2015: £8.8m) and the H1 2015 interest charge increasing to £139,000 as a consequence.

### Taxation

The effective tax rate for H1 2015 was particularly low at 13.7% (H1 2014: 21.1%), for reasons described below. Each of the Group companies is taxed at 20.25%, with the exception of Maintel International Limited, which is taxed at 12.5% (H1 2014: 21.5%; 12.5%). Certain recurring expenses that are disallowable for tax raise the underlying effective rate above this.

The tax charge in the period benefited from some adjustments, including (a) tax relief on the exercise of share options for which there is no income statement charge in the period (£62,000), (b) relief claimed on certain 2014 costs which were deemed disallowed in that period but are now allowed following further investigation (£71,000) and (c) the release of a historical provision no longer required (£65,000). The adjustments have been recognised pro rata in respect of the first six months.

The tax charge in the period includes a deferred tax charge relating to the tax losses of the Datapoint companies, whereby they do not currently pay corporation tax on their profits, but a tax asset in respect of the historic losses is charged to the income statement as the losses are used. This deferred tax charge in the period was £179,000 (H1 2014: £73,000) in relation to the brought forward losses.

### Dividends and adjusted earnings per share

An interim dividend for 2014 of 9.3p (£993,000) was paid on 3 October 2014 and a final dividend for 2014 of 11.6p per share (£1.2m) was paid on 1 May 2015.

As previously highlighted, it is the board's intention to progressively increase the percentage of adjusted earnings per share distributed as dividend to 50%, with this target to be reached with the final dividend for 2015. It is proposed to pay an interim dividend of 12.8p in respect of 2015 on 7 October to shareholders on the register at the close of business on 18 September, which is a 10% increase on the 2014 final dividend taking the Group's payout ratio as a percentage of adjusted earnings to 47%. The corresponding ex-dividend date will be 17 September. In accordance with accounting standards, this dividend is not accounted for in the financial statements for the period under review as it had not been committed as at 30 June 2015.

# Business review continued

## Consolidated statement of financial position

Net assets increased by £0.7m in H1 2015, to £5.7m.

Intangible assets are £1.1m less than at year end, this being the amortisation of the customer contract intangible.

The valuation of property, plant and equipment is £52,000 less than at 31 December 2014, with minimal capital expenditure in the period due to the imminent London and Dublin office moves referred to below and a depreciation charge of £0.1m.

Trade and other receivables have increased by £0.2m in the period, with an increase in trade receivables due to the high level of orders received in late H1 2015 compensated by a reduction in prepaid support costs, renewal of these being weighted towards H2 and therefore a higher level of prepayment occurring at year end than at half year.

Inventories have reduced by £50,000 due mainly to the results of the regular revaluation of the managed service stock; there was little movement in the stock held for resale.

Trade and other payables have reduced by £4.0m since the year end, the main element of this being the weighting of customer contract renewals to H2, particularly in Proximity, so that a higher level of deferred income is carried at December than at June. Although of different magnitude, this is the corollary of the third party support contract effect noted under receivables above. £0.5m of the reduction in payables relates to the December term loan repayment, not collected by the lender until January. In addition, trade payables were £1.0m lower at 30 June due to deferred payments at 31 December being paid in 2015 and a much reduced equivalent at 30 June.

Corporation tax liabilities have reduced by £0.4m due to a higher proportion of profit emanating from the Datapoint companies with their associated historical tax losses, the payment of Proximity's 2014 tax liability of £0.2m and the credits noted in the Taxation section above.

The deferred tax liability has decreased by £42,000 in the first half mainly as a result of a £220,000 credit to the income statement in relation to the intangibles amortisation, partially offset by a charge of £179,000 in relation to Datapoint's profits in the period.

### Intangible assets

The Group has two intangible asset categories: (i) an intangible asset represented by customer contracts and relationships acquired from third party companies, and (ii) goodwill relating to those acquisitions.

