Interim results for the six months to 30 June 2020

Maintel Holdings Plc

2020

maintel

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Introduction from our CEO, Ioan MacRae

"Although the impact of COVID-19 in Q2 has meant that the first half of the year has been challenging, Maintel remains firmly on track with its transition to a cloud and managed services business, as evidenced by the continued increase in contracted cloud seats during the period and the building of a strong pipeline of both new and existing customers. The first half of 2019 was a particularly strong comparator, as a result of high levels of work in progress at the end of 2018, which unwound in H1 2019. In addition, the loss of four legacy support contracts during H2 2019, as previously announced, impacted H1 2020 in full, and contributed to the reduction in revenue in the period.

Notwithstanding the above, performance in Q1 was positive, with revenue and cloud contracts in line with expectations and EBITDA tracking ahead. Revenue in Q2 was depressed by COVID-19, with projects being delayed and new contracts not being awarded. However, close control of costs in Q2 and the use of government business support schemes ensured that the impact on EBITDA for H1 2020 was minimised. Decisive and prudent actions taken by the business to preserve liquidity and maintain working capital resulted in particularly strong cash conversion in the period and a significant reduction in net debt from the closing position at 31 December 2020.

As part of the transition to a cloud and managed services business, and in line with cost reduction initiatives, during H1 we completed a re-organisation of the senior leadership team which removed over £3m of annualised cost, improving alignment across the teams to focus on a vertical sales approach, customer satisfaction and improved delivery of services and solutions. This will deliver a £1.5m reduction in the cost base in H2 2020.

I am positive about the Group's prospects in H2. We are now seeing good momentum in the number of projects being implemented and sales orders are increasing across both the public and private sectors. The cloud pipeline is very healthy and I am confident that we will close the year with contracted cloud seats in excess of 100,000, demonstrating the strong progress we are continuing to make in our transition to a cloud and managed services business."

Ioan MacRae, CEO

↓ **(17)%**	↓ **(24)%**	↑ **21%**	↑ **5%**
£53.4m	**£4.9m**	**80,000**	**74%**
Group revenue (2019: £64.5m)	Group adjusted EBITDA (2019: £6.5m)	Contracted Cloud Seats (2019: 66,000)	IRecurring Revenue (2019: 69%)

Highlights

Interim results for the six months to 30 June 2020

Maintel Holdings Plc, a leading provider of cloud and managed communication services, announces its interim results for the six months to 30 June 2020.

Financial headlines

- Revenue reduced 17% to £53.4m (H1 2019: £64.5m) with recurring revenue at 74% (H1 2019: 69%)
- Gross margin increased to 30% (H1 2019: 29%)
- Adjusted EBITDA[1] reduced 24% to £4.9m (H1 2019: £6.5m)
- Adjusted earnings per share [2] 15.8p (H1 2019: 30.0p), a decrease of 47%
- Reported cash conversion of 174% of adjusted EBITDA[3] (H1 2019: 98%), including a £2.9m working capital benefit arising from HMRC VAT deferment program. Excluding this benefit underlying cash conversion was 114%
- Net debt at £21.0m [4] reduced from £25.7m at 31 December 2019

Operational highlights

- Maintel's successful transition to a cloud and managed services business continues, with revenues from cloud and software customers now at £13.4m, 25% of revenue (H1 2019: 20% of revenue)
- Cloud UCaaS seats increased 21% to c.80,000 (H1 2019: c.66,000), with strong pipeline developed to reach over 100,000 contracted seats by year end 2020
- Continued investment into strategic and higher growth areas with new product launches during the period including a new portal for ICON customers and ICON support for Microsoft Teams
- Re-organisation and right-sizing of business implemented, including vertically aligned sales team and reduction in headcount across all levels of organisation with full benefit of cost savings to be realised in H2

Key Financial Information

Unaudited results for 6 months ended 30 June:	2020	2019	(Decrease)
Group revenue	**£53.4m**	£64.5m	(17)%
(Loss)/profit before tax	**(£0.8m)**	£1.5m	-
Adjusted profit before tax [5]	**£3.2m**	£4.9m	(35)%
Basic (loss)/earnings per share	**(6.4p)**	10.6p	-
Adjusted earnings per share [2]	**15.8p**	30.0p	(47)%
Interim dividend per share proposed	**Nil**	15.1p	-

Notes

[1] Adjusted EBITDA is EBITDA of £4.1m (2019: £6.4m), adjusted for exceptional items and share based payments (note 5).

