

30 June 2020

CloudCoCo Group plc

("CloudCoCo", "the Group" or "the Company")

Interim Results

CloudCoCo (AIM: CLCO), a UK provider of IT and communications solutions to businesses and public sector organisations, announces its unaudited interim results for the six months ended 31 March 2020.

Financial highlights

The six months prior to the period under review have been included for comparison to help investors gauge the initial progress the business has made since the completion of the acquisition of CloudCoCo Limited on 21 October 2019 and the introduction of a new management team.

- Revenue of £4.43m, up 44% against the previous six-month period (H2 2019: £3.08m, H1 2019: £4.18m)
- Recurring revenue of £2.79m, up 31% on the previous six-month period (H2 2019: £2.13m, H1 2019: £3.02m), a key focus for the Group in becoming a sustainable growth business
- Total contract value ("TCV") signed of £3.33m, up 158% against the previous six-month period (H2 2019: £1.29m, H1 2019: £1.37m), reflecting early successes in prioritising multi-year over single-year deals
- Positive Trading Group EBITDA¹ of £68k from a loss of £250k in the previous six-month period (H2 2019: loss of £250k, H1 2019: profit of £15k)
- Pre-tax loss reduced to £1.57m from a loss of £5.59m in FY2019 (H1 2019: loss of £1.21m)
- Cash at bank of £0.27m at 31 March 2020 (H2 2019: £0.31m, H1 2019: £0.84m) and £0.4m undrawn working capital facility
- Net assets of £5.69m at 31 March 2020 (H2 2019 negative £1.11m, H1 2019 £2.92m)

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

Operational highlights

- Acquisition of CloudCoCo Limited on 21 October 2019
- Rebrand and change of name to CloudCoCo Group plc on 29 November 2019
- Refinancing of the Group's debt reducing loan note debt from £5m to £3.5m and extension of new £0.5m working capital facility
- Appointment of new CEO, Mark Halpin, and CFO, Michael Lacey
- Encouraging early progress made against new strategy both operationally and commercially

- 5-year cyber security management deal with a major operator of franchised car dealerships
- Voted Zen Internet New Partner of the Year

Post-period highlights

- Move to new Leeds office completed in June
- 3-year cyber security management deal with major online fashion retailer, boohoo
- Resilient trading during pandemic but experiencing industry-wide headwinds
- Growing recurring revenue and margin, together with cost reduction measures means the business is well-positioned to withstand the current situation

Simon Duckworth, non-executive chairman of CloudCoCo, commented:

“The new management team has made a promising start, implementing positive changes across the business and making progress against all four of the objectives outlined at the full year despite the significant operational and wider economic challenges posed by the outbreak of the pandemic. There will be more obstacles to overcome as CloudCoCo continues through its recovery phase, but there is renewed optimism in the business, and a sense that after a prolonged period of instability the business is now on the right track.”

Mark Halpin, CEO of CloudCoCo, commented:

“We expect demand for our products and services to evolve as organisations seek to adapt to the ‘new normal’. IT and communications infrastructure is increasingly extending beyond physical premises and with that comes fresh challenges, particularly around cyber security and collaborative working practices. We believe that through our expert skillset and deep partner relationships with industry-leading providers, we are well-positioned to help organisations meet these challenges.

“While we should not lose sight of the fact we are still in the early stages of our turnaround story and recognise we are operating against a backdrop of unprecedented uncertainty, we have a talented team in place and are already seeing benefits from the hard work done thus far, which gives us confidence that our strategy is the right one.”

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About CloudCoCo

Supported by a team of industry experts and harnessing a diverse ecosystem of partnerships with blue-chip technology vendors, CloudCoCo makes it easy for businesses and public sector organisations to work smarter, faster and more securely by providing a single point of purchase for their connectivity, telephony, cyber security, cloud, IT hardware and support needs.

CloudCoCo has offices in Warrington and Leeds in the UK.

www.cloudcoco.co.uk

CHIEF EXECUTIVE'S REVIEW

H1 2020 results

The financial results for the six months to 31 March 2020 should be viewed in the context of a period of significant change in the Group, with the completion of the acquisition of CloudCoCo Limited taking place on 21 October 2019 followed by the introduction of a new management team.

