

RNS Half-year/Interim Report

Half-year Report

PEBBLE BEACH SYSTEMS GROUP PLC

Released 07:00:11 06 September 2022

RNS Number : 3458Y
Pebble Beach Systems Group PLC
06 September 2022

Pebble Beach Systems Group plc **Results for the half-year ended 30 June 2022**

Pebble Beach Systems Group plc (AIM: "PEB", "Pebble" or the "Group"), a leading global software business specialising in playout automation and content management solutions for the broadcast and streaming service markets, is pleased to announce its unaudited half-year results for the six months ended 30 June 2022, which are in line with the Trading Update announced on 2 August 2022.

Financial highlights

- Revenue up 3% to £5.0m (H1 21: £4.9m), recurring revenue up 9% to £2.24m (H1 21: £2.05m)
- Whilst orders received reduced to £5.0m (H1 21: £6.4m) these are slightly improved against the underlying, COVID-adjusted, H1 21 order intake of £4.9m thus representing modest growth on a like for like basis.
- Adjusted EBITDA¹ down to £1.3m (H1 21: £1.7m), representing 26% of revenue (H1 21: 35%)
 - Profit before tax reduced to £0.3m (H1 21: £1.0m) after c. £257k of non-recurring costs
 - Adjusted earnings per share down to 0.4p (H1 21: 0.8p)
- Net cash generated from operating activities (after interest paid and IFRS 16 lease payments) was £0.6m (H1 21: £1.8m)
- Gross bank debt reduced by £0.5m in last six months to £7.1m as at 30 June 2022. Net debt at 30 June 2022 was c.£6.3m representing a Net debt/last 12 month Adjusted EBITDA¹ of c.2.2x.
- Achieved a re-finance of the bank debt through to September 2024.

Operational highlights

- The delays in sourcing hardware items resulting from the worldwide shortage of semiconductors have been largely mitigated, including a measured investment in inventory to allow customer orders to be delivered.
- Investment in our new IP-native Oceans platform continues as planned.
- Strategic move to a fully remote operating model is delivering operational benefits in terms of resilience, organisational growth and employee satisfaction.
- Investigated ways to accelerate funding of growth initiatives.
- Significant success in the Middle East across multiple customers, defending our position in this key market.
- Adding PayTV channels to a customer in Brazil, expanding a successful long term partnership with one of the largest broadcast organisations in the world.
- Breaking into new markets with
 - First order in Italy, to a sports broadcaster via a new channel partner.
 - Automation and integrated channel contract awarded by a major Indonesian media corporation.

Current trading and outlook

- Orders for the second half are forecast to be stronger than the first half, and an improved pipeline underpins this outlook. This will feed through to improved revenue in the second half. –
- Achieved revenue growth in the period despite a sense of a slowdown in decision making with the Russian invasion of Ukraine.

John Varney, Non-Executive Chairman of Pebble Beach Systems Group plc, said:

"The company has delivered a robust performance for the first half of 2022, despite some difficult headwinds. Our continued long-term aim of investing in new software solutions whilst reducing our overall indebtedness remains central to our strategy to ensure we continue to be well positioned to benefit from the industry transition to IP as full-scale adoption occurs.

The Board continues to have confidence that the Group can deliver a strong second half with improved revenue and achieve market expectations.

Notes

¹ Adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) a non-GAAP measure, is EBITDA before non-recurring items and foreign exchange gains/losses.

For further information please contact:

Peter Mayhead - CEO +44 (0) 75 55 59 36 02

finnCap Ltd (Nominated Adviser and Broker)

Marc Milmo / Teddy Whiley - Corporate Finance +44 (0) 207 220 0500

Tim Redfern / Sunila de Silva - ECM

The Company is quoted on the LSE AIM market (PEB.L). More information can be found at www.pebbleplc.com.

