Adept4 plc

("Adept4", the "Group" or the "Company")
Interim Results for the six months ended 31 March 2019

Adept4 plc (AIM: AD4), the AIM quoted provider of IT as a Service, today announces its unaudited interim results for the six months ended 31 March 2019.

Summary

- Revenue for the period of £4.2 million (H1 2018: £5.4 million);
- Trading Group EBITDA[1] of £15,000 (H1 2018: £0.5 million);
- Loss for the period of £1.1 million (H1 2018: £0.8 million);
- Net debt[2] at 31 March 2019 of £3.4 million;
- Significant reduction in costs at end of period following decision to focus more on existing customer base with less emphasis on new business generation;
- Return to modest levels of monthly Trading Group EBITDA profitability;
- Strategic review nearing conclusion.

Simon Duckworth, Non-Executive Chairman of Adept4, commented:

"Having returned the business to modest levels of monthly Trading Group EBITDA profitability with a reduced cash burn after plc and debt service costs, the Board has more recently been able to focus on taking positive steps to return the business to growth. Good progress has been made in this regard and we look forward to updating shareholders on our future plans in due course."

For further information please contact:

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This announcement contains inside information.

[1] earnings before net finance costs, tax, depreciation, amortisation, plc costs, separately identifiable items and share-based payments

[2] Net debt at 31 March 2019 comprises cash balances of £0.8m, less the amortised cost of BGF loan notes of £4.2m.

CHAIRMAN'S STATEMENT

Strategic overview

In February 2019 we reported on the Group's financial results for the year ended 30 September 2018 ("FY18"). Within those results we noted that FY18 had been extremely challenging for the business, with the investment made in the new sales team not yet delivering the results we had hoped for and with progress further hindered by the general level of caution which is evident in our economy.

We further reported that the continued delays in new sales in the current financial year ("FY19") meant that the Group was experiencing ongoing monthly Trading Group EBITDA and cash losses. As a consequence, we announced that we had taken the decision to focus on our existing customer base with less emphasis on new business acquisition, which would lead to reduced revenue and gross profit, but which requires a significantly lower operating cost base, with the intention of returning the Group to profitability and cash generation. This action was designed to protect the cash reserves of the Group whilst the Board considered the strategic options open to the Company. As at February 2019, further cost savings had been identified which were in the process of being implemented. I can now provide an update on these initiatives.

The cost reduction programme was completed at the end of March 2019 and has reduced overheads by circa £75,000 per month. Since the changes were implemented, we have seen a pleasing increase in the levels of new business won within our existing customer base, demonstrating the strength of those relationships and the opportunities therein. The recent performance of the business has, however, been impacted by the cancellation of a contract by a major customer, as announced on 8 April 2019. The Company disputes the contract termination is valid and is currently seeking legal redress from the customer. The combined effect of these changes means that the Group has returned to modest levels of monthly Trading Group EBITDA profit generation and the cash burn (after plc costs and debt service costs) has reduced.

In seeking to recover value for shareholders the Board has been considering the strategic options open to the Company and working with its professional advisers, its debt provider and its major shareholders to find the best way forward for all stakeholders. This review is now nearing its conclusion and the Board will announce the outcome of this as soon as practicable.

Trading and results

Revenue in the six months to 31 March 2019 ("H119") was £4.2 million, compared to £5.4 million in the six months to 31 March 2018 ("H118"). This reduction reflected both the delays experienced in generating new sales and the conclusion of several transformation projects which generated significant professional services and product revenues in H118, together with a number of planned and expected customer contract reductions.

In terms of our recurring revenues, as previously reported, some of our larger customers undertook digital transformation projects in FY18, to move them away from on-premise solutions to a more dynamic and flexible cloud-based "Pay as you Use" IT solution. After their initial investment in one-off costs, in FY19 these customers started to enjoy the benefits of the monthly savings such solutions provide. H119 also saw certain customers' fixed term IT support contracts come to a natural end at the conclusion of the related projects. As a result, recurring revenues in H119 were £3.0 million (H118: £3.6 million), representing over 70% of total revenue.