The focus for the period under review has been to address legacy issues and create a sustainable foundation for future growth.

Progress against objectives

At the final results for the last financial year released in February 2020, the chairman outlined four key objectives for the current financial year. These were:

1. Increase sales
2. Reduce customer churn
3. Reduce costs
4. Return to net cash generation

As noted at the time, while simple objectives, it was clear the business needed to return to basics and shore up its fundamentals before it could drive improved performance. Progress against each objective in the first half of the current financial year is summarised below:

Increasing sales

The business saw sales growth across all three of its reporting segments during the period as shown below:

	6 months to 31 March 2020 £'000	6 months to 30 September 2019 £'000	6 months to 31 March 2019 £'000
By operating segment			
Recurring services	2,785	2,131	3,022
Product	1,208	612	793
Professional services	437	333	366
Total revenue	4,430	3,076	4,181

Total contract value signed, an important performance indicator, grew to £3.33m, an increase of 158% against the previous six-month period.

Product sales increased primarily due to hardware sales delivered in advance of multi-year support contracts.

One of the key benefits of the acquisition of CloudCoCo was the strong and experienced sales and business development team it brought to the Group. On appointment, the new management team identified a number of ways in which existing methods could be improved upon. While the changes made were substantial and will take time to yield sustained, positive results, the sales function is now a more professional and optimised operation with a clear plan. Reporting and accountability has improved, and there is a greater emphasis on liaising with the support team to better understand demand.

One of the most significant strategic objectives for the Company – and perhaps the biggest change in mindset from the way the legacy business tended to work – is a shift towards prioritising multi-year over single-year deals. This provides greater revenue visibility and reduces the need to re-negotiate contracts annually. Leveraging our partnership with Fortinet, in the first half we were able to secure a five-year cyber security management deal with a major operator of franchised car dealerships, a contract that exemplifies the kind of business we would like to take on going forwards. In what was a competitive pitch against several major managed service providers, we were selected because the customer was looking for a partner rather than a supplier, that showed a deep understanding of its business and held strong accreditations, relationships and expertise with the Fortinet security fabric technologies. Post-period, we were able to sign a similar three-year deal with a major online fashion retailer, boohoo.

Both names are among the biggest in their respective industries. Being trusted by organisations of this calibre is a valuable endorsement of CloudCoCo's cyber security capabilities, and indicative of our desire to move up a weight division in terms of customer and contract size.

The first half also saw our first sales of Nyotron's end point protection platform, Paranoid, which is a strong USP for CloudCoCo as the solution's exclusive UK supplier. We also secured a three-year WiFi and wide area network deal with one of the UK's leading charities, and saw encouraging traction in our telephony business, both in terms of signing new customers and meeting growing demand from major systems integrators looking to leverage the expertise we have in areas such as integrating older PBX systems with newer technologies like Microsoft Teams.

In March, we launched five new campaigns geared towards our preferred type of business, targeted at both new and existing customers:

1. Microsoft and modern working collaboration – leveraging our accreditations and deep-level skills in Azure, Microsoft Teams, Office 365 and Windows Virtual Desktop
2. Cyber security – through our partnerships with American corporations Fortinet and Nyotron, a key growth area
3. Telephony and unified communications – including traditional PBX (telephony systems) maintenance, modern cloud-hosted telephony, contact centres and our rare ability to integrate legacy PBX with more modern collaboration technology, such as Microsoft Teams, helping organisations have the best of both worlds while reducing spend
4. "Risk Mitigation as a Service" – an audit and analysis of an organisation's IT environment to highlight risk in areas such as end of life Microsoft software, server & PC hardware, anti-virus protection, patch management, data back-up and Microsoft SharePoint & Teams access
5. Network – connecting business premises and enabling home working in the UK and EMEA with bandwidth from 10Mbps to 10Gbps

Despite the disruption caused by the pandemic, these campaigns have been well-received and continue to generate promising leads. This is particularly the case in Microsoft working collaboration and cyber security, driven by the change in enterprise IT created by the shift to remote working environments.

At this stage, while our primary focus remains optimising the sales function and making sure we do the basics right, we have already had some success in signing larger and longer-term deals, our pipeline of opportunities is growing, and notwithstanding external factors beyond our control, we expect to be in a position to accelerate this as we move into the next financial year.