About Pebble Beach Systems

Pebble Beach Systems (trading as Pebble) is a world leader in designing and delivering automation, integrated channel and virtualised playout solutions, with scalable products designed for applications of all sizes. Founded in 2000, Pebble has commissioned systems in more than 70 countries, with proven installations ranging from single up to over 150 channels in operation, and around 2000 channels currently on air under the control of our automation technology. An innovative, agile company, Pebble is focused on discovering its customers' requirements and pain points, designing solutions which will address these elegantly and efficiently, and delivering and supporting these professionally and in accordance with its users' needs.

Forward-looking statements

Certain statements in this announcement are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to be correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. The Group undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise. Nothing in this announcement should be construed as a profit forecast.

CHAIRMAN'S STATEMENT

Introduction

I am pleased to report that the Group has continued its robust performance, benefiting from the opening up of business travel as COVID restrictions have been relaxed. This resilient performance has been delivered in spite of a background of war in Ukraine and hardware supply challenges demonstrating the strength of the business and the Group's positioning in its market. The first year of being a remote working operation has been a positive experience and we have invested in people, IT systems and activities to make this transition a success. The order intake of £5.0m in the period was modestly up on a like-for-like basis when adjusting for two large orders delivered in the comparative period in 2021 totalling £1.5 million, deferred from 2020 because of COVID which I identified in the interim statement last year.

We delivered revenue of £5.0m, up 3% on the comparative period of 2021. Recurring revenue from our service contracts was up 9% and this remains an important element of our growth plans.

Our accelerated investment in cloud and IP-based technology will facilitate the delivery of our software solutions to meet market demand, as we continue to see an increase in opportunity for our software. This, together with our continued investment in Oceans, Pebble's next generation technology platform, underlines our commitment to support broadcasters as the media landscape evolves and cloud and IP technologies are more widely adopted.

Financial performance

- Orders received in the period of £5.0m (H1 21: £6.4m);
- Revenue up 3% to £5.0m (H1 21: £4.9m), recurring revenue up 9% to £2.24m (H1 21: £2.05m);
- Adjusted EBITDA¹ reduced to £1.3m (H1 21: £1.7m), representing 26% of revenue (H1 21: 35%), following planned investment in headcount, increased travel and marketing costs and costs associated with the transition to remote working;
- Net cash from operating activities (after interest paid and IFRS 16 lease payments) fell to £0.6m (H1 21: £1.8m); and
- Increased investment in capitalised R&D of £0.9m (H1 21: £0.7m) reflecting the Group's strategic focus on continued product enhancement.

Operational performance

- £3.6m new project wins in the period, including;
 - £0.7m project won at the end of the first half from a national broadcaster in Finland. This is an upgrade and expansion of their current system providing a flexible hybrid solution allowing transition to IP-based technologies at a time and scale that meets their needs.
 - £0.6m from two contract wins in the Middle East region. One is an upgrade to an existing system for a customer who has belief in our technology vision. The other is a new customer, which is both a testament

to the strength of our playout solution and to our reputation for service and investment in this important region.

- Further channels added by a leading global provider of production services, expanding a successful relationship, providing sports playout for a leading US sports streaming platform. This is another project that sits at the heart of our mission of providing a flexible transition from traditional SDI infrastructure to IP-based playout.
- Ongoing software development
 - Oceans Automation. Work continues on a cloud-native playout solution to complement our current enterprise level automation offering.
 - Media Processing Engine. Work is progressing on the software solution for video playout capability with preliminary integration with Oceans Automation achieved. The next milestones will include APIs, graphics management and subtitling.
 - Pebble Control. Development of the IP control tool is advancing with added control functionality with the release of the first device control version expected by the end of the year. We are co-chairing the work on the new open standards protocol and are simultaneously working on the implementation of it.
- Remote operating model
 - We have recently completed our first year as a remote operating business. We invested in expert help, introduced new systems, held our first all-staff conference and have a clear vision of how we will move forward with our staff to deliver the benefits of this new model.
 - We have sourced a small workshop to allow us to move out of our existing location in Weybridge in the second half of 2022.
- Inventory build
 - The worldwide shortage of semiconductors continues to have some impact on project delivery timescales for those projects where customers have asked us to supply configured hardware. We have mitigated some of the impact by a measured increase in our hardware inventory.
- Non-recurring charges
 - During the period we explored a potential equity raise, led by a VCT qualifying raise, that would have provided the Group with additional capital primarily to accelerate our development of next generation solutions. Whilst we secured good levels of support from existing and new investors, a combination of a worsening global economic situation and falling investor sentiment for the equity markets generally led us to curtail our plans at a fairly late stage in the process. As a result, we incurred professional fees totaling £257k which have been disclosed separately in the income statement as non-recurring items.