[2] Adjusted earnings per share is basic loss per share of (6.4) p (H1 2019: earnings of 10.6p), adjusted for acquired intangibles amortisation, exceptional items and share based payments (note 4). The weighted average number of shares in the period was 14.3m (H1 2019:14.3m).

[3] Cash conversion calculated as adjusted EBITDA plus working capital to adjusted EBITDA.

[4] Interest bearing debt (excluding issue costs of debt) minus cash.

[5] Adjusted profit before tax of £3.2m (H1 2019: £4.9m) is basic (loss)/profit before tax, adjusted for intangibles amortisation, exceptional items and share based payments.

About us

Our company

Maintel is a cloud and managed services company, focused on communications. Our people become trusted advisors for our clients, creating value by helping them improve their business through digital transformation.

How we help our customers

At Maintel, we help our customers to improve their business through digital transformation:

- we make their people more effective and productive with digital workplace technology
- we help them to acquire, develop and retain their own customers through customer experience technology
- we ensure they can always connect to their applications and their data through secure connectivity

Operational Highlights

Cloud UCaaS seats increased 21% to c80,8000

Cloud and software customers now represent 25% of all revenues, up 5% from 2019

Continued investment in strategic growth areas

Focussed on UK enterprise and mid-market customers in both the public & private sectors

Company

580 people

5 UK locations

Top tier accreditations with Avaya, Cisco, Extreme & Mitel

Chairman's statement

"Maintel has played a key role during the pandemic to date in ensuring that hospitals, care homes, local authorities and other key front-line services have been able to function to maximum potential. We have also enabled hundreds of thousands of UK office workers to transition smoothly and efficiently to homeworking."

John Booth
Chairman

Despite a challenging Q2 as a result of the COVID-19 pandemic, Maintel has continued its transformation into a cloud and managed services provider with contracted cloud seats increasing 21% compared to the same period last year and a strong pipeline underpinning our ambition to take total contracted seats to over 100,000 by the year-end."

Maintel has played a key role during the pandemic to date in ensuring that hospitals, care homes, local authorities and other key front-line services have been able to function to maximum potential. We have also enabled hundreds of thousands of UK office workers to transition smoothly and efficiently to homeworking.

While there was some significant additional business activity in late March and early April supporting the transition to remote working, the hard lockdown for most of Q2 suppressed revenue for the quarter overall as the majority of our customers put major projects on hold for good, practical reasons. These projects have not been cancelled and since the period-end Maintel has seen a rapid increase in activity with most projects being reignited. These project delays, combined with the loss of some managed services contracts in H2 2019 as previously announced, contributed to a decline in revenue of 17% to £53.4m (H1 2019: £64.5m). Adjusted EBITDA was down 24% to £4.9m (H1 2019; £6.5m).

Cash generation was very strong in the period with a reported cash conversion of 174% of adjusted EBITDA (H1 2019: 98%) which included a £2.9m working capital benefit arising from the HMRC VAT deferment programme. Excluding this benefit, the underlying cash conversion was 114%. This resulted in net debt at the 30 June 2020 of £21.0m, reduced from £25.7m at 31 December 2019.

Throughout the period we have continued to invest in our portfolio, launching three significant products and services including ICON support for Microsoft Teams, an AI-driven chatbot for contact centres and a new portal to enable customers to manage their ICON cloud services. We will maintain this pace of innovation for the rest of the year.

Our managed services base has declined by 19% compared to H1 2019 driven by the contract losses reported in 2019 combined with the churn of some smaller contracts in early 2020, some price erosion caused

by customers downsizing their estates and by clients transitioning to cloud. This base reduction is disappointing and remains an area of key focus for the Board and the management team.

Technology revenue, as a result of the project delays due to the pandemic lockdown and a lower level of work in progress compared to H1 2019, declined by 29% to £14.0m(H1 2019: £19.9m).

Although there was a reduction of 9% in our Network Services revenue, Data reported an underlying growth of 3% with growth rates subdued due to the delay in implementation of roll- outs in the general business interruption as a result of COVID-19. Our mobile division performed well with an increase of 26% over the same period in 2019 to £3.3m.