Reducing customer churn

The initial steps we have taken to re-organise and re-energise our support teams and reduce response and ticket resolution times have yielded some early results, with positive feedback and a moderate reduction in churn rates. While we are still in the first months after the transaction and continue to navigate the effects of a global pandemic, we have made good progress to date in improving customer satisfaction and are optimistic about our ability to continue to improve retention levels.

Reducing costs

In the weeks immediately following Adept4's acquisition of CloudCoCo, we undertook a comprehensive spending review across both sites aimed at reducing and optimising costs. This exercise will not only result in a material cost reduction for the current financial year and significant annualised savings, but gave management the opportunity to introduce better and more efficient ways of working.

Cost optimisation remains a key objective. Management is partway through a further spending review and expects to be able to report on additional savings in more detail at the full year.

Returning to net cash generation

The business is making steady progress in returning to being cash generative. In the six months to 31 March 2020, the net decrease in cash was £37k which was a significant improvement on the six months to September 2019 where the net cash decrease was £530k. Returning the business to profitability at a Trading Group EBITDA level, and not having to pay interest on loan notes for much of the period following the restructure of the Group's debt facilities (see note 8), were key contributory factors.

Our people

We firmly believe our people are our most important asset in building CloudCoCo into a sustainable growth business. We also believe that high levels of morale lead to high levels of performance, so making the Company a great place to work has been an important priority.

In December, as part of the rebranding exercise, we asked colleagues to submit suggestions for how we can improve the working environment – the response was excellent and, while lockdown has slowed the implementation of some initiatives, we are incorporating them where we can.

Given the core of colleagues that came over from the legacy Adept4 business have been through a prolonged period of upheaval and uncertainty, their dedication, commitment, and openness to a different way of thinking has been exemplary.

Across the business, all of our colleagues have made a huge contribution to the Company since the acquisition and the energy and passion they have shown in coming together and producing results even in a few short months, has been remarkable.

On behalf of management I would like to take this opportunity to wholeheartedly thank our colleagues from across the business for the way they have applied themselves and risen to the challenges of the past months. Building a culture and getting everyone to buy into a set of values takes time, but we are proud of the way the team has responded and the progress we are making.

Partnership ecosystem

A key competitive advantage of CloudCoCo is its diverse ecosystem of partnerships with blue-chip technology vendors.

Microsoft collaborative working and Fortinet cyber security are two key growth areas in which we now have a powerful combination of in-house expertise and are continuing to widen and deepen our accreditations. We have seen significant commercial traction with both providers since the acquisition, and expect demand for their solutions to continue to be healthy through and as we begin to emerge from lockdown.

Similarly, our relationship with Nyotron continues to develop as evidenced by the Paranoid deals we have signed and the number of joint engagements and marketing ventures we continue to work on.

During the period, Zen Internet, a Which? and PC Pro multi-award-winning internet service provider, invited CloudCoCo to be one of ten companies on its partner advisory strategy board and voted it New Partner of the Year.

We are constantly looking at ways we can grow our relationships with our partners while enhancing our credentials and look forward to updating shareholders on further positive developments in our partnership ecosystem in the coming months.

Office move

In June, despite the obvious operational challenges posed by lockdown, we were able to complete the move to our new premises in Leeds. Finding the right location to fit our business plans while providing high quality facilities to support our teams has been high on the management team's agenda since the acquisition, and we are confident we have secured a space that will be an ideal platform from which to service our customers.

Management changes

The Company's management team has continued to strengthen this calendar year.

In March, Mark Halpin, who founded CloudCoCo Limited in 2018 and had been responsible for the Group's business development activities post-acquisition, replaced Andy Mills as CEO with Andy remaining on the board as a non-executive director.

In January, the Group appointed Michael Lacey as CFO replacing Jill Collighan who had previously fulfilled the role on a part-time basis. Jill remains on the board as a non-executive director.

COVID-19 response

Our priority from the outset has been the health and safety of our colleagues, partners, and customers. We transitioned to home working earlier than most businesses in the UK and we have seen minimal impact, with customer support, engineers and sales and marketing teams continuing to function.