Cash flows and net debt

The Group held cash and cash equivalents of £0.8 million at 30 June 2022 (H1 2021: £1.4 million). The table below summarises the cash flows for the half year.

	2022	2021
	£'million	£'million
Cash generated from operating activities	0.6	1.8
Net cash used in investing activities	(0.9)	(0.7)
Net cash used in financing activities	(0.5)	(0.5)
Net (decrease)/increase in cash and cash equivalents	(0.8)	0.6
Cash and cash equivalents at 1 January	1.6	0.8
Cash and cash equivalents at 30 June	0.8	1.4

As at 30 June 2022 net debt², excluding the impact of IFRS16, was £6.3 million (cash £0.8 million and bank debt of £7.1 million). The Group was using all £7.1 million of its available facilities at 30 June 2022, having re-paid £0.5 million in the period.

Going concern

The Directors, having made suitable enquiries and analysis of the accounts, consider that the Group has adequate resources to continue in business for the foreseeable future. In making this assessment, which covers a minimum period of twelve months from approval of this half-year report, the Directors have considered the Group's trading forecast, cash flow forecasts, available headroom and projected financial covenants on the banking facility, the levels of opportunities in the pipeline and recurring support revenue (See Note 3 below).

Board Changes

As previously announced on 23 August 2022 David Dewhurst resigned as a Director of the company and has left the executive role of Chief Finance Officer. For the foreseeable future David will not be replaced and the finance function, as previously, will report to the CEO.

Principal risks and uncertainties

The principal risks and uncertainties facing the Group remain consistent with the Principal Risks and Uncertainties reported in the Group's 31 December 2021 Annual Report with one exception.

Since the publication of our 2021 Annual Report, we have Russia's invasion of Ukraine and the ongoing war. On a global basis this has increased financial instability and supply chain risks which may ultimately result in an adverse impact on the Group's businesses, operations, and cash flows. More specifically, we have customers in both

Russia and Ukraine and therefore there is risk for the Group on our business in those regions, although this is not expected to impact revenue materially.

The impact of the COVID-19 pandemic on the business continues to be monitored by the Board.

Current trading and outlook

The first half year has seen continuing challenges that are common to the majority of technology suppliers at the present time. Customers continue to take time to place orders and the ongoing challenge of continued delays in the supply chain driven by chip manufacturing shortages are impacting projects of all scales, generating some delays.

However, I am pleased to report a modest growth in revenue and believe that the business has demonstrated its resilience in showing similar levels of growth in orders on the comparative period once figures for 2021 are normalised for the post COVID boost from delayed orders from 2020 being delivered in the first half of 2021.

We are seeing a vibrancy return to the market and a general opening up of trading, with conferences, trade shows and informal meetings all returning to pre-pandemic levels. The Board continues to have confidence that the Group can deliver a strong second half and achieve market expectations, with the forward order book and pipeline reflecting this confidence. This also supports our decision to invest more heavily in R&D and ensure that we continue to have the product portfolio to meet the future requirements of the broadcast and streaming service markets.