The intangible assets represented by purchased customer contracts and relationships were carried at £9.4m at the period end (end-2014: £10.5m). The intangible assets are subject to an amortisation charge of 17% of cost per annum in respect of managed service and maintenance contract relationships, and 14.2% per annum in respect of network services contracts and Maintel Mobile customer relationships, with £1.1m being amortised in H1 2015 (H1 2014: £0.7m), the increase attributable to the Proximity customer relationships acquired in October 2014.

Goodwill of £9.9m (31 December 2014: £9.9m) is carried in the consolidated statement of financial position, which is subject to an impairment test at each reporting date. No impairment has been charged to the consolidated statement of comprehensive income in H1 2015 (H1 2014: £Nil).

## Cash flow

The Group had net debt of £8.8m at 30 June 2015, compared with £6.7m at 31 December 2014, an explanation of the £2.1m increase being described below.

| | 6 months to 30 June 2015 £000 | 6 months to 30 June 2014 £000 | Year to 31 December 2014 £000 |
|---|---|---|---|
| Cash (consumed by)/generated from operating activities | (113) | 2,540 | 7,103 |
| Taxation | (761) | (572) | (1,049) |
| Capital expenditure less proceeds of sale | (49) | (33) | (81) |
| Finance cost | (139) | (46) | (133) |
| **Free cashflow** | (1,062) | 1,889 | 5,840 |
| Dividends | (1,243) | (961) | (1,954) |
| Acquisitions (net of cash acquired) | – | – | (8,468) |
| Proceeds from borrowings | – | – | 10,000 |
| Repayments of borrowings | (800) | (500) | (2,750) |
| Issue of new ordinary shares | 54 | – | 88 |
| (Decrease)/increase in cash and cash equivalents | (3,051) | 428 | 2,756 |
| Cash and cash equivalents at start of period | 3,347 | 544 | 544 |
| Exchange differences | 54 | – | 47 |
| Cash and cash equivalents at end of period | 350 | 972 | 3,347 |
| Bank borrowings (note 7) | (9,200) | (2,250) | (10,000) |
| Net debt | (8,850) | (1,278) | (6,653) |
| Adjusted EBITDA (note 4) | 3,552 | 2,996 | 6,407 |

# Business review continued

## **Cash flow** continued

£0.1m of cash was consumed by operating activities in the period, compared with £2.5m generated in the comparative period, the main elements being (a) the weighting of customer managed service invoicing in H2 2014, particularly in relation to Proximity as was highlighted in the annual report, such that cash was received by 31 December 2014 in respect of those customers, with the next invoicing not due until H2 2015 and the profit from this invoicing therefore not translating to cash in the first half, and (b) a tranche of trade payables at 31 December 2014 not paid until January 2015, with a much reduced equivalent amount at 30 June, resulting in a net £1.0m cash outflow in the period. It is anticipated that most of the managed service effect will reverse in the second half due to the cyclical nature of these billings, together with part of the customer payment effect.

The increase in the net debt position compared with June 2014 is a result of the borrowings acquired in October 2014 to fund the acquisition of Proximity.

## Property

Three of the Group's four main property leases have termination dates or break points in H2 2015:

- When acquired in October 2014, Datapoint's UK Brentford office was sparsely occupied due to the contraction of the business prior to Maintel's involvement with it. Post-acquisition, further rationalisation and some altered working practices meant that there was no rationale to retain the office and a break option was exercised with effect from 2 August 2015, saving approximately £550,000 per annum. The few residual occupants have relocated to the Webber Street offices.

- Notice has also been served in respect of Datapoint's (now renamed Maintel International Limited) Dublin office, with effect from 31 October 2015. A lease has been negotiated on new premises, saving approximately £40,000 per annum.

- The lease on Maintel's long term premises at Webber Street in Southwark will terminate at the end of 2015. A lease has been signed on new office space close to Webber Street, at an increased cost of £500,000 per annum reflecting not so much a premium rent payable on the new premises as the exceptionally economic rent paid historically and with the Brentford saving more than compensating. Negotiations are in progress to sublet part of the space, defraying an estimated £200,000 per annum. We are currently looking for economic space to relocate our stores facility from Webber Street at the end of the year.