Product sales in the period were £0.8 million (H118: £1.1 million) with professional services revenue of £0.4 million (H118: £0.7 million).

The resultant total gross profit was £2.1 million (H118: £3.1 million). The reduction in gross profit margins from 57% in H118 to 51% in H119 is predominantly due to the migration of certain services from our infrastructure to that of a third party (such as Microsoft), in line with our asset-light strategy. Whilst initially resulting in some margin reduction, this strategy reduces risk and cost of ownership for us and allows us to provide customers with best-of-breed solutions with the ability to sell a wider range of services to the customer. This transition also means that we need fewer staff to support the in-house solutions, which has enabled us to reduce our overhead base without affecting customer service levels.

In the six months to March 2019, administrative expenses before plc costs reduced to £2.1 million, a fall of £0.5 million compared to H118. This resulted in a Trading Group EBITDA for the period of £15,000 (H118: £0.5 million). As detailed above, the Group's forward operating cost base has been reduced by circa £75,000 per month as a result of the restructure which concluded in March 2019. The restructure resulted in one-off costs in the half-year of £0.1 million, shown in the income statement as separately identifiable costs.

After accounting for plc costs and non-cash items such as amortisation, depreciation and share-based payments charges, the operating loss for the period was £0.9 million (H118: loss of £0.5 million). After cash interest costs of £0.2 million and a notional non-cash interest charge of £0.1 million in respect of the loan from BGF, together with a deferred tax credit of £0.1 million, the loss after tax for H119 was £1.1 million (H118: £0.8 million).

Cash used in operating activities in the period was £0.3 million (H118: £0.5 million). This figure includes the net impact of the £0.6 million which was received from the vendors of Adept4 Managed IT Limited (being the cash element of Group's successful £1.6 million warranty claim settlement in 2018), and the payment of creditors in respect of legal fees relating to the warranty claim, together with part payment of the £0.4 million settlement of the Microsoft historic licencing review reported in December 2018 and provided for as a liability in the FY18 financial statements. After interest payments of £0.2 million and a £0.1 million final payment in relation to the disposal of Pinnacle CDT Limited, the cash balance at 31 March 2019 was £0.8 million (30 September 2018: £1.4 million).

Net debt at 31 March 2019 was £3.4 million (30 September 2018: £2.7 million). This comprises the cash balance of £0.8 million less the amortised cost of loan notes held by BGF of £4.2 million.

Outlook

Having returned the business to a position of modest monthly Trading Group EBITDA profitability with a reduced cash burn after plc and debt service costs, the Board has more recently been able to focus on taking positive steps to return the business to growth. Good progress has been made in this regard and we look forward to updating shareholders on our future plans in due course.

Simon Duckworth
Non-Executive Chairman
28 June 2019

CONSOLIDATED INCOME STATEMENT

for the six-month period ended 31 March 2019

	Note	**6 months to 31 March 2019 £'000**	6 months to 31 March 2018 £'000	Year to 30 September 2018 £'000
Continuing operations				
Revenue	3	**4,181**	5,392	10,185
Cost of sales		**(2,040)**	(2,323)	(4,480)
Gross profit	3	**2,141**	3,069	5,705
Administrative expenses		**(2,318)**	(2,883)	(5,598)
Amortisation of intangible assets	7	**(454)**	(470)	(907)
Depreciation		**(58)**	(39)	(136)
Separately identifiable costs	4	**(143)**	(137)	(2,390)
Share-based payments		**(81)**	(60)	(48)
Operating loss		**(913)**	(520)	(3,374)
Interest receivable		**2**	1	7
Interest payable		**(303)**	(330)	(609)
Net finance expense		**(301)**	(329)	(602)
Loss before taxation		**(1,214)**	(849)	(3,976)
Taxation	5	**84**	84	169
Loss and total comprehensive loss for the period attributable to owners of the parent		**(1,130)**	(765)	(3,807)
Loss per share				
Basic and fully diluted	6	**(0.50)p**	(0.34)p	(1.68)p
Non-statutory measure : Trading Group EBITDA[1]				
Operating loss		**(913)**	(520)	(3,374)
Plc costs		**192**	267	482
Amortisation of intangible assets	7	**454**	470	907
Depreciation		**58**	39	136
Separately identifiable costs	4	**143**	137	2,390
Share-based payments		**81**	60	48
Trading Group EBITDA[1]		**15**	453	589

