Microgen PLC - MCGN Audited Preliminary Results
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MICROGEN plc ("Microgen")

Audited Preliminary Results for the Year Ended

31 December 2016

Microgen, a leading provider of business critical software and services, reports its audited preliminary results for the year ended 31 December 2016.

Group Highlights:

- Excellent progress in line with the declared strategy by the Group's two businesses with strong organic growth reported by Aptitude Software and continued growth in the Trust & Fund Administration business of Microgen Financial Systems
- Overall revenue growth of 35% to £43.0 million (2015: £32.0 million), growth of 29% on a constant currency basis*
- Group adjusted operating profit increased by 26% to £9.5 million (2015: £7.6 million), growth of 12% on a constant currency basis. Group operating profit on a statutory basis of £8.2 million (2015: £5.3 million)
- Adjusted earnings per share increased by 34% to 12.3 pence (2015: 9.2 pence). Basic earnings per share increased to 10.6 pence (2015: 6.0 pence)
- Proposed final dividend of 3.5 pence per share (2015: 2.8 pence) representing a full year dividend of 5.0 pence (2015: 4.2 pence), an increase of 19%
- Cash conversion was 138% in the year (2015: 102%) benefitting principally from the Group's growing recurring revenue base typically paying annually in advance
- Strong balance sheet with cash of £23.8 million (2015: £18.6 million) and net funds of £13.6 million (2015: £5.4 million) following net corporate cash outflows of £1.6 million in 2016 (including dividends, net acquisition consideration and property disposal)

Aptitude Software:

- Ten significant new business contracts signed in 2016 within the telecommunications and financial services sectors across Europe, North America and Asia (new market). Three of the largest four North American telecoms companies now contracted for the Aptitude Revenue Recognition Engine
- Progress continues into 2017 with a significant new business contract in the North American healthcare market, a new sector for Aptitude Software
- Revenue growth of 58% to £26.4 million (2015: £16.7 million), growth of 48% on a constant currency basis
- Operating profit growth of 131% to £3.8 million (2015: £1.7 million), growth of 71% on a constant currency basis
- On-going recurring revenue base at 31 December 2016 increased by 40% to £12.6 million (2015: £9.0 million)
- Investment increased in the Aptitude Technology Centre in Poland providing the business with increased capacity to continue to develop further specialised financial management software applications as new opportunities are identified

- Growth in operating margin to 15% (2015: 10%) achieved despite investments made in the business during the year
- The strong progress in all areas of the business positions Aptitude Software for further growth in 2017 and subsequent years

Microgen Financial Systems:

- Further strengthening of position within Trust & Fund Administration ("T&FA") market following the acquisitions of Infoscreen (Cyprus) Limited (May 2016) and Primacy Corporation (February 2017)
- T&FA revenues increased by 37% to £8.9 million (2015: £6.5 million) benefitting from both the underlying organic growth due to success with Microgen 5Series and the contribution from the recent acquisitions
- T&FA revenues now representing 54% (2015: 43%) of Microgen Financial Systems' 2016 revenue
- Overall revenue £16.6 million (2015: £15.2 million) of which 80% is recurring in nature (2015: 83%)
- Adjusted operating profit maintained at £7.2 million (2015: £7.2 million) as transition to a business focussed on T&FA continues. Operating profit on a statutory basis of £6.3 million (2015: £5.0 million)

Commenting on the results, Ivan Martin, Chairman, said:

"The Group has made excellent progress in line with the declared strategy during 2016 with overall revenue growth of 35% taking revenue for 2016 to £43.0 million (2015: £32.0 million). Particularly pleasing is the success Aptitude Software has achieved with its specialised financial management software applications enabling the business to secure record numbers of significant new business contracts whilst Microgen Financial Systems has continued to grow its business successfully, both organically and via strategic add-on acquisitions, within the Trust & Fund Administration sector."

Contacts

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* Constant currency growth is calculated by comparing 2015 results with 2016 results retranslated at the rates of exchange prevailing during 2015

** Throughout this statement adjusted operating profit and margin excludes non-underlying operating items, unless stated to the contrary. Further detail in respect of the non-underlying operating items can be found within note 2 of this statement.

MICROGEN plc ("Microgen" or "Group")

Audited Preliminary Results for the Year ended 31 December 2016

Chairman's Statement

The Group reports excellent progress in 2016 in line with the Group's declared strategy by both of its two businesses resulting in a financial performance ahead of the Board's original expectations for the year. The Aptitude Software business has entered into a record number of contracts with new clients whilst the Microgen Financial Systems business continues successfully to strengthen its focus on its chosen market.

Aptitude Software's focus on specialised financial management software applications has been rewarded with ten contracts being signed in 2016 with new clients located across Europe, North America and Asia (new market). These contracts, together with the contracts entered into in 2015, have contributed to revenue for the Aptitude Software business growing 58% to £26.4 million (2015: £16.7 million), growth of 48% on a constant currency basis. The ten new contracts are across Aptitude Software's core markets of banking, insurance and telecommunications. At the start of 2017 the business also has entered the North American healthcare sector by signing a significant contract with one of its key participants. This sale further demonstrates Aptitude Software's scalability to service demand from new industry verticals, and the ability of the business to leverage both its expertise and technology successfully into new markets.