Broadly, excluding a sublet of the London premises, the 2016 property costs will be slightly less than the run rate at January 2015, although 2015 financial year will see duplicate London premises costs as we were required to commit to the new lease from 1 July in order to secure it and fit it out; the duplicate costs will be highlighted in the full year numbers as being exceptional.

Proximity's Thatcham premises are significantly less expensive than the new London offices and are located in the M4 "technology corridor", which should be a productive recruiting ground, at costs below Maintel's traditional central London salary bands. Whilst the core Maintel business will remain focused in London, there is space to grow in Thatcham and whilst we do not intend to actively relocate employees to Thatcham, we will take the opportunity to do so as and when recruiting for new or replacement employees.

### Brand

This is the first shareholder communication to sport the new Maintel brand launched in August 2015, which has been developed to support the Group's re-positioning as a complete end-to-end communication solutions provider to businesses, delivered either on-premises or cloud-based.

### Outlook

After a slow start to the year affected by the election, the first half finished strongly with record sales over the May and June period. The second half is expected to be stronger, our confidence supported by having a large backlog of new orders and continued strong sales into H2.

The pipeline continues to grow and our success in being appointed as an approved supplier on the new network services public sector framework agreement will offer us the opportunity to tender for business not previously available to us.

With regards to acquisitions, our immediate focus remains on completing the integration of Proximity and our move to new premises before the year end, however we remain alert to opportunities as they arise.

On behalf of the board

**E Buxton**
Chief Executive

7 September 2015

# Consolidated statement of comprehensive income
## for the six months ended 30 June 2015 (unaudited)

| | note | 6 months to 30 June 2015 £000 (unaudited) | 6 months to 30 June 2014 £000 (unaudited) | Year to 31 December 2014 £000 (audited) |
|---|---|---|---|---|
| **Revenue** | 2 | 24,750 | 20,662 | 41,890 |
| Cost of sales | | 15,268 | 13,285 | 26,292 |
| **Gross profit** | | 9,482 | 7,377 | 15,598 |
| Administrative expenses | | | | |
| Intangibles amortisation | | 1,118 | 667 | 1,472 |
| Exceptional costs | 6 | 98 | 78 | 809 |
| Other administrative expenses | | 6,033 | 4,472 | 9,375 |
| | | 7,249 | 5,217 | 11,656 |
| **Operating profit** | 2 | 2,233 | 2,160 | 3,942 |
| Finance income | | – | – | (2) |
| Financial expense | | (139) | (46) | (135) |
| **Profit before taxation** | | 2,094 | 2,114 | 3,809 |
| Taxation | | 287 | 446 | 865 |
| **Profit and total comprehensive income attributable to owners of the parent** | | 1,807 | 1,668 | 2,944 |
| **Earnings per share** | | | | |
| Basic | 3 | 16.8p | 15.6p | 27.6p |
| Diluted | 3 | 16.6p | 15.4p | 27.2p |