[1] earnings before net finance costs, tax, depreciation, amortisation, plc costs, separately identifiable items and share-based payments

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 March 2019

	Note	**At 31 March 2019 £'000**	At 31 March 2018 £'000	At 30 September 2018 £'000
Non-current assets				
Intangible assets	7	**7,849**	11,369	8,282
Property, plant and equipment		**103**	214	146
Total non-current assets		**7,952**	11,583	8,428
Current assets				
Inventories		**86**	102	26
Trade and other receivables	8	**2,443**	2,822	2,900
Cash and cash equivalents		**841**	2,037	1,427
Total current assets		**3,370**	4,961	4,353
Total assets		**11,322**	16,544	12,781
Liabilities				
Short-term borrowings	9	**(32)**	(1,035)	(32)
Trade and other payables		**(1,421)**	(1,137)	(1,102)
Other taxes and social security costs		**(373)**	(554)	(377)
Accruals and deferred income		**(1,208)**	(1,426)	(1,937)
Total current liabilities		**(3,034)**	(4,152)	(3,448)
Non-current liabilities				
Long-term borrowings	9	**(4,205)**	(4,038)	(4,117)
Deferred tax liability	10	**(1,164)**	(1,332)	(1,248)
		(5,369)	(5,370)	(5,365)
Total liabilities		**(8,403)**	(9,522)	(8,813)
Net assets		**2,919**	7,022	3,968
Equity				
Share capital		**2,271**	2,271	2,271
Share premium account		**11,337**	11,337	11,337
Capital redemption reserve		**6,489**	6,489	6,489
Merger reserve		**1,997**	1,997	1,997
Other reserve		**1,730**	1,661	1,649
Retained earnings		**(20,905)**	(16,733)	(19,775)
Total equity		**2,919**	7,022	3,968

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six-month period ended 31 March 2019

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2017	2,271	11,337	6,489	1,997	1,601	(15,968)	7,727
Loss and total comprehensive loss for the period	-	-	-	-	-	(765)	(765)
Transactions with owners							
Share-based payments	-	-	-	-	60	-	60
Total transactions with owners	-	-	-	-	60	-	60
Total movements	-	-	-	-	60	(765)	(705)
Equity at 31 March 2018	2,271	11,337	6,489	1,997	1,661	(16,733)	7,022

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 April 2018	2,271	11,337	6,489	1,997	1,661	(16,733)	7,022
Loss and total comprehensive loss for the period	-	-	-	-	-	(3,042)	(3,042)
Transactions with owners							
Share-based payments	-	-	-	-	(12)	-	(12)
Total transactions with owners	-	-	-	-	(12)	-	(12)
Total movements	-	-	-	-	(12)	(3,042)	(3,054)
Equity at 30 September 2018	2,271	11,337	6,489	1,997	1,649	(19,775)	3,968

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2018	2,271	11,337	6,489	1,997	1,649	(19,775)	3,968
Loss and total comprehensive loss for the period	-	-	-	-	-	(1,130)	(1,130)
Transactions with owners							
Share-based payments	-	-	-	-	81	-	81
Total transactions with owners	-	-	-	-	81	-	81
Total movements	-	-	-	-	81	(1,130)	(1,049)
Equity at 31 March 2019	2,271	11,337	6,489	1,997	1,730	(20,905)	2,919