The Company has taken a number of precautionary actions to ensure the business remains on a sound long-term financial footing including temporary voluntary pay reductions at all levels except those in the lowest earning bracket and the furloughing of some colleagues. These measures are being kept under review.

Business planning has been made more challenging by the current situation but by growing recurring revenue and margin and by taking steps to reduce overheads, we believe we are well-positioned to withstand the current situation.

Cash flow and debt remain in line with management's expectations and to date have not been materially affected by the pandemic. We have a separate working capital facility of which £0.4m remains unused.

Current trading and outlook

Initially, at the outbreak of the pandemic, we saw an uptick in trading as businesses and public sector organisations turned to us for additional support and hardware as they transitioned towards remote working. In the months since, while trading has remained generally resilient and we are tracking against budget to the end of June, we are experiencing some industry-wide headwinds as organisations delay and defer IT and communications-related decisions.

The impact of a prolonged COVID-19 lockdown on our customers is difficult to forecast, and in turn it is hard for us to be precise about our sales expectations for the rest of the year. However, while it is still only a short while since the acquisition completed – much of which has been spent in lockdown – we are cautiously optimistic and have made an encouraging amount of progress in steadying the ship and laying the foundations for future growth. We will remain focused on our strategic objectives in the second half.

We expect demand for our products and services to evolve as organisations seek to adapt to the 'new normal'. IT and communications infrastructure is increasingly extending beyond physical premises and with that comes fresh challenges, particularly around cyber security and collaborative working practices. We believe that through our expert skillset and deep partner relationships with industry-leading providers, we are well-positioned to help organisations meet these challenges.

While we should not lose sight of the fact we are still in the early stages of our turnaround story and recognise we are operating against a backdrop of unprecedented uncertainty, we have a talented team in place and are already seeing benefits from the hard work done thus far which gives us confidence that our strategy is the right one.

Note to shareholders

Since the acquisition, the new management team has been focused on the operations of the business but recognises this has come at the expense of clear and regular communications with shareholders. We are grateful to our investors for their continued support, value their feedback and have appointed external advisors to help us address this.

CONSOLIDATED INCOME STATEMENT

for the six-month period ended 31 March 2020

	Note	6 months to 31 March 2020 £'000	6 months to 30 September 2019 £'000	6 months to 31 March 2019 £'000	Year to 30 September 2019 £'000
Continuing operations					
Revenue	3	4,430	3,076	4,181	7,257
Cost of sales		(2,513)	(1,490)	(2,040)	(3,530)
Gross profit	3	1,917	1,586	2,141	3,727
Administrative expenses		(2,083)	(2,065)	(2,318)	(4,383)
Amortisation of intangible assets	7	(799)	(453)	(454)	(907)
Depreciation		(28)	(42)	(58)	(100)
Separately identifiable costs	4	(381)	(3,112)	(143)	(3,255)
Share-based income/(payments)		26	10	(81)	(71)
Operating loss		(1,348)	(4,076)	(913)	(4,989)
Interest receivable		1	1	2	3
Interest payable		(227)	(299)	(303)	(602)
Net finance expense		(226)	(298)	(301)	(599)
Loss before taxation		(1,574)	(4,374)	(1,214)	(5,588)
Taxation	5	150	354	84	438
Loss and total comprehensive loss for the period attributable to owners of the parent		(1,424)	(4,020)	(1,130)	(5,150)
Loss per share					
Basic and fully diluted	6	(0.31)p	(1.77)p	(0.50)p	(2.27)p
Non-statutory measure: Trading Group EBITDA¹					
Operating loss		(1,348)	(4,076)	(913)	(4,989)
Plc costs		234	229	192	421
Amortisation of intangible assets	7	799	453	454	907
Depreciation		28	42	58	100
Separately identifiable costs	4	381	3,112	143	3,255
Share-based (income)/payments		(26)	(10)	81	71
Trading Group EBITDA¹		68	(250)	15	(235)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 March 2020