# Consolidated statement of financial position
## at 30 June 2015 (unaudited)

| | note | 30 June 2015 £000 (unaudited) | 30 June 2014 £000 (unaudited) | 31 December 2014 £000 (audited) |
|---|---|---|---|---|
| **Non current assets** | | | | |
| Intangible assets | | 19,249 | 10,346 | 20,367 |
| Property, plant and equipment | | 262 | 233 | 314 |
| | | 19,511 | 10,579 | 20,681 |
| **Current assets** | | | | |
| Inventories | | 1,386 | 1,205 | 1,436 |
| Trade and other receivables | | 12,578 | 9,371 | 12,419 |
| Cash and cash equivalents | | 350 | 972 | 3,347 |
| | | 14,314 | 11,548 | 17,202 |
| **Total assets** | | 33,825 | 22,127 | 37,883 |
| **Current liabilities** | | | | |
| Trade and other payables | | 19,353 | 15,598 | 23,309 |
| Current tax liabilities | | 396 | 556 | 828 |
| **Total current liabilities** | | 19,749 | 16,154 | 24,137 |
| **Non current liabilities** | | | | |
| Deferred tax liability | | 1,200 | 105 | 1,242 |
| Borrowings | 7 | 7,200 | 1,250 | 7,500 |
| **Total net assets** | | 5,676 | 4,618 | 5,004 |
| **Equity** | | | | |
| Issued share capital | | 108 | 107 | 107 |
| Share premium | | 1,169 | 1,028 | 1,116 |
| Capital redemption reserve | | 31 | 31 | 31 |
| Translation reserve | | 101 | 32 | 47 |
| Retained earnings | | 4,267 | 3,420 | 3,703 |
| **Total equity** | | 5,676 | 4,618 | 5,004 |

# Consolidated statement of changes in equity
## for the six months ended 30 June 2015 (unaudited)

| | Share capital £000 | Share premium £000 | Capital redemption reserve £000 | Translation reserve £000 | Retained earnings £000 | Total £000 |
|---|---|---|---|---|---|---|
| At 1 January 2014 | 107 | 1,028 | 31 | – | 2,713 | 3,879 |
| Profit and total comprehensive income | – | – | – | – | 1,668 | 1,668 |
| Foreign currency translation differences | – | – | – | 32 | – | 32 |
| Dividend | – | – | – | – | (961) | (961) |
| At 30 June 2014 | 107 | 1,028 | 31 | 32 | 3,420 | 4,618 |
| Profit and total comprehensive income | – | – | – | – | 1,276 | 1,276 |
| Foreign currency translation differences | – | – | – | 15 | – | 15 |
| Dividend | – | – | – | – | (993) | (993) |
| Issue of new ordinary shares | – | 88 | – | – | – | 88 |
| At 31 December 2014 | 107 | 1,116 | 31 | 47 | 3,703 | 5,004 |
| Profit and total comprehensive income | – | – | – | – | 1,807 | 1,807 |
| Foreign currency translation differences | – | – | – | 54 | – | 54 |
| Dividend | – | – | – | – | (1,243) | (1,243) |
| Issue of new ordinary shares | 1 | 53 | – | – | – | 54 |
| At 30 June 2015 | 108 | 1,169 | 31 | 101 | 4,267 | 5,676 |

# Consolidated statement of cash flows
## for the six months ended 30 June 2015 (unaudited)

| | 6 months to 30 June 2015 £000 (unaudited) | 6 months to 30 June 2014 £000 (unaudited) | Year to 31 December 2014 £000 (audited) |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before taxation | 2,094 | 2,114 | 3,809 |
| Adjustments for: | | | |
| Intangibles amortisation | 1,118 | 667 | 1,472 |
| Profit on sale of fixed asset | (2) | (2) | (1) |
| Depreciation charge | 103 | 91 | 184 |
| Interest received | – | – | (2) |
| Interest payable | 139 | 46 | 135 |
| **Operating cash flows before changes in working capital** | 3,452 | 2,916 | 5,597 |
| Decrease/(increase) in inventories | 50 | (360) | (94) |
| (Increase)/decrease in trade and other receivables | (159) | (410) | 1,403 |
| (Decrease)/increase in trade and other payables | (3,456) | 394 | 197 |
| **Cash (consumed by)/generated from operating activities** | (113) | 2,540 | 7,103 |
| Tax paid | (761) | (572) | (1,049) |
| **Net cash flows from operating activities** | (874) | 1,968 | 6,054 |
| **Investing activities** | | | |
| Purchase of plant and equipment | (51) | (40) | (87) |
| Proceeds from disposal of plant and equipment | 2 | 7 | 6 |
| Purchase price in respect of business combination | – | – | (11,994) |
| Net cash acquired with subsidiary undertaking | – | – | 3,526 |
| | – | – | (8,468) |
| Interest received | – | – | 2 |
| **Net cash flows from investing activities** | (49) | (33) | (8,547) |
| **Financing activities** | | | |
| Proceeds from borrowings | – | – | 10,000 |
| Repayment of borrowings | (800) | (500) | (2,750) |
| Interest payable | (139) | (46) | (135) |
| Issue of new ordinary shares | 54 | – | 88 |
| Equity dividends paid | (1,243) | (961) | (1,954) |
| **Net cash flows from financing activities** | (2,128) | (1,507) | 5,249 |
| **Net (decrease)/increase in cash and cash equivalents** | (3,051) | 428 | 2,756 |
| Cash and cash equivalents at start of period | 3,347 | 544 | 544 |
| Exchange differences | 54 | – | 47 |
| **Cash and cash equivalents at end of period** | 350 | 972 | 3,347 |