CONSOLIDATED STATEMENT OF CASH FLOWS

for the six-month period ended 31 March 2019

	6 months to 31 March 2019 £'000	6 months to 31 March 2018 £'000	Year to 30 September 2018 £'000
Cash flows from operating activities			
Loss before taxation	**(1,214)**	(849)	(3,976)
Adjustments for:			
Depreciation	**58**	39	136
Amortisation	**454**	470	907
Share-based payments	**81**	60	48
Net finance expense	**301**	329	602
Settlement of Warranty Claim	**—**	—	(1,578)
Impairment of goodwill	**—**	—	2,644
Decrease/(increase) in trade and other receivables	**457**	(473)	73
(Increase)/Decrease in inventories	**(60)**	(35)	40
(Decrease)/increase in trade payables, accruals and deferred income	**(334)**	(55)	195
Net cash used in operating activities	**(257)**	(514)	(909)
Cash flows from investing activities			
Purchase of property, plant and equipment	**(15)**	(75)	(70)
Payment of deferred consideration	**—**	—	(8)
Interest received	**2**	1	7
Net cash used in investing activities	**(13)**	(74)	(71)
Cash flows from financing activities			
Finance lease income received	**—**	56	56
Payment of finance lease liabilities	**(12)**	(18)	(44)
Interest paid	**(204)**	(218)	(410)
Net cash used in financing activities	**(216)**	(180)	(398)
Cash flows from discontinued operations			
Settlement of dispute regarding Pinnacle CDT Limited	**(100)**	(100)	(100)
Net cash used in discontinued operations	**(100)**	(100)	(100)
Net decrease in cash	**(586)**	(868)	(1,478)
Cash at bank and in hand at beginning of period	**1,427**	2,905	2,905
Cash at bank and in hand at end of period	**841**	2,037	1,427
Comprising:			
Cash at bank and in hand	**841**	2,037	1,427

NOTES TO THE FINANCIAL INFORMATION

for the six-month period ended 31 March 2019

1. General Information

Adept4 plc is a company incorporated in the United Kingdom under the Companies Act 2006. The principal activity of the group is the provision of IT as a Service ("ITaaS") to small and medium sized businesses in the United Kingdom. The interim financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which each of the Group's subsidiaries operates.

The address of its registered office is 5 Fleet Place, London, EC4M 7RD and its principal places of business are Leeds and Warrington. The company is quoted on AIM, the market of that name operated by the London Stock Exchange, under ticker symbol AD4.L

These interim financial statements contain inside information.

2. Basis of preparation

The annual financial statements of the Group are prepared in accordance with applicable International Financial Reporting Standards (IFRSs) as adopted by the EU and in accordance with the Companies Act 2006. The interim financial information in this report has been prepared using accounting standards consistent with IFRS as adopted by the European Union. IFRS is subject to amendment and interpretation by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee and there is an ongoing process of review and endorsement by the European Commission. The financial information has been prepared on the basis of IFRS that the Directors expect to be adopted by the European Union and applicable at 30 September 2019.

Financial information contained in this document does not constitute statutory accounts within the meaning of section of 434 of the Companies Act 2006 ("the Act"). The statutory accounts for the year ended 30 September 2018 have been filed with the Registrar of Companies. The report of the auditors on those statutory accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Act. The financial information for the six months ended 31 March 2019 and 31 March 2018 is unaudited.

The accounting standards applied by the Group in these interim financial statements are the same as those applied by the Group in the consolidated financial statements for the year ended 30 September 2018 with the exception of two new accounting standards introduced in the six-month period to 31 March 2019, as follows:

- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018);
- IFRS 9 Financial Instruments (effective 1 January 2018); and

Using the modified retrospective method, we assessed the impact of IFRS 9 and IFRS 15 and confirm that no material changes were required to the Group's financial results.

Under IFRS 15 there is a broader definition of what is capitalisable as cost to obtain a contract. We have matched the amortisation of capitalised costs to obtain a contract to the revenue recognised but have used the practical expedient of IFRS 15 not to capitalise costs that relate to revenue that is recognised in the income statement within twelve months.