		At 31 March 2020 £'000	At 31 March 2019 £'000	At 30 September 2019 £'000
	Note			
Non-current assets				
Intangible assets	7	11,540	7,849	4,394
Property, plant and equipment		52	103	62
Total non-current assets		11,592	7,952	4,456
Current assets				
Inventories		52	86	32
Trade and other receivables		2,454	2,443	1,489
Cash and cash equivalents		274	841	311
Total current assets		2,780	3,370	1,832
Total assets		14,372	11,322	6,288
Liabilities				
Short-term borrowings	8	(95)	(32)	(32)
Trade and other payables		(1,541)	(1,421)	(876)
Other taxes and social security costs		(388)	(373)	(302)
Accruals and deferred income		(1,372)	(1,208)	(1,093)
Total current liabilities		(3,396)	(3,034)	(2,303)
Non-current liabilities				
Long-term borrowings	8	(3,925)	(4,205)	(4,286)
Deferred tax liability	9	(1,357)	(1,164)	(810)
		(5,282)	(5,369)	(5,096)
Total liabilities		(8,678)	(8,403)	(7,399)
Net assets		5,694	2,919	(1,111)
Equity				
Share capital		4,952	2,271	2,271
Share premium account		16,355	11,337	11,337
Capital redemption reserve		6,489	6,489	6,489
Merger reserve		1,997	1,997	1,997
Other reserve		2,008	1,730	1,720
Retained earnings		(26,107)	(20,905)	(24,925)
Total equity		5,694	2,919	(1,111)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six-month period ended 31 March 2020

	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)	(1,048)
Equity at 31 March 2019	2,271	11,337	6,489	1,997	1,730	(20,905)	2,919
	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 April 2019	2,271	11,337	6,489	1,997	1,730	(20,905)	2,919
Loss and total comprehensive loss for the period	-	-	-	-	-	(4,020)	(4,020)
Transactions with owners							
Share-based payments	-	-	-	-	(10)	-	(10)
Total transactions with owners	-	-	-	-	(10)	-	(10)
Total movements	-	-	-	-	(10)	(4,020)	(4,030)
Equity at 30 September 2019	2,271	11,337	6,489	1,997	1,720	(24,925)	(1,111)
	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Other Reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2019	2,271	11,337	6,489	1,997	1,720	(24,925)	(1,111)
Loss and total comprehensive loss for the period	-	-	-	-	-	(1,424)	(1,424)
Transactions with owners							
Issue of 50,000,000 shares to BGF at 0.35p per share and exceptional gain on write-off of BGF Loan Notes at fair value.	500	-	-	-	556	-	1,056
Issue of 218,160,586 shares to CloudCoCo vendors at 3.3p per share	2,181	5,018	-	-	-	-	7,199
Cancellation of 11,353,255 share warrants held by MXC Guernsey on acquisition of CloudCoCo Ltd	-	-	-	-	(242)	242	-
Share-based income	-	-	-	-	(26)	-	(26)
Total transactions with owners	2,681	5,018	-	-	(268)	242	8,229
Total movements	2,681	5,018	-	-	(268)	(1,182)	6,805
Equity at 31 March 2020	4,952	16,355	6,489	1,997	2,008	(26,107)	5,694

CONSOLIDATED STATEMENT OF CASH FLOWS

for the six-month period ended 31 March 2020

	6 months to 31 March 2020 £'000	6 months to 30 September 2019 £'000	6 months to 31 March 2019 £'000	Year to 30 September 2019 £'000
Cash flows from operating activities				
Loss before taxation	(1,574)	(4,374)	(1,214)	(5,588)
Adjustments for:				
Depreciation	28	42	58	100
Amortisation	799	453	454	907
Share-based (income)/payments	(26)	(10)	81	71
Net finance expense	226	298	301	599
Costs relating to acquisition of CloudCoCo Limited	346	—	—	—
Settlement of Warranty Claim	—	600	—	600
Impairment of goodwill	—	3,021	—	3,021
(Increase)/decrease in trade and other receivables	(567)	354	457	811
(Increase)/decrease in inventories	(20)	54	(60)	(6)
Increase/(decrease) in trade payables, accruals and deferred income	756	(711)	(334)	(1,045)
Net cash used in operating activities	(32)	(273)	(257)	(530)
Cash flows from investing activities				
Purchase of property, plant and equipment	(15)	(1)	(15)	(16)
Costs relating to acquisition of CloudCoCo Limited	(346)	—	—	—
Acquisition of CloudCoCo Limited, net of cash	157	—	—	—
Purchase of Intangible assets	—	(40)	—	(40)
Interest received	1	1	2	3
Net cash used in investing activities	(203)	(40)	(13)	(53)
Cash flows from financing activities				
Issue of shares under BGF share option scheme	175	—	—	—
Receipt of loan funds from MXC Capital	100	—	—	—
Payment of finance lease liabilities	(49)	(18)	(12)	(30)
Interest paid	(28)	(199)	(204)	(403)
Net cash used in financing activities	198	(217)	(216)	(433)
Cash flows from discontinued operations				
Settlement of dispute regarding Pinnacle CDT	—	—	(100)	(100)
Net cash used in discontinued operations	—	—	(100)	(100)
Net decrease in cash	(37)	(530)	(586)	(1,116)
Cash at bank and in hand at beginning of period	311	841	1,427	1,427
Cash at bank and in hand at end of period	274	311	841	311
Comprising:				
Cash at bank and in hand	274	311	841	311