# Notes to the interim financial information

## 1. Basis of preparation

The financial information in these 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 of the disclosures that would be required under IFRSs. The accounting policies applied by the Group in this financial information are the same as those applied by the Group in its financial statements for the year ended 31 December 2014 and which will form the basis of the 2015 financial statements.

A number of amendments to and interpretations of existing standards have become effective for periods beginning on 1 January 2015, but no new standards; none of these is expected to materially affect the Group.

The Group's results are not materially affected by seasonal variations.

The comparative financial information presented herein for the year ended 31 December 2014 does not constitute full statutory accounts for that period. The Group's annual report and accounts for the year ended 31 December 2014 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 2015 and 30 June 2014 is unaudited but has been subject to a review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, ''Review of Interim Financial Information Performed by the Independent Auditor of the Entity''.

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 Datapoint business is reported under the managed service and technology division as it is managed and measured as part of that division; Proximity is similarly reported apart from £264,000 of revenue and its associated margin which relates to the network services segment.

**Six months to 30 June 2015 (unaudited)**

| | Managed service and technology £000 | Network services £000 | Mobile £000 | Central/ inter-company £000 | Total £000 |
|---|---|---|---|---|---|
| **Revenue** | 19,180 | 4,267 | 1,430 | (127) | 24,750 |
| Operating profit before customer relationship intangibles amortisation and exceptional costs | 2,668 | 527 | 258 | (4) | 3,449 |
| Customer relationship intangibles amortisation | (126) | – | – | (992) | (1,118) |
| Exceptional costs | (98) | – | – | – | (98) |
| **Operating profit** | 2,444 | 527 | 258 | (996) | 2,233 |
| Interest | | | | | (139) |
| Profit before taxation | | | | | 2,094 |
| Taxation | | | | | (287) |
| Profit after taxation | | | | | 1,807 |

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

Intercompany trading consists of telecommunications services, and recharges of sales, engineering and rent costs, £86,000 (H1 2014: £43,000) attributable to the managed service and technology segment, £38,000 (H1 2014: £39,000) to the network services segment and £3,000 (H1 2014: £4,000) to the mobile segment.

| Other | Managed service and technology £000 | Network services £000 | Mobile £000 | Central/ inter-company £000 | Total £000 |
|---|---|---|---|---|---|
| Capital expenditure | 51 | – | – | – | 51 |
| Depreciation | 103 | – | – | – | 103 |

# Notes to the interim financial information continued

## 2. Segmental information continued

### Six months to 30 June 2014 (unaudited)

| | Managed service and technology £000 | Network services £000 | Mobile £000 | Central/ inter-company £000 | Total £000 |
|---|---|---|---|---|---|
| **Revenue** | 15,942 | 3,448 | 1,358 | (86) | 20,662 |
| Operating profit before customer relationship intangibles amortisation and exceptional costs | 1,995 | 535 | 386 | (11) | 2,905 |
| Customer relationship intangibles amortisation | (126) | (24) | – | (517) | (667) |
| Exceptional costs | (78) | – | – | – | (78) |
| **Operating profit** | 1,791 | 511 | 386 | (528) | 2,160 |
| Interest (net) | | | | | (46) |
| Profit before taxation | | | | | 2,114 |
| Taxation | | | | | (446) |
| Profit after taxation | | | | | 1,668 |
| **Other** | | | | | |
| Capital expenditure | 40 | – | – | – | 40 |
| Depreciation | 91 | – | – | – | 91 |