As announced in June, the Board made the difficult decision to suspend dividends until the full impact and extent of the pandemic was better understood. The Board will review this decision as soon as conditions improve and financial performance permits.

As also announced in June, Maintel's Chief Operating Officer, Kevin Stevens, and Group Sales Director, Stuart Legg left the Company on 30th June 2020 by mutual agreement. I would like to reiterate my thanks to both Kevin and Stuart for their contribution to the business over many years and wish them both well for the future.

We appointed our Chief Technology Officer, Dan Davies, to the Board earlier this month in recognition of his contribution to the business to date and the importance his role will play in positioning and building Maintel for the future. I offer him a warm welcome.

On behalf of the Board, I would like to thank all our staff for their continued hard work and commitment to our customers and to the company through an unprecedentedly challenging period.

J D S Booth
Chairman
14 September 2020

Business review

Results for the 6 month period to 30 June 2020

Group revenue declined by 17% in the period to £53.4m (H1 2019: £64.5m), driven primarily by project delays as a result of the uncertainty arising from the pandemic and the full impact of the previously announced loss of certain managed services contracts in H2 2019.

Recurring revenue as a % of total revenue (being all revenue excluding one-off projects) increased to 74% (H1 2019: 69%).

An adjusted profit before tax (adjustments explained below) of £3.2m was generated (H1 2019: £4.9m).

On an unadjusted basis, the Group generated a loss before tax of £0.8m (H1 2019: profit of £1.5m) and a loss per share of 6.4p (H1 2019: earnings per share of 10.6p). This includes £1.0m of exceptional costs (H1 2019: £12,000 credit) (refer note 7) and intangibles amortisation of £3.2m (H1 2019: £3.3m).

Adjusted earnings per share (EPS) decreased by 47% to 15.8p (H1 2019: 30.0p) based on a weighted average number of shares in the period of 14.3m (H1 2019: 14.3m).

	6 months to 30 June 2020 £000	**6 months to 30 June 2019 £000**	**(Decrease)**
Revenue	**53,395**	64,504	(17)%
(Loss) / profit before tax	**(799)**	1,549	
Add back intangibles amortisation	**3,209**	3,326	
Exceptional items (note 7)	**1,044**	(12)	
Share based remuneration	**(224)**	69	
Adjusted profit before tax	**3,230**	4,932	(35)%
Adjusted EBITDA(a)	**4,947**	6,472	(24)%
Basic earnings / (loss) per share	**(6.4)p**	10.6p	-
Diluted	**(6.4)p**	10.4p	-
Adjusted earnings per share(b)	**15.8p**	30.0p	(47)%
Diluted	**15.8p**	29.5p	(46)%

(a) Adjusted EBITDA is EBITDA of £4.1m (H1 2019: £6.5m) less exceptional items and share based remuneration (note 5).

(b) Adjusted profit after tax divided by weighted average number of shares (note 4).

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 Contact (Contact Centre 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 divisions (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.

Revenue analysis	6 months to 30 June 2020 £000	6 months to 30 June 2019 £000	(Decrease) / increase
Managed services related	**18,264**	22,474	(19)%
Technology(c)	**14,028**	19,859	(29)%
Managed services and technology division	**32,292**	42,333	(24)%
Network services division	**17,797**	19,539	(9)%
Mobile division	**3,306**	2,632	26%
Total Group	**53,395**	64,504	(17)%

(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, 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 2020 £000	6 months to 30 June 2019 £000	(Decrease)
Divisional revenue	**32,292**	42,333	(24)%
Divisional gross profit	**9,017**	11,396	(21)%
Gross margin (%)	**28%**	27%	

Business review
continued

Revenue in this division decreased by 24% to £32.3m, and gross profit by 21% to £9.0m as a result of the lower revenues. Gross margins improved slightly to 28% as a result of contract mix.

Although Maintel did see revenue acceleration for certain technologies as customers invested in remote working solution and disaster recovery capabilities, project delays as a result of the COVID-19 related lockdown during Q2, combined with a lower level of project work in progress compared to the prior year, led to technology revenues declining by 29% in the period to £14.0m (H1 2019: £19.9m). We are though now seeing an increase in activity, with some of these projects restarting post period end.