John Varney

Non-Executive Chairman

CONSOLIDATED INCOME STATEMENT

for the half year ended 30 June 2022

		6 months to 30 June 2022 (Unaudited) £'000	6 months to 30 June 2021 (Unaudited) £'000	Year ended 31 December 2021 (Audited) £'000
Revenue	4	5,038	4,889	10,620
Cost of sales		(1,236)	(1,025)	(2,490)
Gross profit		3,802	3,864	8,130
Sales and marketing expenses		(959)	(789)	(1,777)
Research and development expenses		(838)	(638)	(1,417)
Administrative expenses		(1,334)	(1,233)	(2,782)
Foreign exchange gains/(losses)		47	(33)	(40)
Other expenses		(257)	-	(244)
Operating profit	5	461	1,171	1,870
Operating profit is analysed as:				
Adjusted EBITDA		1,297	1,746	3,282
Non-recurring items		(257)	-	(244)
Share based payment expense		(20)	(13)	(53)
Exchange gains/(losses) credited/(charged) to the income statement		47	(33)	(40)
Earnings before interest, tax, depreciation and amortisation (EBITDA)		1,067	1,700	2,945
Depreciation		(78)	(114)	(160)
Amortisation and impairment of acquired intangibles		-	-	-
Amortisation of capitalised development costs		(528)	(415)	(915)
Finance costs		(183)	(168)	(373)
Finance income		-	-	-
Profit before tax		278	1,003	1,497
Tax	6	(17)	(19)	(31)
Profit for the period being attributable to owners of the parent		261	984	1,466
Earnings per share attributable to the owners of the parent during the period				
Basic earnings per share	7	0.2p	0.8p	1.2p

Diluted earnings per share

Diluted earnings per share	7	0.2p	0.8p	1.2p
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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the half year ended 30 June 2022

	6 months to 30 June 2022	6 months to 30 June 2021	Year ended 31 December 2021
	(Unaudited) £'000	(Unaudited) £'000	(Audited) £'000
Profit for the financial year	261	984	1,466
Other comprehensive income - items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of overseas operations	-	6	(1)
Total profit for the period attributable to owners of the parent	261	990	1,465

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
for the half year ended 30 June 2022

	Ordinary shares £000	Share premium £000	Capital redemption reserve £000	Merger reserve £000	Translation reserve £000	Accumulated losses £000	Total £000
At 1 January 2022	3,115	6,800	617	29,778	(151)	(42,107)	(1,948)
Share based payments: value of employee services	-	-	-	-	-	20	20
Transactions with owners	-	-	-	-	-	20	20
Retained profit for the period	-	-	-	-	-	261	261
Exchange differences on translation of overseas operations	-	-	-	-	-	-	-
Total comprehensive income/expense for the period	-	-	-	-	-	261	261
At 30 June 2022 (Unaudited)	3,115	6,800	617	29,778	(151)	(41,826)	(1,667)
At 1 January 2021	3,115	6,800	617	29,778	(150)	(43,626)	(3,466)
Share based payments: value of employee services	-	-	-	-	-	13	13
Transactions with owners	-	-	-	-	-	13	13
Retained profit for the period	-	-	-	-	-	984	984
Exchange differences on translation of overseas operations	-	-	-	-	6	-	6
Total comprehensive income/expense for the period	-	-	-	-	6	984	990
At 30 June 2021 (Unaudited)	3,115	6,800	617	29,778	(144)	(42,629)	(2,463)
At 1 January 2021	3,115	6,800	617	29,778	(150)	(43,626)	(3,466)
Share based payments: value of employee services	-	-	-	-	-	53	53
Transactions with owners	-	-	-	-	-	53	53
Retained profit for the year	-	-	-	-	-	1,466	1,466
Exchange differences on translation of overseas operations	-	-	-	-	(1)	-	(1)

operations							
Total comprehensive income/expense for the period	-	-	-	-	(1)	1,466	1,465
At 31 December 2021	3,115	6,800	617	29,778			
(Audited)					(151)	(42,107)	(1,948)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 30 June 2022