Microgen Financial Systems continues to benefit from its focus on the Trust & Fund Administration ("T&FA") market within the wealth management sector. This focus has led to Microgen Financial Systems' revenue increasing to £16.6 million (2015: £15.2 million) with T&FA revenues increasing by 37% to £8.9 million (2015: £6.5 million). T&FA revenues now represent 54% (2015: 43%) of overall revenue for the business in 2016. Complementing continued progress with the Microgen 5Series product the business completed the acquisition of Infoscreen (Cyprus) Limited in May 2016 which, together with the February 2017 acquisition of Primacy Corporation, brings the total number of acquisitions in the T&FA market since December 2014 to five.

Having considered the Group's progress and financial performance in 2016 the Board proposes the payment of a final dividend of 3.5 pence per share (2015: 2.8 pence), making a total of 5.0 pence per share for the year (2015: 4.2 pence), an increase of 19% per share. The proposed final dividend will be paid on 26 May 2017, subject to shareholder approval, to shareholders on the register at 5 May 2017.

In line with previous announcements Peter Bertram will be retiring from the Board pursuant to the 2017 Annual General Meeting on 24 April 2017 having originally been appointed to the Board in 2006. The Board wish to thank Peter for his guidance over the last decade. As previously announced Barbara Moorhouse will succeed Peter in his role as Audit Committee Chair on Peter's retirement from the Board.

This strong set of results would not have been possible without the outstanding contributions from the Group's employees. The Board introduced a group-wide share option scheme during the course of 2016 in which a large proportion of employees are participating. Further investment continues to be made by the Group in its human capital as it is acknowledged that continued growth will only be possible by creating an environment in which employees can fulfil their potential.

The Board is pleased with the Group's start to 2017 highlighted by the Aptitude Software business opening up a new sector for its technology and the completion by Microgen Financial Systems of a further acquisition in the T&FA market. Aptitude Software will benefit during the course of 2017 from its recent contractual successes whilst Microgen Financial Systems is benefitting from its strong position in the T&FA market. The Board remains confident that the progress achieved in the past year will continue in 2017.

Ivan Martin
Chairman

Aptitude Software Report

The Aptitude Software business provides a series of specialised financial management software applications. The software is developed on the Aptitude technology platform, an enterprise level Application Platform which facilitates the very rapid processing of very high volume complex, business event-driven transactions and calculations. The Aptitude technology platform and the Aptitude-based applications continue to be developed at the Aptitude Technology Centre in Wroclaw, Poland. The business generates revenue from this software through a combination of licence fees (primarily annual recurring licences), software maintenance/support and professional services.

2016 has seen strong demand for both the Aptitude Accounting Hub and the Aptitude Revenue Recognition Engine resulting in ten contracts with new clients being entered into during the course of the year. Benefitting from the contracts entered into in both 2015 and 2016, revenue increased during the year ended 31 December 2016 by 58% to £26.4 million (2015: £16.7 million), growth of 48% on a constant currency basis. Operating profit increased by 131% to £3.8 million (2015: £1.7 million) (an increase of 71% on a constant currency basis) representing an operating margin of 15% (2015: 10%).

The Board continues to be focussed on increasing Aptitude Software's on-going recurring revenue base by promoting its annual licence fee model. As a result of the contracts entered into 2016, at the year end the on-going recurring revenue base stands at £12.6 million (2015: £9.0 million), an increase of 40% (the on-going recurring revenue base includes recurring revenues contracted but yet to commence and excludes recurring revenues which are currently being received but are known to be terminating in the future).

Despite the strong preference for annual licence fees, Aptitude Software has entered into a small number of initial licence fee contracts, albeit with strong on-going maintenance revenues. The licence revenue from these agreements is invoiced and recognisable over a number of years and is disclosed within the software revenues which have increased in 2016 to £12.4 million (2015: £9.0 million). (Software revenue includes annual and initial licence fees, software maintenance and support).

Implementation and professional services revenue has increased to £14.0 million (2015: £7.7 million) with the number of projects increasing pursuant to the new contracts secured in 2015 and 2016. Growth of implementation revenue is a profitable by-product of the focus on the growth on Aptitude's software revenues; the provision of key resources to a number of clients is important for their adoption of Aptitude's products. Nevertheless, Aptitude Software is increasingly becoming accustomed to working alongside a number of partners on the larger projects in which it is involved, an approach that has directly contributed to partner support for new contracts in 2016. With the increasing number of on-going projects across Europe, North America and Asia (new market), Aptitude Software is successfully scaling its implementation capacity by working closely with a number of partners, especially in jurisdictions into which Aptitude is making its initial entry. These partners contribute expertise and local market knowledge, however, their use can generate lower operating margins than utilising Aptitude's employees if the partners are sub-contracted to Aptitude Software. The Aptitude Software business enters 2017 with good visibility over its services revenue for the year benefitting from contract wins, both in 2016 and 2015.