Our managed services base declined by 19% in the period, driven by the contract losses reported in 2019 alongside a degree of price erosion from some customers downsizing their estates and some customers transitioning from on-premise into cloud-based platforms where traditional "support" is replaced by a longer term, recurring managed services element, which is reported in network services. In addition, the lockdown and associated increase in home working, led to lower cost-per-copy revenues within our document solutions business.

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 2020 £000	6 months to 30 June 2019 £000	(Decrease) / increase
Call traffic	**2,167**	2,551	(15)%
Line rental	**3,759**	4,566	(18)%
Data connectivity services	**11,534**	12,245	(6)%
Other	**337**	177	90%
Total division	**17,797**	19,539	(9)%
Division gross profit	**5,390**	6,206	(13)%
Gross margin (%)	**30%**	32%	

Network services revenue decreased by 9% in the period, with gross margins reducing to 30% from 32% in the same period last year, which was helped by some backbilling.

Traditional fixed line revenues (shown above under call traffic and line rental) decreased by 14% to £6.3m (H1 2019: £7.3m), 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 6% 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 3% in data. Rollout of contracted cloud seats in H1, and therefore the rate of growth in data revenues, has been affected by delays resulting from the COVID-19 uncertainty and we enter H2 with a high level of work in progress, the majority of which we expect to deploy in Q3, driving further growth in cloud services revenues.

In addition, our SD-WAN proposition, which was launched in FY19, has been instrumental in securing both new WAN business and contract extensions within our existing network base.

ICON cloud services

Maintel has continued to grow our cloud services for both unified communications and contact centre applications – with over 80,000 contracted cloud seats (up 21% on H1 2019) and revenues from cloud and software customers now at £13.4m, representing 25% of revenue (H1 2019: 20% of revenue). Q2 saw a hiatus in new deployments due to the COVID-19 situation, but since the period-end we have seen a return to cloud growth and confidently expect to reach over 100,000 contracted seats before the end of 2020.

We continue to invest in our growth areas of cloud and software and throughout the period have continued to develop and launch new products and services including a voice solution for Microsoft Teams (ICON Teams Connector), an AI based chat service for contact centres (ICON Contact AI Chatbot) and ICON Portal – the new tool for customers and channel partners to interact across all their ICON services. Since the period-end we have launched two further services: ICON Secure Homeworker, a suite of services providing enterprise grade connectivity and security to remote workers, and Callmedia CX Now – Contact Centre as a Service. This continued investment in our future demonstrates our commitment to driving our cloud revenues.

Business review
continued

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 2020 £000	6 months to 30 June 2019 £000	Increase
Revenue	**3,306**	2,632	26%
Gross profit	**1,450**	1,285	13%
Gross margin (%)	**44%**	49%	
Number of customers	**751**	945	(21)%
Number of connections	**31,711**	31,528	1%

Revenue increased by 26% to £3.3m (H1 2019: £2.6m) with gross profits increasing by 13% , albeit at an overall lower blended margin of 44% compared to H1 19. Average revenue per connection grew by 25% from H1 2019.

Maintel's mobile go-to-market proposition continues to focus on the mid-market and low end enterprise segments where our full managed service wrap is particularly well suited, with a proven ability to win in this space due to a gap between SME focused providers (1-50 mobile connections) and the mobile networks (2,000 connections plus).

The mobile division had a strong H1 with three notable wins in the period for a rail industry customer and a national standards institute and under Maintel's Wholesale Mobile offering a significant retail customer.

Our Wholesale offer continues to be an attractive alternative and growing route to market when either the MNOs cannot offer favourable commercial terms or when the customer is driving a low OPEX with no hardware requirements.

The pipeline for Mobile is healthy and we expect to grow revenues further as we move through H2.

Overheads

From April, the Executive team focused on cost control and preserving working capital as the impact and duration of the pandemic was unknown. An average of 37 staff members were furloughed under the Government's Job Retention Scheme and a reduced working week was implemented for many of Maintel's non-key workers during Q2. These actions combined delivered £1.5m of savings in the period. As of Q3, all staff are back on a full working week and only a very small number of staff remain on furlough.

In addition, by the end of H1the Group completed a programme of re-organisation and right sizing of the business to facilitate our continued transition to a cloud and managed services business. This programme will deliver c. £3m of annualised savings in the future. It is expected that the programme will deliver approximately £1.5m of cost savings in H2 2020.