### Year ended 31 December 2014 (audited)

| | Managed service and technology £000 | Network services £000 | Mobile £000 | Central/ inter-company £000 | Total £000 |
|---|---|---|---|---|---|
| **Revenue** | 31,993 | 7,156 | 2,907 | (166) | 41,890 |
| Operating profit before customer relationship intangibles amortisation and exceptional costs | 4,418 | 1,027 | 764 | 14 | 6,223 |
| Customer relationship intangibles amortisation | (252) | (28) | – | (1,192) | (1,472) |
| Exceptional costs | (312) | – | – | (497) | (809) |
| **Operating profit** | 3,854 | 999 | 764 | (1,675) | 3,942 |
| Interest (net) | | | | | (133) |
| Profit before taxation | | | | | 3,809 |
| Taxation | | | | | (865) |
| Profit after taxation | | | | | 2,944 |
| **Other** | | | | | |
| Capital expenditure | 87 | – | – | – | 87 |
| Depreciation | 183 | – | 1 | – | 184 |

Revenue is wholly attributable to the principal activities of the Group and other than sales of £3,291,000 to EU countries and £378,000 to the rest of the world, arises within the United Kingdom.

Intercompany trading consists of telecommunications services, and recharges of sales, engineering and rent costs, £81,000 attributable to the managed service and technology segment, £79,000 to the network services segment and £6,000 to the mobile segment.

# Notes to the interim financial information continued

## 3. Earnings per share

Earnings per share is calculated by dividing the profit 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 2015 £000 (unaudited) | 6 months to 30 June 2014 £000 (unaudited) | Year to 31 December 2014 £000 (audited) |
|---|---|---|---|
| Earnings used in basic and diluted EPS, being profit after tax | 1,807 | 1,668 | 2,944 |
| Adjustments: | | | |
| Amortisation of intangibles | 1,118 | 667 | 1,472 |
| Exceptional costs (note 6) | 98 | 78 | 809 |
| Tax relating to above adjustments | (264) | (167) | (396) |
| Deferred tax charge on Datapoint profits | 179 | – | 161 |
| Adjusted earnings used in adjusted EPS | 2,938 | 2,246 | 4,990 |

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

Datapoint has brought forward tax losses, so that it will pay no tax in respect of its 2015 profits. On acquisition, however, 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.

| | 6 months to 30 June 2015 Number 000s | 6 months to 30 June 2014 Number 000s | Year to 31 December 2014 Number 000s |
|---|---|---|---|
| Weighted average number of ordinary shares of 1p each | 10,739 | 10,675 | 10,676 |
| Potentially dilutive shares | 140 | 186 | 165 |
| | 10,879 | 10,861 | 10,841 |
| *Earnings per share* | | | |
| Basic | 16.8p | 15.6p | 27.6p |
| Basic and diluted | 16.6p | 15.4p | 27.2p |
| Adjusted – basic but after the adjustments in the table above | 27.4p | 21.0p | 46.7p |
| Adjusted – basic and diluted after the adjustments in the table above | 27.0p | 20.7p | 46.0p |

In calculating diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential 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 2015 £000 (unaudited) | 6 months to 30 June 2014 £000 (unaudited) | Year to 31 December 2014 £000 (audited) |
|---|---|---|---|
| Profit before tax | 2,094 | 2,114 | 3,809 |
| Interest payable | 139 | 46 | 133 |
| Depreciation of property, plant and equipment | 103 | 91 | 184 |
| Amortisation of customer relationship intangibles | 1,118 | 667 | 1,472 |
| EBITDA | 3,454 | 2,918 | 5,598 |
| Exceptional costs | 98 | 78 | 809 |
| Adjusted EBITDA | 3,552 | 2,996 | 6,407 |