	Notes	30 June 2022 (Unaudited) £'000	30 June 2021 (Unaudited) £'000	31 December 2021 (Audited) £'000
Assets				
Non-current assets				
Intangible assets	8	5,993	5,297	5,601
Property, plant and equipment		346	1,114	349
		6,339	6,411	5,950
Current assets				
Inventories		510	282	430
Trade and other receivables		3,805	3,057	3,632
Cash and cash equivalents		799	1,444	1,639
		5,114	4,783	5,701
Liabilities				
Current liabilities				
Financial liabilities - borrowings		1,000	1,300	1,200
Trade and other payables		5,904	4,521	5,832
Lease liabilities - current		104	143	173
		7,008	5,964	7,205
Net current liabilities		(1,894)	(1,181)	(1,504)
Non-current liabilities				
Financial liabilities - borrowings		6,050	6,750	6,350
Lease liabilities - non-current		62	943	44
Deferred tax liabilities		-	-	-
		6,112	7,693	6,394
Net liabilities		(1,667)	(2,463)	(1,948)
Equity attributable to owners of the parent				
Ordinary shares		3,115	3,115	3,115
Share premium account		6,800	6,800	6,800
Capital redemption reserve		617	617	617
Merger reserve		29,778	29,778	29,778
Translation reserve		(151)	(144)	(151)
Retained earnings		(41,826)	(42,629)	(42,107)
Total equity		(1,667)	(2,463)	(1,948)

CONSOLIDATED STATEMENT OF CASH FLOWS for the half year ended 30 June 2022

	Notes	6 months to 30 June 2022 (Unaudited) £'000	6 months to 30 June 2021 (Unaudited) £'000	Year ended 31 December 2021 (Audited) £'000
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Cash flows from operating activities				
Cash generated from operations	9	802	2,030	3,815
Interest paid		(183)	(168)	(373)
Taxation paid		(17)	(19)	(31)
Net cash from operating activities		602	1,843	3,411
Cash flows from investing activities				
Interest received		-	-	-
Purchase of property, plant and equipment		(22)	(21)	(82)
Expenditure on capitalised development costs		(920)	(711)	(1,515)
Net cash used in investing activities		(942)	(732)	(1,597)
Cash flows from financing activities				
Net cash used in repayment of financing activities		(500)	(500)	(1,000)
Net cash used in financing activities		(500)	(500)	(1,000)
Net (decrease)/increase in cash and cash equivalents		(840)	611	814
Effect of foreign exchange rate changes		-	7	(1)
Cash and cash equivalents and overdrafts at 1 January		1,639	826	826
Cash and cash equivalents and overdrafts at period end		799	1,444	1,639
Net debt comprises:				
Cash and cash equivalents and overdrafts		799	1,444	1,639
Borrowings		(7,050)	(8,050)	(7,550)
Net debt at period end		(6,251)	(6,606)	(5,911)

NOTES TO THE HALF-YEAR REPORT for the six months ended 30 June 2022

1. GENERAL INFORMATION

The Pebble Beach Systems Group is a leading global software business specialising in solutions for playout automation and content, serving customers in the broadcast markets.

The Company is a public limited company and is quoted on the Alternative Investment Market (AIM) of the London Stock Exchange. The Company is incorporated and domiciled in the UK, with registered number of 04082188. The address of its registered office is 12 Horizon Business Village, 1 Brooklands Road, Weybridge, Surrey, KT13 0TJ.

This half-year results announcement was approved by the board on 5 September 2022.

2. BASIS OF PREPARATION

The financial information for the period ended 30 June 2022 set out in this half-year report does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The Group's statutory financial statements for the year ended 31 December 2021 have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified.

The half-year financial information has been prepared using the same accounting policies and estimation techniques as will be adopted in the Group financial statements for the year ending 31 December 2022. The Group financial statements for the year ended 31 December 2021 were prepared under International Financial Reporting Standards as adopted by the European Union. These interim financial statements have been prepared on a consistent basis and format. The Group has not applied IAS 34 'Interim Financial Reporting', which is not mandatory for AIM companies, in the preparation of these interim financial statements.

3. GOING CONCERN

The Directors, having made suitable enquiries and analysis of the accounts, consider that the Group has adequate resources to continue in business for the foreseeable future. In making this assessment, which covers a minimum period of twelve months from approval of this half-year report, the Directors have considered the Group's trading forecast, cash flow forecasts, available headroom and projected financial covenants on the banking facility, the levels of opportunities in the pipeline and recurring support revenue.