Dividends

An interim dividend for 2019 of 15.1p (£2.1m) was paid on 4 October 2019. No final dividend for 2019 was declared, leaving the total dividend payment for 2019 at 15.1p.

In line with the announcement made on 1 June 2020, the Board has made the decision to pause dividend payments until there is more certainty around the ongoing impact of the pandemic. As such, the Board will not declare an interim dividend for 2020.

Cash flow

The Group had net debt (excluding IFRS 16 liabilities and issue costs of debt) of £21.0m at 30 June 2020, compared with £25.7m at 31 December 2019, a reduction of £4.7m in the period.

Business review
continued

	6 months to 30 June 2020 £000	6 months to 30 June 2019 £000
Cash generated by operating activities	**7,546**	6,052
Capital expenditure	**(1,100)**	(1,070)
Finance cost (net)	**(542)**	(617)
Issue costs of debt	**(53)**	-
Free cashflow	**5,851**	4,365
Dividends	**-**	(2,790)
Proceeds from borrowings	**4,500**	2,000
Repayment of borrowings	**(9,000)**	-
Lease liability repayments	**(596)**	(414)
Payments in respect of business combination	**(548)**	(142)
Issue of ordinary shares	**-**	235
Increase in cash and cash equivalents	**207**	3,254
Cash and cash equivalents at start of period	**(3,696)**	(3,988)
Exchange differences	**25**	-
Cash and cash equivalents at end of period	**(3,464)**	(734)
Bank borrowings	**(17,500)**	(23,500)
Net debt excluding issue costs of debt	**(20,964)**	(24,234)
Adjusted EBITDA (note 5)	**4,947**	6,472

The Group generated £7.5m of cash from operating activities (H1 2019: £6.1m), aided by a £3.6m working capital benefit in the period (H1 2019: working capital consumption £0.2m), which included a £2.9m benefit arising from HMRC VAT deferment program. Excluding this benefit, cash generation was underpinned by a strong cash conversion rate of 114% of adjusted EBITDA to operating cash flow.

Despite the uncertainty in the market as a result of the COVID-19 situation, our cash collections have been strong, and the aging profile of our debtor ledger has improved since year end FY19 with no bad debts of note in the period.

Capital expenditure outlay of £1.1m in the period (H1 2019: £1.1m) was driven by our ongoing investment in our ICON cloud platforms and expansion of services and solutions to our customers.

No dividend was paid in the period (H1 2019: £2.8m).

COVID-19

As reported in June, the Board took early measures to protect employees and ensure the continued support of customers with all but critical front-line staff home-based from late March.

Maintel continued to deliver excellent service levels and customer care throughout the lock-down, facilitating customer moves to remote-working and enabling front-line services such as NHS hospital trusts to manage their response to the pandemic.

The Board also took steps to conserve cash and maintain a satisfactory liquidity position. In particular, the Group took the following actions:

- As announced in June, the Group successfully completed an amendment and extension of its existing bank facilities with the National Westminster Bank Plc. The revised facility of £34.5m provides the Group with more flexible covenants and additional funding headroom (this includes a Government backed CLBILs loan of £4.5m, repayable in October 2021);
- The Board and workforce took a 20% salary reduction for a three-month period from 1 April 2020;
- A small number of staff were furloughed under the Government's Job Retention Scheme;
- We have minimised all other costs and expenditure;
- We made a decision not to declare a final dividend for the full year 2019 and it is the Board's intention to review returns to shareholders when conditions improve and financial performance permits.

Outlook

Whilst the outlook for the UK economy remains uncertain it remains challenging to predict accurately business levels for the remainder of the current financial year to December 2020. However, the Board is confident that Maintel is extremely well positioned in the market with a product offering that is well aligned to customer requirements. Since the period end there has been good momentum in the number of projects being implemented, sales orders are increasing, and cloud contracts being closed. In addition, the pipeline is growing, driven by a broad mix of public and private sector opportunities. During the first half of Q3, a further 10,000 cloud seats have been

Business review
continued

contracted, with a further 50,000 in the pipeline and we expect the total number of contracted seats to be in excess of 100,000 by the end of FY20 in line with our business transition plan.