Aptitude Software has continued to make excellent progress with the Aptitude Revenue Recognition Engine ("ARRE") which is focussed on the telecoms industry. ARRE enables telcos to address the depth of change, risks and costs associated with the changing regulatory environment (namely, IFRS 15 and ASC 606 revenue accounting standard). With the contracts signed in the first half of 2016, Aptitude Software now provides ARRE to three of the four largest telcos in the US, a territory that has been ahead of other markets in the implementation of solutions to address the introduction of IFRS 15 and ASC 606. The second half of the year has resulted in a number of contracts for ARRE being signed with telcos in the United Kingdom, mainland Europe, Scandinavia, the Far East and Australia.

The Aptitude Accounting Hub ("AAH") has a number of clients within banking, insurance and more recently telecommunications and, as the result of a further contract with a new client entered into at the start of 2017, healthcare. AAH is a high volume operational accounting platform that centralises control, improves reporting and generates a rich foundation of contract level finance data. AAH continues to attract a number of customers with new contracts entered into in both North America and Europe. Particularly pleasing is the extension of AAH with other Aptitude technologies and products into the US healthcare market. As with many of Aptitude Software's markets, regulatory and industry change is a driver of demand for its products in US healthcare. These drivers within US healthcare have resulted in increasingly complex contracts, products and services. This complexity has resulted in much higher volumes of complex accounting and consequently a need for healthcare payers and providers to understand and focus on profitability at new levels of depth and sophistication. AAH provides participants within the US healthcare market with the capability to modernise and centralise their operational finance architecture in order to provide the necessary detail which ERP systems typically cannot provide.

The business has also developed, and is developing, a select number of other specialised financial management software applications which serve the finance functions of large organisations by delivering finance integration, accounting and calculation engines together with other rules-based solutions in functional areas which are highly complex or require the rapid processing of high volumes of data. To ensure that the existing Aptitude-based applications retain their market-leading positions and new applications are successful further investment is being made in the Aptitude Technology Centre in Poland with the number of research and development specialists targeted to increase by approximately 10% in the first half of 2017 (31 December 2016: 100, 31 December 2015: 86). The business continues to monitor carefully its investment in these new opportunities in light of market and regulatory developments. Research and development expenditure in the year was £4.2 million (2015: £4.3 million) with all costs expensed as incurred.

The growth in operating margin to 15% (2015: 10%) is despite investment being made during the course of 2016 in a number of other areas of the business including the strengthening of the senior management, product management and business development teams. The full cost effect of these investments will be felt in 2017.

Aptitude Software is an increasingly international business with 53% of its revenues invoiced in US Dollars to North American clients (2015: 38%). The business has benefitted in 2016 from the strengthening of the US Dollar vs. GBP. Aptitude Software's 2016 revenue would have increased by 48% to £24.7 million on a constant currency basis (compared to actual result of £26.4 million). On a constant currency basis operating profit in 2016 would have increased by 71% to £2.8 million (compared to actual result of £3.8 million). 2016 benefitted from the twelve month rolling hedge in respect of Aptitude's research and development expenditure in Poland - these hedges have minimised the impact of the strengthening Zloty vs. GBP in 2016, however, the effects of this exchange rate movement will be felt more strongly in 2017 with the full effect deferred until 2018 and subsequent years.

In summary, the business is progressing well with its strategy to accelerate its growth by focussing and leveraging the existing expertise in high volume transaction sectors by providing Aptitude-based specialised financial management software applications to meet new accounting standards, regulations or business areas poorly served by ERP systems. Operating performance was above management expectations set at the start of 2016 and with a number of the new contracts only materially benefitting 2017 and subsequent years the Aptitude business has excellent visibility for the current year.

Tom Crawford
Chief Executive Officer, Aptitude Software

Microgen Financial Systems Report

The Microgen Financial Systems business is continuing to make strong progress in achieving its strategic objective to increase the proportion of its revenues from the Trust & Fund Administration ("T&FA") sector, both through organic growth and add-on acquisitions. Microgen Financial Systems' key product in this sector is Microgen 5Series which addresses the core operational requirements of a number of organisations including Trust Administrators, Fiduciary Companies, Corporate Services Providers and Fund Administrators. In addition to Microgen Financial Systems' T&FA operations, revenue is generated from both a Payments software business and an Application Management business covering a range of Microgen-owned and third party systems principally focussed on the financial services industry. Revenues are generated through a combination of software licence fees (primarily annual recurring licences), software maintenance/support fees and professional services.

Microgen Financial Systems' revenue for the year ended 31 December 2016 increased by 9% to £16.6 million (2015: £15.2 million). Recurring revenue accounts for 80% (2015: 83%) of total revenue, with 24% being generated by the top 5 clients (2015: 25%). Adjusted operating profit, reflecting the timing of recent acquisitions and subsequent integration programmes is reported in line with expectations at £7.2 million (2015: £7.2 million) representing an adjusted operating margin of 43% (2015: 48%). The reduction in the adjusted operating margin is due to the change in mix between the growing T&FA business and the declining Application Management business with its higher margins reflecting the maturity of that business. Operating profit on a statutory profit basis increased to £6.3 million (2015: £5.0 million).

Trust and Fund Administration

The key highlights for the business are the continued sales progress being made by Microgen 5Series and the acquisitions in May 2016 of Infoscreen (Cyprus) Limited ("Infoscreen") and, subsequent to the year end, Primacy Corporation ("Primacy").