We maintain a good relationship with our bank. The current loan agreement secures the facility until 30 September 2024 with banking covenants and a repayment schedule in place.

We have a strong order book and pipeline which underpin our third and fourth quarter revenue.

The Directors have a reasonable expectation that the Group will have adequate resources to continue in business for the foreseeable future and therefore continue to adopt the going concern basis in preparing the interim financial statements.

4. SEGMENTAL REPORTING

The Group's internal organisational and management structure and its system of internal financial reporting to the Board of Directors comprise of Pebble Beach Systems Limited and Group. The chief operating decision-maker has been identified as the Board.

The Board reviews the Group's internal financial reporting in order to assess performance and allocate resources. Management have therefore determined that the operating segments for the Group will be based on these reports.

The Pebble Beach Systems Limited business is responsible for the sales and marketing of all Group software products and services.

The table below shows the analysis of Group external revenue and operating profit by business segment.

	Pebble Beach Systems £'000	Group £'000	Total £'000
6 months to 30 June 2022 (Unaudited)			
Total revenue	5,038	-	5,038
Adjusted EBITDA	1,664	(367)	1,297
Depreciation	(78)	-	(78)
Amortisation of capitalised development costs	(528)	-	(528)
Share based payment expense	-	(20)	(20)
Non-recurring items	-	(257)	(257)
Exchange gains	47	-	47
Finance costs	(3)	(180)	(183)
Intercompany finance income/(costs)	168	(168)	-
Profit/(loss) before taxation	1,270	(992)	278
Taxation	(116)	99	(17)
Profit/(loss) for the period being attributable to owners of the parent	1,154	(893)	261
6 months to 30 June 2021 (Unaudited)			
Total revenue	4,889	-	4,889
Adjusted EBITDA	1,987	(241)	1,746
Depreciation	(114)	-	(114)
Amortisation of capitalised development costs	(415)	-	(415)
Share based payment expense	-	(13)	(13)
Exchange gains	(31)	(2)	(33)
Finance costs	(19)	(149)	(168)
Finance income	46	(46)	-
Profit/(loss) before taxation	1,454	(451)	1,003
Taxation	(77)	58	(19)
Profit/(loss) for the period being attributable to owners of the parent	1,377	(393)	984
Year to 31 December 2021 (Audited)			
Total revenue	10,620	-	10,620
Adjusted EBITDA	3,862	(580)	3,282
Depreciation	(160)	-	(160)
Amortisation of capitalised development costs	(915)	-	(915)
Share based payment expense	-	(53)	(53)
Non-recurring items	(244)	-	(244)
Exchange (losses)/gains	(40)	-	(40)
Finance costs	(81)	(292)	(373)

Intercompany finance income/(costs)	107	(107)	-
Profit/(loss) before taxation	2,529	(1,032)	1,497
Taxation	(298)	267	(31)
Profit/(loss) for the year being attributable to owners of the parent	2,231	(765)	1,466

Geographic external revenue analysis

The revenue analysis in the table below is based on the geographical location of the customer of the business.

	6 months to 30 June 2022 (Unaudited)	6 months to 30 June 2021 (Unaudited)	Year ended 31 December 2021 (Audited)
	Total £'000	Total £'000	Total £'000
By market			
UK & Europe	1,992	3,002	6,385
North America	643	327	927
Latin America	342	156	567
Middle East	1,991	776	1,940
Asia / Pacific	70	628	801
	5,038	4,889	10,620

Net assets

The table below summarises the net assets of the Group by division. Balance sheet reporting is disclosed by the divisional assets and liabilities of the Group as this is consistent with the presentation of internal information provided to the Executive Management Board and the Board of Directors.