Subject to projects remaining on track as currently forecast, and no second UK wide lockdown as a result of the pandemic, the Board expects that both revenue and EBITDA will be broadly similar to that delivered in the first half.

Our focus remains on the transition to a cloud and managed services business, with continued investment in our ICON cloud platforms, expansion of services and solutions to our customers and continuous investment in our people.

On behalf of the board

Ioan MacRae
Chief Executive Officer
14 September 2020

Interim Financial Information

Consolidated statement of comprehensive income (unaudited)

for the 6 months ended 30 June 2020

	Note	6 months to 30 June 2020 £000 (Unaudited)	6 months to 30 June 2019 £000 (Unaudited)
Revenue	2	53,395	64,504
Cost of sales		(37,538)	(45,623)
Gross profit		15,857	18,881
Other operating income	3	545	77
Administrative expenses			
Intangibles amortisation		(3,209)	(3,326)
Exceptional items	7	(1,044)	12
Share based payments		224	(69)
Other administrative expenses		(12,438)	(13,362)
		(16,467)	(16,745)
Operating (Loss) / profit		(65)	2,213
Net financial costs		(734)	(664)
(Loss) / profit before taxation		(799)	1,549
Income tax expense		(112)	(39)
(Loss)/profit for the period and attributable to owners of the parent		(911)	1,510
Other comprehensive income for the period			
Exchange differences on translation of foreign operations		9	3
Total comprehensive income for the period attributable to the owners of the parent		902	1,513
(Loss)/earnings per share from continuing operations attributable to the ordinary equity holders of the parent			
Basic	4	(6.4)p	10.6p
Diluted	4	(6.4)p	10.4p

Consolidated statement of financial position (unaudited)

at 30 June 2020

	Note	30 June 2020 £000 (Unaudited)	31 December 2019 £000 (Audited)
Non-current assets			
Intangible assets		61,307	63,817
Right-of-use assets		3,908	4,087
Property, plant and equipment		1,573	1,514
		66,788	69,418
Current assets			
Inventories		3,173	3,243
Trade and other receivables		24,357	26,921
Income tax		5	177
		27,535	30,341
Total assets		94,323	99,759
Current liabilities			
Trade and other payables		45,176	43,564
Lease liabilities		984	987
Short-term borrowings	8	3,464	3,696
Current tax liabilities		-	-
Total current liabilities		49,624	48,247
Non-current liabilities			
Other payables		2,025	2,898
Lease liabilities		3,251	3,367
Deferred tax liability		2,347	2,537
Borrowings	8	17,375	21,883
Total non-current liabilities		24,998	30,685
Total liabilities		74,622	78,932
Total net assets		19,701	20,827
Equity			
Issued share capital		143	143
Share premium		24,588	24,588
Other reserves		76	67
Retained earnings		(5,106)	(3,971)
Total equity		19,701	20,827

Consolidated statement of changes in equity (unaudited)

for the 6 months ended 30 June 2020

	Share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total £000
At 31 December 2018	142	24,354	70	(1,942)	22,624
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	(3,153)	21,651
Profit for the period	-	-	-	1,688	1,688
Other comprehensive income:					
Foreign currency					
Translation differences	-	-	(6)	-	(6)
Total comprehensive profit for the period	-	-	(6)	1,688	1,682
Dividend paid	-	-	-	(2,163)	(2,163)
Share based payments	-	-	-	(343)	(343)
At 31 December 2019	143	24,588	67	(3,971)	20,827
Loss for the period	-	-	-	(911)	(911)
Other comprehensive income:					
Foreign currency					
Translation differences	-	-	9	-	9
Total comprehensive income for the period	-	-	9	(911)	(902)
Share based payments	-	-	-	(224)	(224)
At 30 June 2020	**143**	**24,588**	**76**	**(5,106)**	**19,701**