As a practical expedient and as allowed under the standard, we have applied the five-step approach under IFRS 15 to portfolios of contracts which have similar characteristics and these have not materially impacted the Group's financial results for the interim period to 31 March 2019.

The adoption of IFRS 9 does not have a material impact on the results of the Group.

After reviewing budgets, forecasts and cash projections for the next twelve months and beyond, the Directors believe that the Group has adequate resources to continue operations for the foreseeable future and for this reason they have adopted a going concern basis in preparing the interim financial statements. The interim financial statements were approved by the Board of Directors on 27 June 2019.

3. Segment Reporting

The Chief Operating Decision Maker ("CODM") has been identified as the director of the Company and its subsidiaries, who review the Group's internal reporting in order to assess performance and to allocate resources.

The CODM assesses profit performance principally through adjusted profit measures consistent with those disclosed in the Annual Report and Accounts. The Board believes that the Group comprises a single reporting segment, being the provision of IT managed services to customers. Whilst the CODM reviews the revenue streams and related gross profits of three categories separately (Recurring Services, Product and Professional Services), the operating costs and operating asset base used to derive these revenue streams are the same for all three categories and are presented as such in the Group's internal reporting. Accordingly, the segmental analysis below is therefore shown at a revenue and gross profit level in line with the CODM's internal assessment based on the following reportable operating segments:

• Recurring Services	This segment comprises the provision of continuing IT services which have an ongoing billing and support element.
• Product	This segment comprises the resale of solutions (hardware and software) from leading technology vendors.
• Professional Services	This segment comprises the provision of highly skilled resource to consult, design, install, configure and integrate IT technologies.

All revenues are derived from customers within the UK and no customer accounts for more than 10% of external revenues. Inter-segment transactions are accounted for using an arm's length commercial basis.

The operating segments for the six months to 31 March 2018 have been restated to reflect the definitions used in the Annual Report and Accounts for the year ended 30 September 2018, in particular the Professional Services operating segment, which now includes all separable Professional Services revenues associated with Product and Recurring Services revenues, which have been unbundled to measure the contribution of our skilled technical resources. This analysis is consistent with that used internally by the CODM and, in the opinion of the Board, better reflects the nature of the revenue.

3.1 Analysis of revenue	**6 months to 31 March 2019 £'000**	6 months to 31 March 2018 £'000	Year to 30 September 2018 £'000
By operating segment			
Recurring services	**3,022**	3,551	7,100
Product	**793**	1,124	1,987
Professional services	**366**	717	1,098
Total revenue	**4,181**	5,392	10,185

3.2 Analysis of gross profit	**6 months to 31 March 2019 £'000**	6 months to 31 March 2018 £'000	Year to 30 September 2018 £'000
By operating segment			
Recurring services	**1,667**	2,128	4,231
Product	**167**	256	439
Professional services	**307**	685	1,035
Total gross profit	**2,141**	3,069	5,705

4. Separately identifiable costs and income

During the period, the Group incurred the following separately identifiable costs and income which are material by their size or incidence:

	6 months to 31 March 2019 £'000	6 months to 31 March 2018 £'000	Year to 30 September 2018 £'000
Settlement of warranty claim	**-**	-	1,578
Costs in relation to the warranty claim and other M&A activities	**-**	-	(481)
Settlement of historic Microsoft licence review	**-**	-	(376)
Impairment of goodwill	**-**	-	(2,644)
Costs in relation to disposal of Pinnacle CDT Limited	**-**	(90)	(196)
Integration and restructure costs	**(143)**	(47)	(271)
Separately identifiable costs	**(143)**	(137)	(2,390)