	6 months to 30 June 2022 (Unaudited) £'000	6 months to 30 June 2021 (Unaudited) £'000	Year ended 31 December 2020 (Audited) £'000
By division:			
Pebble Beach Systems	5,718	5,410	5,860
Group	(7,385)	(7,873)	(7,808)
	(1,667)	(2,463)	(1,948)

5. OPERATING PROFIT

The following items have been included in arriving at the operating profit for the business:

	6 months to 30 June 2022 (Unaudited) £'000	6 months to 30 June 2021 (Unaudited) £'000	Year ended 31 December 2021 (Audited) £'000
Inventory recognised as an expense	829	605	1,288
Director and employee costs	2,923	2,507	5,888
Depreciation of property, plant and equipment	78	114	160
Exchange (gains)/losses (credited)/charged to profit and loss	(47)	33	40
Amortisation of capitalised development costs	528	415	915

6. INCOME TAX EXPENSE

	6 months to 30 June 2022 Total (Unaudited) £'000	6 months to 30 June 2021 Total (Unaudited) £'000	Year ended 31 December 2021 Total (Audited) £'000
<i>Current tax</i>			
UK corporation tax	-	-	-
Foreign Tax - current year	17	19	31
Total current tax	17	19	31
<i>Deferred tax</i>			
UK corporation tax	-	-	-
Total deferred tax	-	-	-
Total taxation	17	19	31

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate would increase from 19 per cent to 25 per cent. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

7. EARNINGS PER ORDINARY SHARE

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

For diluted earnings per share the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The dilutive shares are those share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year. The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options was based on quoted market prices for the year during which the options were outstanding.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below.

6 months to 30 June 2022 (Unaudited)

	Earnings £'000	Weighted average number of shares '000s	Earnings per share pence
Basic earnings per share			
Profit attributable to ordinary shareholders	261		0.2p
Basic earnings per share	261	124,477	0.2p
Diluted earnings per share			
Profit attributable to ordinary shareholders	261		0.2p
Diluted earnings per share	261	126,761	0.2p

6 months to 30 June 2021 (Unaudited)

	Earnings £'000	Weighted average number of shares '000s	Earnings per share pence
Basic earnings per share			
Profit attributable to ordinary shareholders	984		0.8p
Basic earnings per share	984	124,477	0.8p
Diluted earnings per share			
Profit attributable to ordinary shareholders	984		0.8p
Diluted earnings per share	984	126,909	0.8p

Year ended 31 December 2021 (Audited)

	Earnings £'000	Weighted average number of shares '000s	Earnings per share pence
Basic earnings per share			

Profit attributable to ordinary shareholders	1,466		1.2p
Basic earnings per share	1,466	124,477	1.2p
Diluted earnings per share			
Profit attributable to ordinary shareholders	1,466		1.2p
Diluted earnings per share	1,466	125,775	1.2p

Adjusted earnings

The directors believe that adjusted EBITDA, adjusted earnings and adjusted earnings per share provide additional useful information on underlying trends to shareholders. These measures are used by management for internal performance analysis and incentive compensation arrangements. The term "adjusted" is not a defined term used under IFRS and may not therefore be comparable with similarly titled profit measurements reported by other companies. The principal adjustments are made in respect of the amortisation of acquired intangibles, share based payment expense, non-recurring items and exchange gains or losses charged to the income statement and their related tax effects.

The reconciliation between reported and underlying earnings and basic earnings per share is shown below:

	6 months to 30 June 2022		6 months to 30 June 2021		Year ended 31 December 2021	
	Total (Unaudited) Earnings £'000	Total (Unaudited) Earnings Pence	Total (Unaudited) Earnings £'000	Total (Unaudited) Earnings Pence	Total (Audited) Earnings £'000	Total (Audited) Earnings Pence
Reported earnings and earnings per share	261	0.2p	984	0.8p	1,466	1.2p
Share based payment expense	20	0.0p	13	0.0p	53	0.0p
Exchange (gains)/losses	(38)	0.0p	27	0.0p	32	0.0p
Non-recurring items	208	0.2p	-	0.0p	-	0.0p
Adjusted earnings and earnings per share	451	0.4p	1,024	0.8p	1,551	1.2p