Consolidated statement of cash flows (unaudited)

for the 6 months ended 30 June 2020

	6 months to 30 June 2020 £000	6 months to 30 June 2019 £000
Operating activities		
(Loss)/profit before taxation	(799)	1,549
Adjustments for:		
Intangibles amortisation	3,209	3,326
Non-cash items relating to previous acquisitions	-	(329)
Share based payment (credit)/charge	(224)	69
Depreciation of plant and equipment	341	455
Depreciation of right of use asset	642	421
Loss on disposal of property, plant and equipment	-	52
Interest expense (net)	734	664
Operating cash flows before changes in working capital	3,903	6,207
Decrease in inventories	69	3,743
Decrease in trade and other receivables	2,564	3,395
Increase/(decrease) in trade and other payables	1,010	(7,293)
Cash generated from operating activities	7,546	6,052
Tax paid	-	-
Net cash flows generated from operating activities	7,546	6,052
Investing activities		
Purchase of plant and equipment	(402)	(523)
Purchase of software	(698)	(547)
Payments in respect of business combination	(548)	(142)
Net cash flows used in investing activities	(1,648)	(1,212)

Consolidated statement of cash flows (unaudited)

for the 6 months ended 30 June 2020

	6 months to 30 June 2020 £000	6 months to 30 June 2019 £000
Financing activities		
Proceeds from borrowings	4,500	2,000
Repayment of borrowings	(9,000)	-
Lease liability repayments	(596)	(414)
Issue of ordinary shares	-	235
Interest paid	(542)	(617)
Issue costs of debt	(53)	-
Equity dividends paid	-	(2,790)
Net cash flows (used in) / generated from financing activities	(5,691)	1,586
Net increase in cash and cash equivalents	207	3,254
Cash and cash equivalents at start of period	(3,696)	(3,988)
Exchange differences	25	-
Cash and cash equivalents at end of period	(3,464)	(734)

Notes to the interim financial information

for the six months ending 30 June 2020

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). The financial information for the half-years ended 30 June 2020 and 30 June 2019 does not comprise statutory financial information within the meaning of s434 of the Companies Act 2006 and is unaudited. 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 adopted in the interim financial statements are consistent with those adopted in the last annual report for financial year 2019 and those applicable for the year ended 31 December 2020.

The comparative financial information presented herein for the year ended 31 December 2019 does not constitute full statutory accounts for that period. The Group's annual report and accounts for the year ended 31 December 2019 have been delivered to the Registrar of Companies. The Group's independent auditor's report on those statutory accounts was unqualified, drew attention to a material uncertainty in relation to going concern by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

In preparing the interim financial statements the directors are mindful of the uncertainties created by the current pandemic and the impact this may have on the trading performance of the Group and, consequently, its ability to comply with its banking covenants. The Board acknowledges that the uncertainty around the medium-term impact of the pandemic has not changed materially since the annual report was published and hence that actual performance could fall short of management forecasts to such an extent that, despite activating further mitigating measures, the forecast headroom on the banking covenants proved insufficient. Nevertheless, based on current forecasts the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and continue to adopt the going concern basis of preparation.

Notes to the interim financial information

for the six months ending 30 June 2020

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 2020 (unaudited)

	Managed service and technology £000	Network services £000	Mobile £000	Total £000
Revenue	32,292	17,797	3,306	53,395
Gross profit	9,017	5,390	1,450	15,857
Other operating income				545
Other administrative expenses				(12,438)
Share based payments				224
Intangibles amortisation				(3,209)
Exceptional items				(1,044)
Operating loss				(65)
Interest (net)				(734)
Loss before taxation				(799)
Income tax expense				(112)
Loss after taxation				(911)

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	-	-	-	3,209	3,209
Exceptional items	1,044	-	-	-	1,044

Notes to the interim financial information

for the six months ending 30 June 2020
continued

2. Segmental information (continued)

Six months to 30 June 2019 (unaudited)

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

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)

Notes to the interim financial information

for the six months ending 30 June 2020

3. Other operating income

	6 months to 30 June 2020 £000 (unaudited)	6 months to 30 June 2019 £000 (unaudited)
Other operating income	546	77

Other operating income of £0.5m (H1 2019: £0.1m) includes monies associated with the recovery of R&D tax credits of £0.4m (H1 2019: Nil) and rental income from the sub-letting of a part of the Group's London premises of £0.1m (H1 2019: £0.1m).