The underlying organic growth due to success with Microgen 5Series, together with the recent acquisitions, has resulted in T&FA revenue growing by 37% to £8.9 million (2015: £6.5 million) representing 54% (2015: 43%) of Microgen Financial Systems' revenue with an expectation that this will increase further as a proportion of overall revenue in 2017. T&FA recurring revenue in 2016 has increased by 34% to £6.7 million (2015: £5.0 million) with the business benefitting from both a number of new customer contracts and the acquisition of Infoscreen. The T&FA on-going recurring revenue base at 31 December 2016 has increased by 21% to £6.9 million (2015: £5.7 million) with £0.6 million of the increase attributable to the Infoscreen acquisition (the on-going recurring revenue base includes recurring revenues contracted but yet to commence and excludes recurring revenues which are currently being received but are known to be terminating in the future).

Included within the T&FA revenue of £8.9 million (2015: £6.5 million) is £6.6 million (2015: £5.0 million) generated from Microgen 5Series (and 4Series) and £2.3 million (2015: £1.5 million) from the T&FA products acquired since December 2014. The strong growth in Microgen 5Series revenues benefits from both new name customer wins as well as conversions to Microgen 5Series from the T&FA acquisitions completed since December 2014. The software and services fees arising from these conversions represents £1.0 million (2015: £0.2 million) of the £6.6 million revenue from Microgen 5Series (and 4Series).

The acquisition of Infoscreen was completed in May 2016. Infoscreen's software is used by approximately 200 customers in the T&FA sector providing the business with a strong recurring revenue base. The consideration for the Infoscreen acquisition was £1.4 million, in addition to a commitment to settle vendor debt of £0.3 million following acquisition. Infoscreen generated £0.4 million revenue in 2016 whilst under Microgen's ownership. Integration is progressing in line with expectations.

The acquisition of Primacy was completed following the year end and represents the fifth add-on acquisition by Microgen in the T&FA market since December 2014. Primacy is a Toronto-based provider of software to the T&FA market and its acquisition provides Microgen with a strong recurring revenue base. The consideration for the Primacy acquisition is £3.4 million. Primacy's revenue in the year ending 31 October 2016 was £1.2 million with profit before tax of £0.6 million.

New business sales progress with Microgen 5Series has continued with contracts signed with organisations ranging from small trust companies to multi-jurisdiction financial services groups. To maximise the opportunity provided by the strong market positioning of Microgen 5Series and the recent acquisitions, Microgen Financial Systems has invested in its sales and commercial teams, the benefit of which is expected to be realised in future periods. Further investment has also been made in the development team for the T&FA products - principally focussed on Microgen 5Series - which will enable Microgen 5Series to retain its competitive advantages over rival offerings.

The combination of organic growth and strategic, add-on acquisitions is further enhancing Microgen's already strong market positioning in T&FA and the T&FA business enters 2017 strongly positioned and with good visibility due to the contracts secured in 2016.

Payments

The Payments business offers a range of Bacs software products which enable organisations to make automated payments in the United Kingdom using Bacs payment services over the internet (Bacstel-IP). Revenue from the Payments business has increased in 2016 to £1.5 million (2015: £1.3 million) due to an increase in implementation revenues as a number of clients upgraded to the latest version of the software. Implementation revenues in 2017 are expected to return to historical levels. The Payments business benefits from contracts with over 500 well-diversified clients and high levels of recurring revenue (2016: 85% (2015: 92%)).

Application Management

The Application Management business comprises a number of Microgen-owned and third party systems focussed principally on financial services. Consistent with the maturity of the solutions provided by the Application Management business it is expected that revenues will continue to reduce as experienced in recent periods, however, within the business there is a core of supported software solutions which are expected to continue in the medium to long term. The Application Management business reported revenue in line with management expectations at £6.2 million (2015: £7.4 million) of which £5.4 million was recurring in nature (2015: £6.3 million).

Summary

In summary, the Microgen Financial Systems business continues to progress successfully its strategy to increase the proportion of its higher value T&FA revenues through both organic growth and add-on acquisitions. With recurring revenue accounting for 80% (2015: 83%) of total revenue the business has excellent future visibility.

Simon Baines
Chief Executive Officer, Microgen Financial Systems

Group Financial Performance and Chief Financial Officer's Report

Throughout this statement adjusted operating profit and margin excludes non-underlying operating items, unless stated to the contrary and constant currency growth is calculated by comparing 2015 results with 2016 results retranslated at the rates of exchange prevailing during 2015.

Revenue for the year ended 31 December 2016 was £43.0 million (2015: £32.0 million) producing an adjusted operating profit of £9.5 million (2015: £7.6 million), growth rates of 35% and 26% respectively. On a constant currency basis revenue for the year was £41.3 million (2015: £32.0 million) with adjusted operating profit of £8.5 million (2015: £7.6 million), growth rates of 29% and 12% respectively. Operating profit on a statutory basis was £8.2 million (2015: £5.3 million) after net non-underlying costs of £1.3 million (2015: £2.3 million). Group overhead costs were £1.5 million (2015: £1.3 million). The Group reported a profit for the year attributable to shareholders of £6.2 million (2015: £3.7 million). In accordance with IFRS, the Board has continued to determine that all internal research and development costs are expensed as incurred and therefore the Group has no capitalisation of development expenditure. The overall group expenditure on research, development and support activities in 2016 was £7.3 million (2015: £6.8 million). The number of employees within the Group at 31 December 2016 was 312 (31 December 2015: 257).