8. INTANGIBLE ASSETS

	Goodwill £'000	Acquired customer relationships £'000	Acquired intellectual property £'000	Capitalised development costs £'000	Total £'000
Cost					
At 1 January 2021 (audited)	3,218	4,493	3,350	5,423	16,484
Additions (unaudited)	-	-	-	711	711
At 30 June 2021 (unaudited)	3,218	4,493	3,350	6,134	17,195
At 1 January 2021 (audited)	3,218	4,493	3,350	5,423	16,484
Additions (audited)	-	-	-	1,515	1,515
At 1 January 2022 (audited)	3,218	4,493	3,350	6,938	17,999
Additions (unaudited)	-	-	-	920	920
At 30 June 2022 (unaudited)	3,218	4,493	3,350	7,858	18,919
Accumulated amortisation					
At 1 January 2021 (audited)	-	4,493	3,350	3,640	11,483
Charge for the period (unaudited)	-	-	-	415	415
At 30 June 2021 (unaudited)	-	4,493	3,350	4,055	11,898
At 1 January 2021 (audited)	-	4,493	3,350	3,640	11,483
Charge for the year (audited)	-	-	-	915	915
At 1 January 2022 (audited)	-	4,493	3,350	4,555	12,398
Charge for the period (unaudited)	-	-	-	528	528
At 30 June 2022 (unaudited)	-	4,493	3,350	5,083	12,926
Net book value					
At 30 June 2022 (unaudited)	3,218	-	-	2,775	5,993
At 31 December 2021 (audited)	3,218	-	-	2,383	5,601
At 30 June 2021 (unaudited)	3,218	-	-	2,079	5,297
At 1 January 2021 (audited)	3,218	-	-	1,783	5,001

The amortisation of development costs is included in research and development expenses in the Consolidated Group Income Statement. Within capitalised development costs there are £3.6 million (2021: £2.8 million) of fully written down assets that are still in use.

9. CASH FLOW GENERATED FROM OPERATING ACTIVITIES

Reconciliation of profit before taxation to net cash flows from operating activities.

6 months to 6 months to Year ended

	30 June	30 June	31 December
	2022	2021	2021
	Total	Total	Total
	(Unaudited)	(Unaudited)	(Audited)
	£'000	£'000	£'000
Profit before tax	278	1,003	1,497
Depreciation of property, plant and equipment	78	114	160
Amortisation and impairment of development costs	528	415	915
Non-recurring item	-	-	244
Share based payment expense	20	13	53
Finance income	-	-	-
Finance costs	183	168	373
Increase in inventories	(80)	(134)	(282)
(Increase)/decrease in trade and other receivables	(173)	68	(507)
(Decrease)/increase in trade and other payables	(32)	383	1,362
Net cash generated from operating activities	802	2,030	3,815

10. NET FUNDS

Reconciliation of change in cash and cash equivalents to movement in net cash:

	Net cash and cash equivalents	Other borrowings	Total net cash
	£'000	£'000	£'000
At 1 January 2022	1,639	(7,550)	(5,911)
Cash flow for the period before financing	(340)	-	(340)
Movement in borrowings in the period	(500)	500	-
Exchange rate adjustments	-	-	-
Cash and cash equivalents at 30 June 2022 (Unaudited)	799	(7,050)	(6,251)
At 1 January 2021	826	(8,550)	(7,724)
Cash flow for the period before financing	1,111	-	1,111
Movement in borrowings in the period	(500)	500	-
Exchange rate adjustments	7	-	7
Cash and cash equivalents at 30 June 2021 (Unaudited)	1,444	(8,050)	(6,606)
At 1 January 2021	826	(8,550)	(7,724)
Cash flow for the year before financing	1,814	-	1,814
Movement in borrowings in the year	(1,000)	1,000	-
Exchange rate adjustments	(1)	-	(1)
Cash and cash equivalents at 31 December 2021 (Audited)	1,639	(7,550)	(5,911)

Ends

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