## 5. Dividends

| | 6 months to 30 June 2015 £000 (unaudited) | 6 months to 30 June 2014 £000 (unaudited) | Year to 31 December 2014 £000 (audited) |
|---|---|---|---|
| *Dividends paid* | | | |
| Final 2013, paid 24 April 2014 | | | |
| – 9.0p per share | – | 961 | 961 |
| Interim 2014, paid 3 October 2014 | | | |
| – 9.3p per share | – | – | 993 |
| Final 2014, paid 1 May 2015 | | | |
| – 11.6p per share | 1,243 | – | – |
| | 1,243 | 961 | 1,954 |

The directors propose the payment of an interim dividend for 2015 of 12.8p (2014: 9.3p) per ordinary share, payable on 7 October 2015 to shareholders on the register at 18 September 2015. The cost of the proposed dividend, based on the number of shares in issue as at 7 September 2015, is £1.4m (2014: £993,000).

# Notes to the interim financial information continued

## 6. Exceptional costs

On 24 October 2014 the Company acquired the entire issued share capital of Proximity Communications Limited. Legal and professional costs of £497,000 were incurred in 2014 in relation to the acquisition of Proximity, together with redundancy costs of £312,000 as a result of synergies achieved following the acquisition and that of Datapoint the previous year. Further redundancy-related costs of £98,000 were incurred in H1 2015 and these costs have also been treated as exceptional in the income statement as they are not normal operating expenses.

## 7. Borrowings

| | 30 June 2015 £000 (unaudited) | 30 June 2014 £000 (unaudited) | 31 December 2014 £000 (audited) |
|---|---|---|---|
| Non-current bank loan – secured | 7,200 | 1,250 | 7,500 |
| Current bank loan – secured | 2,000 | 1,000 | 2,500 |
| | 9,200 | 2,250 | 10,000 |

On 24 October 2014 the Group entered into a £13.0m facility agreement with Lloyds Bank plc to support the acquisition of Proximity, replacing its previous facilities with Lloyds. This was split between a £6.0m term loan and a £7.0m revolving credit facility, the latter incorporating a £1.0m overdraft facility.

The term loan – shown above – is repayable in quarterly instalments over a 3 year period. The revolving credit facility is due for renewal on 24 October 2017 and the overdraft facility is due for renewal on 1 November 2015.

The current element of the bank loan of £2.0m (30 June 2014: £1.0m) is included within trade and other payables.

# Independent review report to Maintel Holdings Plc

## Introduction

We have been engaged by the company to review the financial information in the interim results for the six months ended 30 June 2015 which comprises the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, and explanatory notes.

We have read the other information contained in the interim results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

## Directors' responsibilities

The interim results, including the financial information contained therein, are the responsibility of and have been approved by the directors. The directors are responsible for preparing the interim results in accordance with the rules of the London Stock Exchange for companies trading securities on AIM which require that the half-yearly report be presented and prepared in a form consistent with that which will be adopted in the company's annual accounts having regard to the accounting standards applicable to such annual accounts.

## Our responsibility

Our responsibility is to express to the company a conclusion on the financial information in the interim results based on our review.

Our report has been prepared in accordance with the terms of our engagement to assist the company in meeting the requirements of the rules of the London Stock Exchange for companies trading securities on AIM and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

# Independent review report to Maintel Holdings Plc continued

## Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, ''Review of Interim Financial Information Performed by the Independent Auditor of the Entity'', issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the financial information in the interim results for the six months ended 30 June 2015 is not prepared, in all material respects, in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

**BDO LLP**
Chartered Accountants and Registered Auditors
London

7 September 2015

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

61 Webber Street
London
SE1 0RF
www.maintel.co.uk