NOTES TO THE FINANCIAL INFORMATION

for the six-month period ended 31 March 2020

1. General Information

CloudCoCo Group 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 CLCO.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 2020.

Financial information contained in this document does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 (“the Act”). The statutory accounts for the year ended 30 September 2019 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 2020 and 31 March 2019 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 2019 with the exception of IFRS 16 Leases (effective for accounting periods commencing on or after 1 January 2019).

Using the modified retrospective method, we assessed the impact of IFRS 16 and confirm that no material changes were required to the Group's financial results.

Under IFRS 16 there is a standard accounting model for lessees. As lessees we are obliged to recognise assets and liabilities for all leases over twelve months unless the underlying asset has a low value. Under IFRS 16 we recognise an asset reflecting our right to use the underlying leased object, in addition to the lease liability, reflecting our obligation to make the lease payments. The main impact of IFRS 16 is around property leases, of which the Group currently has two.

Business planning has been made more challenging by the current Covid-19 situation but by growing recurring revenue and margin together with taking steps to reduce overheads, we believe we are well-positioned to withstand the current situation. After reviewing budgets, forecasts and cash projections for the next twelve months and beyond, the Directors have a reasonable expectation 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 29 June 2020.

3. Segment Reporting

The Chief Operating Decision Maker (“CODM”) has been identified as the executive directors 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. Inter-segment transactions are accounted for using an arm’s length commercial basis.

3.1 Analysis of revenue	6 months to 31 March 2020 £’000	6 months to 30 September 2019 £’000	6 months to 31 March 2019 £’000	Year to 30 September 2019 £’000
By operating segment				
Recurring services	2,785	2,131	3,022	5,153
Product	1,208	612	793	1,405
Professional services	437	333	366	699
Total revenue	4,430	3,076	4,181	7,257

3.2 Analysis of gross profit	6 months to 31 March 2020 £’000	6 months to 30 September 2020 £’000	6 months to 31 March 2020 £’000	Year to 30 September 2019 £’000
By operating segment				
Recurring services	1,343	1,229	1,667	2,896
Product	259	111	167	278
Professional services	315	246	307	553
Total gross profit	1,917	1,586	2,141	3,727

4. Separately identifiable costs

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

	6 months to 31 March 2020 £'000	6 months to 30 September 2019 £'000	6 months to 31 March 2019 £'000	Year to 30 September 2019 £'000
Costs in relation to M&A activities	(346)	-	-	-
Impairment of goodwill and intangible	-	(3,021)	-	(3,021)
Foreign exchange rate variances	-	(8)	-	(8)
Integration and restructure costs	(35)	(83)	(143)	(226)
Separately identifiable costs	(381)	(3,112)	(143)	(3,255)

5. Taxation

	6 months to 31 March 2020 £'000	6 months to 30 September 2019 £'000	6 months to 31 March 2019 £'000	Year to 30 September 2019 £'000
Current tax				
UK corporation tax for the period on continuing operations	-	-	-	-
Deferred tax credit				
Deferred tax credit on intangible assets from continuing operations	150	354	84	438
Total taxation credit for the period	150	354	84	438