Net non-underlying operating costs in 2016 were £1.3 million (2015: £2.3 million) including a £0.8 million (2015: £0.4 million) amortisation charge in respect of acquired intangible assets and £0.4 million (2015: £0.1 million) regarding the shareholder-approved option grants in 2013.

The total tax charge for the year is £1.6 million (2015: £1.2 million). After adjusting for the effect of non-underlying and other items, the Group's tax charge represents 21.8% of the Group's adjusted profit before tax (2015: 21.5%) which is the tax rate used for calculating the adjusted earnings per share. Adjusted earnings per share for the year ended 31 December 2016 was 12.3 pence (2015: 9.2 pence). Basic earnings per share for the year was 10.6 pence (2015: 6.0 pence).

The Group has a strong balance sheet with net assets at 31 December 2016 of £43.4 million (2015: £38.6 million), including cash at 31 December 2016 of £23.8 million (2015: £18.6 million), and net funds at 31 December 2016 of £13.6 million (2015: £5.4 million). During the year there were net corporate cash outflows of £1.6 million (comprising £2.5 million of dividends, net consideration related to acquisitions of £1.4 million and property proceeds of £2.3 million). The loan outstanding, secured solely on the Microgen Financial Systems business, was £10.3 million at 31 December 2016 (2015: £13.3 million). Trade and other receivables outstanding at 31 December 2016 have increased to £8.3 million (2015: £4.7 million) as a result of both the growth in the Group's revenue and the requirement, on occasion, to accept payment terms with certain international customers in excess of past experience. The growth has also resulted in deferred income increasing by 21% to £20.6 million at 31 December 2016 (2015: £17.0 million).

Continuing to be a focus of the Group, cash conversion (measured by cash generated from operations as a percentage of operating profit adjusted for the non-underlying items with no cash effect) was 138% in the year (2015: 102%) benefitting principally from the growing recurring revenue base where clients typically pay annually in advance.

Pursuant to the EU referendum in the United Kingdom the Group has made an initial assessment of the likely impact upon its two operating businesses. The initial impact has been the weakening of sterling versus a number of its key trading currencies, most notably Euro, Polish Zloty and US Dollar. The exchange rate movements pursuant to the referendum have had a positive impact on the Group's results as demonstrated by the constant currency revenue and profit disclosures included within this report. The Group has recently introduced a hedging policy for the US Dollar, in addition to the longstanding policy in respect of Aptitude Software's Polish Zloty cost base where forward exchange contracts are entered twelve months in advance. Further to the foreign exchange volatility, the Group has assessed the potential future restrictions to free movement of labour in light of the EU referendum and other political changes. The Group has established a number of relationships which reduces its previous dependency on deploying its consultants into countries which they are not citizens of, nevertheless, the Group will continue to monitor developments in this area.

Philip Wood
Chief Financial Officer

Group Income Statement
for the year ended 31 December 2016

		Year Ended 31 Dec 2016			Year Ended 31 Dec 2015		
	Notes	**Before non-underlying items £000**	**Non-underlying items £000**	**Total £000**	Before non-underlying items £000	Non-underlying items £000	Total £000
Revenue	1	**42,988**	**-**	**42,988**	31,958	-	31,958
Operating costs	1, 2	**(33,463)**	**(1,313)**	**(34,776)**	(24,369)	(2,316)	(26,685)
Operating profit		**9,525**	**(1,313)**	**8,212**	7,589	(2,316)	5,273
Finance income		**66**	**-**	**66**	104	-	104

Finance cost		**(397)**	**-**	**(397)**	(492)	-	(492)
Net finance cost		**(331)**	**-**	**(331)**	(388)	-	(388)
Profit before income tax		**9,194**	**(1,313)**	**7,881**	7,201	(2,316)	4,885
Income tax expense	3	**(1,828)**	**190**	**(1,638)**	(1,459)	308	(1,151)
Profit for the year		**7,366**	**(1,123)**	**6,243**	5,742	(2,008)	3,734
Earnings per share							
Basic	4			**10.6p**			6.0p
Diluted	4			**10.0p**			5.6p

GROUP STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	Year ended 31 Dec 2016 £000	Year ended 31 Dec 2015 £000
Profit for the year	**6,243**	3,734
Other comprehensive income		
Items that will or may be reclassified to profit or loss:		
Fair value gain on hedged financial instruments	**133**	230
Currency translation difference	**95**	(6)
Other comprehensive income for the year, net of tax	**228**	224
Total comprehensive income for the year	**6,471**	3,958