5. Taxation

	6 months to 31 March 2019 £'000	6 months to 31 March 2018 £'000	Year to 30 September 2018 £'000
Current tax			
UK corporation tax for the period on continuing operations	**-**	-	-
Deferred tax credit			
Deferred tax credit on intangible assets from continuing operations	**84**	84	169
Total taxation credit for the period	**84**	84	169

6. Loss per share

	6 months to 31 March 2019 p/share	6 months to 31 March 2018 p/share	Year to 30 September 2018 p/share
Basic and fully diluted – continuing operations	**(0.50)**	(0.34)	(1.68)
	£000	£000	£000
Loss on continuing operations	**(1,130)**	(765)	(3,807)
Weighted average number of shares in issue:			
Basic and fully diluted	**227,065,100**	227,065,100	227,065,100

The weighted average number of ordinary shares for the purpose of calculating the basic and diluted measures is the same. This is because the outstanding share incentives would have the effect of reducing the loss per ordinary share and therefore would be anti-dilutive under the terms of IAS 33.

7. Intangible assets

	Goodwill £'000	IT, billing and website systems £'000	Brand £'000	Customer lists £'000	Total £'000
Cost					
At 1 October 2017	4,447	113	1,157	7,580	13,297
Additions	-	35	-	-	35
At 31 March 2018	**4,447**	**148**	**1,157**	**7,580**	**13,332**
Disposals	-	(6)	-	-	(6)
At 30 September 2018	**4,447**	**142**	**1,157**	**7,580**	**13,326**
Additions	-	21	-	-	21
At 31 March 2019	**4,447**	**163**	**1,157**	**7,580**	**13,347**
Amortisation					
At 1 October 2017	**(200)**	**(7)**	**(150)**	**(1,136)**	**(1,493)**
Charge for the period	-	(10)	(60)	(400)	(470)
At 31 March 2018	(200)	(17)	(210)	(1,536)	(1,963)
Impairment charge	(2,644)	-	-	-	(2,644)
Charge for the period	-	(10)	(55)	(372)	(437)
At 30 September 2018	**(2,844)**	**(27)**	**(265)**	**(1,908)**	**(5,044)**
Charge for the period	-	(15)	(57)	(382)	(454)
At 31 March 2019	**(2,844)**	**(42)**	**(322)**	**(2,290)**	**(5,498)**
Net Book Value					
At 31 March 2018	4,247	131	947	6,044	11,369
At 30 September 2018	1,603	115	892	5,672	8,282
At 31 March 2019	**1,603**	**121**	**835**	**5,290**	**7,849**

8. Trade and other receivables

	At 31 March 2019 £000	At 31 March 2018 £000	At 30 September 2018 £000
Trade receivables	**1,489**	1,615	1,343
Warranty settlement	**-**	-	600
Other debtors	**-**	47	36
Prepayments and accrued income	**954**	1,160	921
Trade and other receivables	**2,443**	2,822	2,900

9. Borrowings	**At 31 March 2019**	At 31 March 2018	At 30 September 2018
	£000	£000	£000
Short-term borrowings			
Finance lease	**32**	43	32
Deferred consideration for Adept4 Managed IT Limited	**-**	992	-
Total short-term borrowings	**32**	1,035	32
Long-term borrowings			
Finance lease	**34**	61	46
BGF loan notes repayable to BGF between 2021 and 2023	**5,000**	5,000	5,000
Warrant adjustment relating to BGF loan notes	**(829)**	(1,023)	(929)
Total long-term borrowings	**4,205**	4,038	4,117

10. Deferred tax	**At 31 March 2019 £000**	At 31 March 2018 £000	At 30 September 2018 £000
Provision brought forward	**1,248**	1,416	1,416
Credits to income statement – on intangibles	**(84)**	(84)	(168)
Provision carried forward	**1,164**	1,332	1,248

11. Post Balance Sheet Events

On 8 April 2019, the Company announced that it had received notice of termination of a customer contract which in the year to 30 September 2018, delivered £0.7 million of recurring revenue. The Company disputes the contract termination is valid and is therefore currently seeking legal redress from the customer.