6. Loss per share

	6 months to 31 March 2020 p/share	6 months to 30 September 2019 p/share	6 months to 31 March 2019 p/share	Year to 30 September 2019 p/share
Basic and fully diluted – continuing operations	(0.31)	(1.77)	(0.50)	(2.27)
	£000	£000	£000	£000
Loss on continuing operations	(1,424)	(4,020)	(1,130)	(5,150)
Weighted average number of Basic and fully diluted	461,720,917	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 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
Additions	-	19	-	-	19
At 30 September 2019	4,447	182	1,157	7,580	13,366
Additions	3,845	-	700	3,400	7,945
At 31 March 2020	8,292	182	1,857	10,980	21,311
Amortisation					
At 1 October 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)
Impairment charge	(1,603)	-	(225)	(1,193)	(3,021)
Charge for the period	-	(5)	(58)	(390)	(453)
At 30 September 2019	(4,447)	(47)	(605)	(3,873)	(8,972)
Charge for the period	(249)	(9)	(81)	(460)	(799)
At 31 March 2020	(4,696)	(56)	(686)	(4,333)	(9,771)
Net Book Value					
At 31 March 2019	1,603	121	835	5,290	7,849
At 30 September 2019	-	135	552	3,707	4,394
At 31 March 2020	3,596	126	1,171	6,647	11,540

7.1 Acquisition of CloudCoCo Limited

On 21 October 2019, the Group acquired the entire issued share capital of CloudCoCo Limited for a total consideration of £7.2 million at fair value in accordance with IFRS 3. The consideration was satisfied in full by the issue of 218,160,586 new Ordinary Shares at 3.3p per share (being the mid-market price on the date of the acquisition). The Group has assessed the provisional fair value of the acquisition of CloudCoCo Limited as follows:

	Book Cost	Provisional Fair Value Adjustment	Provisional Fair Value
	£'000	£'000	£'000
Non-current assets			
Intangible assets	-	4,100	4,100
Property, plant and equipment	3	-	3
Total non-current assets	3	4,100	4,100
Current assets			
Trade and other receivables	383	-	383
Cash at bank	157	-	157
Total current assets	540	-	540
Total assets	543	4,100	4,643
Current liabilities			
Short-term borrowings	(63)	-	(63)
Trade and other payables	(159)	-	(158)
Other taxes and social security costs	(24)	-	(24)
Deferred Income and accruals	(205)	-	(205)
Total current liabilities	(451)	-	(451)
Total non-current liabilities			
Long term borrowings	(141)	-	(141)
Deferred Tax Liability	-	(697)	(961)
Total liabilities	(592)	(697)	(1,553)
Net (Liabilities) / Assets	(49)	3,403	3,354
Consideration in cash			-
Consideration in shares			7,199
Fair value of cost of acquisition			7,199
Goodwill			3,845

8. Borrowings

	At 31 March 2020 £'000	At 31 March 2019 £'000	At 30 September 2019 £'000
Short-term borrowings			
Finance lease liability – short term element	95	32	32
Total short-term borrowings	95	32	32
Long-term borrowings			
Finance lease liability – long term element	137	34	16
BGF loan notes repayable to BGF	-	5,000	5,000
MXCG loan notes repayable 2024	3,500	-	-
Interest accrued on MXCG loan notes at 12% per annum	188	-	-
MXCG 24 month Working capital facility at 12% per annum	100	-	-
Warrant adjustment relating to BGF loan notes	-	(829)	(730)
Total long-term borrowings	3,925	4,205	4,286

On 21 October 2019, pursuant to the debt refinancing agreement entered into as part of the acquisition of CloudCoCo Limited, £1.5 million of the BGF loan notes were cancelled, thereby reducing the liability to the Group. The remaining £3.5 million of loan notes were purchased by MXC Guernsey Limited (MXCG) and were amended to a term of five years, with a coupon of 12% per annum, which is to be rolled up, compounded annually and payable at the end of the term.

In addition, MXCG agreed to provide an additional unsecured working capital facility to the Group of up to £0.5 million, with a term of 24 months and interest charged at a rate of 12% per annum on amounts drawn down, payable monthly.

9. Deferred tax

	At 31 March 2020 £'000	At 31 March 2019 £'000	At 30 September 2019 £'000
Provision brought forward	810	1,248	1,248
Additions relating to acquisition of subsidiary	697	-	-
Credits to income statement – on intangibles	(150)	(84)	(438)
Provision carried forward	1,357	1,164	810