GROUP BALANCE SHEET
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	**As at 31 Dec 2016 £000**	As at 31 Dec 2015 £000
ASSETS			
Non-current assets			
Property, plant and equipment		**1,330**	928
Goodwill		**41,774**	41,774
Intangible assets		**7,257**	5,934
Deferred income tax assets		**738**	561
		51,099	49,197
Current assets			
Trade and other receivables	6	**8,337**	4,653
Financial assets - derivative financial instruments		**134**	11
Cash and cash equivalents		**23,849**	18,600
		32,320	23,264
Assets classified as held for sale		**-**	2,350
Total current assets		**32,320**	25,614
Total assets		**83,419**	74,811
LIABILITIES			
Current liabilities			
Financial liabilities			
- borrowings	8	**(3,000)**	(3,000)
- derivative financial instruments		**(198)**	(208)
Trade and other payables	7	**(27,847)**	(20,977)

Current income tax liabilities		**(100)**	(448)
Provisions	9	**(24)**	(35)
		(31,169)	(24,668)
Net current assets		**1,151**	946
Non-current liabilities			
Financial liabilities - borrowings	8	**(7,250)**	(10,250)
Provisions	9	**(287)**	(240)
Deferred income tax liabilities		**(1,316)**	(1,082)
		(8,853)	(11,572)
NET ASSETS		**43,397**	38,571
SHAREHOLDERS' EQUITY			
Share capital	10	**3,811**	3,796
Share premium account		**4,498**	4,484
Capital redemption reserve		**12,372**	12,372
Other reserves		**34,131**	33,998
Accumulated losses		**(11,552)**	(16,121)
Foreign currency translation reserve		**137**	42
TOTAL EQUITY		**43,397**	38,571

GROUP STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital £000	Share premium £000	Accumulated Losses £000	Foreign currency translation reserve £000	Capital redemption reserve £000	Other reserves£000	Total Equity £000
At 1 January 2016	3,796	4,484	(16,121)	42	12,372	33,998	38,571
Profit for the year	-	-	6,243	-	-	-	6,243
Cash flow hedges - net fair value losses in the year	-	-	-	-	-	133	133
Exchange rate adjustments	-	-	-	95	-	-	95
Total comprehensive income for the year	-	-	6,243	95	-	133	6,471
Shares issued under share option schemes	15	14	-	-	-	-	29
Share options - value of employee service	-	-	610	-	-	-	610
Deferred tax on financial instruments	-	-	(39)	-	-	-	(39)
Deferred tax on share options	-	-	227	-	-	-	227
Corporation tax on share options	-	-	68	-	-	-	68
Dividends to equity holders of the company	-	-	(2,540)	-	-	-	(2,540)
Total Contributions by and distributions to owners of the company recognised directly in equity income	15	14	(1,674)	-	-	-	(1,645)
At 31 December 2016	**3,811**	**4,498**	**(11,552)**	**137**	**12,372**	**34,131**	**43,397**

GROUP CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	**Year ended 31 Dec 2016 £000**	Year ended 31 Dec 2015 £000
Cash flows from operating activities			
Cash generated from operations	11	**13,032**	7,495
Interest paid		**(397)**	(492)

Income tax paid		**(2,060)**	(1,189)
Net cash flows generated from operating activities		**10,575**	5,814
Cash flows from investing activities			
Sale of property, plant and equipment		**2,352**	13
Purchase of property, plant and equipment		**(894)**	(524)
Acquisition of subsidiaries, net of cash acquired		**(1,430)**	(2,863)
Interest received		**66**	108
Net cash generated from/(used in) investing activities		**94**	(3,266)
Cash flows from financing activities			
Net proceeds from issuance of ordinary share capital		**29**	536
Dividends paid to company's shareholders	5	**(2,540)**	(2,089)
Repayment of loan		**(3,000)**	(3,000)
Return of value to shareholders		**-**	(20,145)
Sale of fractional shares		**-**	1
Expenses relating to Return of Value		**-**	(175)
Net cash used in financing activities		**(5,511)**	(24,872)
Net increase/(decrease) in cash and cash equivalents		**5,158**	(22,324)
Cash, cash equivalents and bank overdrafts at beginning of year		**18,600**	40,896
Exchange rate gains on cash and cash equivalents		**91**	28
Cash and cash equivalents at end of year		**23,849**	18,600

Notes to the Audited preliminary results for the year ended 31 December 2016

1. Segmental analysis

Business segments

The Board has determined the operating segments based on the reports it receives from management to make strategic decisions.

The segmental analysis is split into the Aptitude Software and Microgen Financial Systems operating businesses.

The principal activity of the Group throughout 2015 and 2016 was the provision of IT services and solutions, including software based activity generating the majority of its revenue from software licences, maintenance, support, funded development and related consultancy.

The operating businesses are allocated central function costs in arriving at operating profit/ (loss). Group overhead costs are not allocated into the operating businesses as the Board believes that these relate to Group activities as opposed to the operating businesses.