4. Earnings per share

Earnings per share is calculated by dividing the (loss)/ 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 2020 £000 (unaudited)	6 months to 30 June 2019 £000 (unaudited)
Earnings used in basic and diluted EPS, being (Loss)/profit after tax	(911)	1,510
Adjustments:		
Amortisation of intangibles acquired on business combinations	2,805	3,069
Exceptional items (note 7)	1,044	(12)
Tax relating to above adjustments	(731)	(657)
Prior year adjustments	226	-
Share based payments	(224)	69
Interest charge on deferred consideration	57	68
Increase in deferred tax liability of intangible assets	-	45
Decrease Deferred tax charge on Azzurri capital allowances	-	180
Adjusted earnings used in adjusted EPS	2,266	4,272

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

Notes to the interim financial information

for the six months ending 30 June 2020
continued

4. Earnings per share (continued)

	6 months to 30 June 2020 Number £000s	6 months to 30 June 2019 Number £000s
Weighted average number of ordinary shares of 1p each	14,324	14,258
Potentially dilutive shares	23	203
	14,347	14,461
Loss/(earnings) per share		
Basic	(6.4)p	10.6p
Diluted	(6.4)p	10.4p
Adjusted – basic after the adjustments in the table above	15.8p	30.0p
Adjusted – diluted after the adjustments in the table above	15.8p	29.5p

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.

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

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

	6 months to 30 June 2020 £000s (unaudited)	6 months to 30 June 2019 £000s (unaudited)
(Loss)/profit before tax	(799)	1,549
Net interest payable	734	664
Depreciation of property, plant and equipment	341	455
Depreciation of right of use asset	642	421
Amortisation of intangibles	3,209	3,326
EBITDA	4,127	6,415
Share based payments	(224)	69
Exceptional items (note 7)	1,044	(12)
Adjusted EBITDA	4,947	6,472

Notes to the interim financial information

for the six months ending 30 June 2020

6. Dividends

	6 months to 30 June 2020 £000 (unaudited)	6 months to 30 June 2019 £000 (unaudited)	Year to 31 December 2019 £000 (audited)
Dividends paid			
Final 2018, paid 16 May 2019			
– 19.5p per share	-	2,790	2,790
Interim 2019, paid 4 October 2019			
– 15.1p per share	-	-	2,163
	-	2,790	4,953

The directors have decided not to declare an interim dividend for 2020 (2019: 15.1p). The cost of the interim dividend for 2019 was £2.2m.

7. Exceptional items

	6 months to 30 June 2020 £000 (unaudited)	6 months to 30 June 2019 £000 (unaudited)
Staff restructuring and other employee related costs	902	96
Fees relating to revised credit facilities agreement	95	-
Remeasurement of deferred consideration to fair value	-	(746)
Impairment of customer relationship asset	-	339
Other	47	299
	1,044	(12)

Staff restructuring and other employee related costs of £902k (H1 2019: £96k) includes £474k relating to untaken employee annual leave as a result of COVID-19 (H1 2019: Nil).

Notes to the interim financial information

for the six months ending 30 June 2019
continued

8. Borrowings

	30 June 2020 £000 (unaudited)	31 December 2019 £000 (audited)
Current bank overdraft – secured	3,464	3,696
Non-current bank loan – secured	17,375	21,883

On the 26 May 2020 the Group entered into an amendment and extension of its bank facilities with its incumbent lender, the National Westminster Bank Plc.

The facilities have been extended to 27 October 2021. The revised facility has been increased to £34.5m consisting of a revolving credit facility ("RCF") of £30m in committed funds on a reducing basis and a £4.5m amortising term loan issued under the Coronavirus large business interruption loan scheme ("CLBILS") by the British Business Bank, with a maturity date of 27 October 2021. Interest terms for the RCF are on a ratchet to LIBOR according to the Group's net leverage ratio, whilst on the term loan are linked to the base rate plus a fixed margin.

The facilities are secured by a fixed and floating charge over the assets of the Company and its subsidiaries. Interest is payable on amounts drawn on the revolving credit facility and overdraft facility at a covenant-depending tiered rate of 2.05 % to 3.10 % per annum over LIBOR, with a reduced rate payable on undrawn facility.

Covenants based on adjusted EBITDA to net finance charges, net debt to EBITDA ratios are tested on a quarterly basis from 31 December 2021 and minimum liquidity tests on a monthly basis.

The non-current bank loan above is stated net of unamortised issue costs of debt of £0.1m (31 December 2019: £0.1m).

The directors consider that there is no material difference between the book value and fair value of the loan.

9. 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.

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