1(a) Revenue and operating profit by operating business

Year ended 31 December 2016	**Aptitude Software £000**	**Microgen Financial Systems £000**	**Group £000**	**Total £000**
Revenue	26,364	16,624	-	**42,988**
Operating costs	(22,522)	(9,405)	-	**(31,927)**
Operating profit before Group overheads	3,842	7,219	-	**11,061**
Unallocated Group overheads			(1,536)	**(1,536)**
Operating profit before non-underlying items				**9,525**
Non-underlying items	-	(914)	(399)	**(1,313)**
Operating profit/(loss)	**3,842**	**6,305**	**(1,935)**	**8,212**
Net finance cost				**(331)**
Profit before tax				**7,881**
Income tax expense				**(1,638)**
Profit for the year				**6,243**

Year ended 31 December 2015	Aptitude Software £000	Microgen Financial Systems £000	Group £000	Total £000
Revenue	16,730	15,228	-	**31,958**
Operating costs	(15,066)	(7,981)	-	**(23,047)**
Operating profit before Group overheads	1,664	7,247	-	**8,911**
Unallocated Group overheads			(1,322)	**(1,322)**
Operating profit before non-underlying items				**7,589**
Non-underlying items	-	(2,208)	(108)	**(2,316)**
Operating profit/(loss)	**1,664**	**5,039**	**(1,430)**	**5,273**
Net finance cost				**(388)**
Profit before tax				**4,885**
Income tax expense				**(1,151)**
Profit for the year				**3,734**

1(b) Geographical analysis

The Group has two geographical segments for reporting purposes, the United Kingdom and the Rest of the World.

The following table provides an analysis of the Group's sales by origin and by destination.

	Sales revenue by origin		**Sales revenue by destination**	
	Year ended 31 Dec 2016 £000	Year ended 31 Dec 2015 £000	**Year ended 31 Dec 2016 £000**	Year ended 31 Dec 2015 £000
United Kingdom	**25,886**	18,065	**10,723**	8,918
Rest of World	**17,102**	13,893	**32,265**	23,040
	42,988	31,958	**42,988**	31,958

2. Non-underlying items

	31 Dec 2016 £000	31 Dec 2015 £000
Impairment of freehold property and associated costs of property disposal	**-**	1,585
Acquisition and associated restructuring costs	**102**	439
Amortisation of intangibles	**812**	429
Share based payments on share options issued in 2013	**399**	97
Customer settlement	**-**	(234)
	1,313	2,316

3. Income tax expense

Analysis of charge in the year	**Year ended 31 Dec 2016 £000**	Year ended 31 Dec 2015 £000
Current tax:		
- tax charge on underlying items	**(1,862)**	(1,416)
- tax credit on non-underlying items	**-**	117
- adjustment to tax in respect of prior periods	**7**	(17)
Total current tax	**(1,855)**	(1,316)
Deferred tax:		
- tax charge on underlying items	**(3)**	(27)
- tax credit on non-underlying items	**190**	191
- adjustment to tax in respect of prior periods	**30**	1
Total deferred tax	**217**	165
Income tax expense	**(1,638)**	(1,151)

The total tax charge of £1,638,000 (2015: £1,151,000) represents 20.8% (2015: 23.6%) of the Group profit before tax of £7,881,000 (2015: £4,885,000).

After adjusting for the impact of non-underlying items, the prior year tax charges and the recognition of tax losses, the tax charge for the year of £2,004,000 (2015: £1,546,000) represents 21.80% (2015: 21.46%), which is the tax rate used for calculating the adjusted earnings per share.

At the balance sheet date, the Group has unused tax losses of £3,413,000 (2015: £5,058,000) available for offset against future profits. A deferred tax asset has been recognised in respect of £455,000 (2015: £575,000) of such losses which is the maximum the Group anticipates being able to utilise in the year ending 31 December 2017. No deferred asset has been recognised in respect of the remaining £2,958,000 (2015: £4,483,000) due to the unpredictability of future profit streams.

The difference between the total tax charge and the amount calculated by applying the effective United Kingdom corporation tax rate of 20.00% (2015: 20.25%) to the profit on ordinary activities before tax is as follows:

	Year ended 31 Dec 2016 £000	Year ended 31 Dec 2015 £000
Profit on ordinary activities before tax	**7,881**	4,885
Tax at the UK corporation tax rate of 20.00% (2015: 20.25%)	**(1,576)**	(989)
Effects of:		
Adjustment to tax in respect of prior periods	**37**	(16)
Adjustment in respect of foreign tax rates	**(155)**	(51)
Foreign exchange gains on intercompany balances	**-**	(44)
Tax payable on restructuring of South African business	**-**	53
Expenses not deductible for tax purposes		
- Non-underlying costs not deductible	**(4)**	(318)
- Other	**(87)**	(37)
Recognition of tax losses	**139**	147
Change in future tax rates	**8**	104
Total taxation	**(1,638)**	(1,151)

4. Earnings per share

To provide an indication of the underlying operating performance per share, the adjusted profit after tax figure shown below excludes non-underlying items and has a tax charge using the effective rate of 21.80% (2015: 21.46%)

	Year ended 31 Dec 2016 £000	Year ended 31 Dec 2015 £000
Profit on ordinary activities before tax and non-underlying items	**9,194**	7,201
Tax charge at a rate of 21.80% (2015: 21.46%)	**(2,004)**	(1,546)
	7,190	5,655
Prior years' tax charge	**37**	(16)
Non-underlying items net of tax	**(1,123)**	(2,008)
Foreign exchange losses on intercompany balances tax charge	**-**	(44)
Recognition of tax losses	**139**	147
Profit on ordinary activities after tax	**6,243**	3,734

	2016 Number (thousands)	2015 Number (thousands)
Weighted average number of shares	**59,088**	61,777
Effect of dilutive share options	**3,428**	5,073

	62,516	66,850
	2016 Basic EPS Pence	**2016 Diluted EPS pence**
Earnings per share	**10.6**	**10.0**
Non-underlying items net of tax	**1.9**	**1.8**
Tax losses recognised	**(0.2)**	**(0.2)**
Adjusted earnings per share	**12.3**	**11.6**

Adjusted earnings per share are calculated using adjusted profit after tax.

5. Dividends

	2016 pence per share	2015 pence per share	**2016 £000**	2015 £000
Dividends paid:				
Interim dividend	**1.5**	1.4	**866**	812
Final dividend (prior year)	**2.8**	2.2	**1,654**	1,277
	4.3	3.6	**2,540**	2,089
Proposed but not recognised as a liability:				
Final dividend (current year)	**3.5**	2.8	**2,100**	1,654

The proposed final dividend was approved by the Board on 8 March 2017 but was not included as a liability as at 31 December 2016, in accordance with IAS 10 'Events after the Balance Sheet date'. If approved by shareholders at the Annual General Meeting the proposed final dividend will be payable on 26 May 2017 to shareholders on the register at the close of business on 5 May 2017.

6. Trade and other receivables

	31 Dec 2016 £000	31 Dec 2015 £000
Trade receivables	**6,484**	3,662
Less: provision for impairment of receivables	**(4)**	(5)
Trade receivables - net	**6,480**	3,657
Other receivables	**468**	224
Prepayments and accrued income	**1,389**	772
	8,337	4,653

7. Trade and other payables

	31 Dec 2016 £000	31 Dec 2015 £000
Trade payables	**1,367**	715
Other tax and social security payable	**1,323**	875
Other payables	**235**	60
Accruals	**4,305**	2,336
Deferred income	**20,617**	16,991
	27,847	20,977

8. Financial liabilities

	31 Dec 2016 £000	31 Dec 2015 £000
Bank Loan	**10,250**	13,250
The borrowings are repayable as follows:		
Within one year	**3,000**	3,000

In the second year	**7,250**	3,000
In the third to fifth years inclusive	**-**	7,250
	10,250	13,250
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(3,000)**	(3,000)
Amount due for settlement after 12 months	**7,250**	10,250

9. Provisions

	Provisions	
	31 Dec 2016	31 Dec 2015
	£000	£000
At 1 January	**275**	276
Charged/(credited) to income statement	**46**	(2)
Utilised	**(20)**	(2)
Arising on acquisition	**-**	10
Foreign exchange movement	**10**	(7)
At 31 December	**311**	275

Provisions have been analysed between current and non-current as follows:

	Provisions	
	31 Dec 2016	31 Dec 2015
	£000	£000
Current	**24**	35
Non-current	**287**	240
	311	275

10. Share capital

Ordinary shares of 6 3/7p each (2015: 6 3/7p each)	**Number**	**£000**
Issued and fully paid:		
At 1 January 2016	59,060,521	3,796
Issued under share option schemes	236,509	15
At 31 December 2016	59,297,030	3,811

11. Notes to the Group Cash Flow Statement

Reconciliation of profit before tax to net cash generated from operations:

	Year ended 31 Dec 2016 £000	Year ended 31 Dec 2015 £000
Profit before tax	**7,881**	4,885
Adjustments for:		
Depreciation	**601**	597
Amortisation	**812**	429
Impairment of fixed assets	**-**	1,532
Research and development credit	**-**	(101)
Share-based payment expense	**610**	110
Finance income	**(66)**	(104)
Finance costs	**397**	492
Changes in working capital excluding the effects of acquisition:		
Increase in receivables	**(3,412)**	(1,162)

Increase in payables	**6,173**	828
Increase/(decrease) in provisions	**36**	(11)
Cash generated from operations	**13,032**	7,495

12. Statement by the directors

The preliminary results for the year ended 31 December 2016 and the results for the year ended 31 December 2015 are prepared under International Financial Reporting Standards as adopted for use in the EU ("IFRS"). The accounting policies adopted in this preliminary announcement are consistent with the Annual Report for the year ended 31 December 2015.

The financial information set out in this preliminary announcement does not constitute the Company's statutory accounts for the years ended 31 December 2016 or 31 December 2015. The financial information for the year ended 31 December 2015 is derived from the Annual Report delivered to the Registrar of Companies. The Annual Report for 2016 will be delivered to the Registrar of Companies in due course. The auditors' report on those accounts was unqualified and neither drew attention to any matters by way of emphasis nor contained a statement under either section 498(2) of Companies Act 2006 (accounting records or returns inadequate or accounts not agreeing with records and returns), or section 498(3) of Companies Act 2006 (failure to obtain necessary information and explanations).

The Board of Microgen approved the release of this audited preliminary announcement on 8 March 2017.

The Annual Report for the year ended 31 December 2016 will be posted to shareholders in due course and will be delivered to the Registrar of Companies following the Annual General Meeting of the Company. The report will also be available on the investor relations page of our web site (www.microgen.com). Further copies will be available on request and free of charge from the Company Secretary at Old Change House, 128 Queen Victoria Street, London, EC4V 4BJ.